Local Conference Call
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1Q25 Earnings Call Transcript
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Vanessa Papini: Good morning, everyone! Thank you for waiting. Welcome to Magalu's conference call regarding the quarterly earnings.

For those who need simultaneous translation, click on the 'Interpretation' button via the globe icon at the bottom of the screen and choose your preferred language, English or Portuguese. We want to inform you that this event is being recorded and will be made available on the Company's IR website, **ri.magazineluiza.com.br.** The earnings release and presentation are already available in Portuguese and English. The link to the presentation in English is also available in the chat.

During the presentation, all participants' microphones will be disabled. Then, we will start the Q&A session. If you have questions, please click on the 'Q&A' icon at the bottom of your screen and, enter your name, company, and question language. Upon being announced, a request to activate your microphone will appear on the screen. You must then activate the microphone to follow up with the question. Questions received in writing will be answered later by the investor relations team.

Now, I would like to give the floor to Fred Trajano, Magalu's CEO. Fred, please take the floor.

Fred Trajano:

Good morning, everyone. Thank you for joining our earnings call for the first quarter of 2025. I'm once again joined by the entire Executive Committee, which now includes new members—I'll touch on that throughout the presentation.

Let me begin by reinforcing a message we've been emphasizing for some time: 2025 marks the final year of the Magalu Digital Ecosystem build-out. The key strategic objective of this cycle has been to make our results more resilient and less sensitive to interest rate volatility, particularly the SELIC rate. This quarter is especially symbolic, as it clearly demonstrates the progress we've made on this front. We delivered our sixth consecutive quarter of net income, despite a significant increase in interest rates—especially long-term rates, which heavily impact our financial expenses, including both debt servicing and receivables discounting. Even with average receivables growth of 30%—which Roberto Bellissimo will cover in more detail later—we more than offset the increase in financial costs through strong EBITDA growth. We reached a first-quarter record EBITDA margin of 8.1%, representing a 10% year-over-year increase in EBITDA. This performance reflects the growing contribution of the revenue and margin streams we developed over the course of the ecosystem strategy.

So, it wasn't just Luizacred—our entire financial services portfolio made a significant contribution this quarter. I'd like to highlight our consortium business, Magalu Payments, and several other subsidiaries as well. Our Ads business also began to positively impact margins, alongside the broader growth in service revenue. In fact, a number of these ecosystem businesses are now flowing through this line.

Overall, we saw a 70 basis-point expansion in EBITDA margin quarter over quarter, which underscores how the new revenue streams we've built over the past few years—some through acquisitions, others through organic expansion beyond our core—are meaningfully enhancing profitability and helping to offset the impact of rising interest rates. This gives us a lot of confidence looking ahead to when the rate cycle finally begins to ease.

Just two days ago, the SELIC was raised another 50 basis points. Fortunately, it seems we may be nearing the end of this cycle—which is very good news. When interest rates begin to fall—and it doesn't even need to be the SELIC, just long-term rates—the EBITDA-to-cash conversion will become much more significant. In short, we've built a business that is resilient even under a high-rate environment, but one that will also benefit meaningfully from rate cuts, with strong operating leverage across the board.

I'd like to highlight the improvement in gross margin, which reflects not only the growth in service revenue—as I mentioned earlier—but also higher merchandise margins. You can see this breakdown clearly in our financial statements. This margin expansion is largely the result of price increases and price passthroughs, which became necessary as interest rates—and consequently, receivables discount costs—rose. Our pricing strategy has been fully aligned with the macroeconomic backdrop and consistent with the message we've been delivering.

This was a quarter that followed shortly after the release of our full-year results—we published our financials on March 8, if I'm not mistaken—and our messaging remains fully coherent. With annual GMV already exceeding R$67 billion, we believe we have sufficient scale to continue building a more stable and resilient operation.

As for growth specifically, we've been deliberately prioritizing monetization of our existing GMV and margin expansion—particularly to offset the rising cost of receivables discounting in our core categories. This has been a conscious and recurring strategic choice over the past few quarters, and one that makes complete sense given the current macro environment. Of course, this high-rate cycle is not going to last forever, and there's already broad market consensus that we're nearing the end of it. Once the outlook for rate cuts becomes clearer, we'll have much more flexibility to reaccelerate growth.

What's important is that even with the 70 basis-point improvement in EBITDA margin this quarter, we were able to protect topline performance. We didn't give up on sales—we simply made a deliberate trade-off in favor of profitability, especially in the online channel, where the impact of receivables discounting is more pronounced. That's because online has a higher proportion of interest-free sales and lower penetration of credit solutions that are more resilient to interest rate swings, such as digital personal loans and co-branded credit cards. Physical stores are more insulated from this effect thanks to the higher penetration of financial services.

So, in e-commerce, we've had to pass through more of the financial cost increase to pricing—which explains the overall dynamic this quarter.

That said, despite all of this—margin expansion, stronger results, and our ability to fully offset the increase in financial expenses through operating profit (which Beto will break down in more detail)—we managed to defend our GMV at R$6.6 billion. We remain one of the leaders, if not the leader, in products priced above R$1,000, both online and offline. We continue to operate at scale, with a large and solid customer base, and we still see meaningful headroom to expand margins, even without growth. So, we're maintaining the same strategic direction looking ahead.

I'd like to specifically highlight the continued growth in physical stores. Same-store sales were up 7% this quarter, on top of nearly 10% growth in the same quarter last year—which had already been strong over the prior year. So, stores are delivering growth on top of growth. Physical stores have proven to be extremely resilient and consistently positive—and keep in mind that physical stores have a higher share of durable goods sales. We also faced unfavorable weather this quarter—Fabrício can go into more detail later—but it wasn't nearly as hot as last year, and yet we still posted robust same-store sales growth on top of an already high base. The market remains healthy and strong.

As I've said before, we're not seeing a demand problem or a consumption issue. On the contrary, I'm confident that retail sales data will come in strong. Any inflationary pressure on consumption is being largely offset by wage adjustments, and even social benefits are indexed to inflation, with some real gains.

The real challenge, of course, lies in operating under high interest rates, high taxes, and a heavy fiscal burden—and still converting topline into bottom-line results. That's exactly what we've been doing. I continue to see a strong sales environment, and physical stores are a clear proxy for that.

And I want to emphasize the importance of our physical stores, because they are a real differentiator. Our omnichannel model is a competitive advantage that none of our peers can match—and we're now taking that to a new level by integrating physical stores from companies within our ecosystem. As part of the Magalu ecosystem strategy, we made several acquisitions over the past few years—most of which were online-only businesses. But what truly sets us apart is our model: we succeeded in 1P electronics largely because we had inventory in stores, enabled in-store returns, and offered ship-from-store capabilities.

That’s always been a key differentiator for Magalu, and we want to extend that advantage to other companies in our group.

We recently opened KaBuM! and Netshoes stores—both located near Marginal Tietê—and both are performing exceptionally well. We've already secured a new location for these units, which will also house physical stores for Época and Estante Virtual. Our strategy is to bring these formerly digital-only brands into the physical world, using strategic locations. Not only are the KaBuM! and Netshoes stores performing well on their own, but they’re also significantly contributing to the performance of the Magalu store operating in the same location.

At the former Livraria Cultura site in the Conjunto Nacional complex, we’re planning to open the first fully integrated physical space for the Magalu ecosystem—with all our brands under one roof. I’m confident that the early success of these pilot stores—KaBuM! and Netshoes both contributed to EBITDA growth and helped lift our net income this quarter—proves we’re on the right path. We see a highly promising future for both brands in physical retail. These are sizable businesses, each with annual GMV in the R$4.5 to R$5 billion range, and they are clear leaders in their segments. Época is another strong example. I'm convinced that taking these brands offline and enabling real omnichannel operations across the group will elevate our ecosystem to a whole new level.

So, in this final year of our ecosystem strategy, beyond the profitability we’ve consistently delivered since early last year—we’re now in the sixth consecutive quarter of solid evidence that this cycle has been highly successful—physical presence for formerly online-only brands is a critical next step.

Still on the topic of our ecosystem, I want to highlight our Ads business. Ad revenues grew 53% year over year. Under the leadership of Célia Goldstein—now reporting into André Fatala’s structure—we placed a strong emphasis on platform improvements. We significantly boosted advertiser Click-Through Rates, improved ad fill rates, and expanded the number of ad placements throughout our navigation. It’s worth remembering: the group collectively receives nearly 500 million visits, and traffic for Netshoes, KaBuM!, Época, and Magalu is massive across the board.

Often, we focus solely on the audience of the Magalu app, but we need to consider the audience across the entire ecosystem, because Magalu Ads, led by Célinha, aims to monetize all the channels within the group. While the primary focus is currently on Magalu, we intend to expand further. We’ve established unprecedented partnerships with major brands that aren’t sellers on Magalu, such as Uber, Mastercard, and Zé Delivery—these brands have all invested in our digital assets during this period.

We also have physical stores that can deliver ads—our physical locations are increasingly prepared to absorb this. Our vision for Ads is truly omnichannel. So, the 53% growth in Ads revenue also played a key role in the 0.7 percentage point improvement in our EBITDA margin this quarter, as well as in the services revenue, which also grew above our sales performance.

One of the biggest highlights—and this has been a factor for some time now—is our financial services operation. Of course, we must highlight Luizacred, which once again had a strong quarter, with excellent return on equity. Financial operations in general perform very well in a high-interest rate environment, as we see with the banks, and it’s no different here.

But I want to emphasize not just Luizacred in this process, but also the other operations in the group. MagaluPay posted another positive quarter. A less publicized operation by the group, less known by the market— our consortium business, which has a credit portfolio of around R$5 billion annually, also had another positive quarter. These figures are available in our balance sheet: 12 million for the consortium, 14 million for MagaluPay, and 84 million for Luizacred. In total, we generated a net profit of R$110 million from these financial operations in 1Q, once again in a very strong segment.

Furthermore, I believe the great opportunity here lies in our high penetration in the physical world, which accounts for around one-third of our sales, but with still very low penetration in the online world, which makes up two-thirds of our sales. We are far from reaching our growth limit here; we don’t even necessarily need to grow GMV to improve business growth—we just need to increase online penetration.

We also have some new developments, such as our IF, which was recently approved by the Central Bank, and some of the digital products fall under this structure, as well as other businesses we aim to increase penetration in the digital world.

I’ll briefly touch on the new organizational announcements—we’ve brought in a new CEO for the business, Jorg Friedemann, who will be leading these strategic initiatives. He arrives at a good moment, with strong results and especially at a strategic inflection point, where there’s a huge opportunity to expand the monetization of our customer base and digital channels with financial products. He will be available for questions at the end of our presentation.

Still on this topic, we’re starting to reap the benefits of the first Brazilian public cloud with a global reach, MagaluCloud. We’ve already migrated 40% of Magalu’s workloads to MagaluCloud, and over 400 small and medium-sized businesses are using the service. We’ve just launched five zones across two regions, offering optimal latency. We’ve seen excellent performance in terms of cost savings, with numerous organic posts from customers praising the service, mentioning significant savings.

With the rise of AI, companies—whether small, medium, or large—will inevitably have to implement AI tools and models to optimize their operations. Those who don’t use AI will lose ground to those who do, and AI will increasingly demand more cloud computing power, more need for cost-effective solutions with low latency. These are all key differentiators for MagaluCloud.

We're seeing very positive attraction and we're quite excited. It's not yet contributing significantly to our EBITDA, but I'm absolutely certain that it will become one of the main cash generators for the group and a major revenue source for us, in addition to the cost savings it brings to Magalu's own expenses, which are in the hundreds of millions within our business.

Overall, it's a very positive moment. André Fatala is also here to share more about this pillar of the ecosystem, which has evolved very well, another point that demonstrates the consistency of our strategy.

I also want to highlight MagaLog, as shown in the next slide. I believe we're progressing with our fulfillment; currently, 24% of 3P orders are fulfilled this way, compared to 16% last year at the same time, and 4,200 sellers in Q1 2024. We've just enabled another distribution center (DC) for 3P. We didn't have operations in Rio Grande do Sul, so we've now opened a DC there to receive products from sellers, ensuring we're well covered in the three main regions of Brazilian e-commerce—South, Southeast, and Northeast. Now, the plan is to populate these DCs, especially the ones in the South and Northeast, with our fulfillment operations. We have a very high market share of 1P e-commerce in the Northeast and South, and with fulfillment, our goal is to increase our 3P market share as well. This is a major differentiator for us.

It's important to note that our fulfillment is multichannel. Once the product is inside, we gain all the benefits of multichannel, such as store pick-up and other advantages, including multichannel reverse logistics. We've now enabled the marketplace so that customers who purchase through it can return products at any Magalu location. This feature was previously limited to 1P products, with almost 100% of returns being handled through the post office, as most market players still rely on postal services for returns. Now, all Magalu stores are enabled to accept returns, and around 50% of deliveries, including 3P, are already being made through Magalu's physical stores, which is a major differentiator.

We have 1,200 stores spread across almost the entire national territory, and this is a significant differentiator. It has greatly helped our NPS levels, which continue to evolve. We saw a 10-point increase in NPS this quarter, reaching 76, with store operations and 1P above 80, and 3P operations at 70, all showing very significant growth.

As you know, we work with an annual theme. It's not that we stop doing other things, but we always have a focus for the year, and the company has the discipline to follow that focus. In the strategic cycle, last year, our focus was to regain the service level that would delight our customers. Last year, we increased our service level, and we're obviously maintaining that this year with a very high NPS, a global level for retailers, certainly the highest NPS in the sector here in Brazil, both for 1P stores and 3P operations.

For this year's theme, our focus now shifts to conversion. Speaking about what we're prioritizing this year, we're prioritizing the company's growth again, but with the discipline of doing this effectively, especially in our investments to drive traffic. Again, we have nearly 500 million monthly visits across all our digital channels: the app, e-desk, mobile sites, and for all the brands within the group. We see a huge opportunity to increase the conversion of visitors into purchases.

So, the entire organization, the whole company, is focused on optimizing each step of the process. This is a major shift. After three or four years focusing exclusively on margin increases and efficiency, we are now returning to sales growth, but with a disciplined approach to improving conversion rates. It's not about overspending on marketing or wasting money with low-return investments, but making better use of it. Either we sell the same amount with less marketing, or in areas where there is potential, we sell much more with slightly more investment in marketing. This is the increase in conversion we're focusing on. The company shifted its theme starting in Q2 of this year, so everyone is more focused on delivery times. We've already started investing in route expansions and additional shifts at our distribution centers. Even the company's sales expenses in Q1 have already started reflecting the effects of this. First, we obviously create the route, reduce the delivery time, and then conversion follows.

We are highly focused on price, working both with sellers and suppliers to ensure strong price competitiveness. We had been very focused solely on margin, but now we want to deliver margin with the best price for the customer as well. We're also doing a very strong job in raising awareness across the company that we need to have the best offer in the market. We're working on improving the navigation experience, enhancing search, improving recommendations, and making our marketing more precise through modeling, among other things. We are also expanding payment options, including a mix of options and the Digital CDC, which is a key tool for boosting checkout conversion.

We have hundreds of initiatives aimed at conversion, and the company's reports are now focused not just on post-checkout but on pre-checkout as well—what the customer is seeing and how they're comparing to the market. I'm confident that this year will yield great results, with sales growth that's sustainable in terms of results.

That's a bit of what we're focusing on this year. Last year was the year of Encanta Magalu, where we had an excellent year in terms of improving indicators. I'm sure this year, focused on conversion, we will also have a very positive year in terms of increasing conversion. And for that, in a large, complex, and highly digital operation like Magalu, we obviously needed structural reinforcement, and I'd like to emphasize that I'm a leader who values longevity in leadership structures. I don't like too much change, so many of my directors and vice presidents have been with me since I became president in 2016. But I've realized that now, as I'm completing 10 years, we need to make some changes to our organizational structure.

The most significant change I've made since becoming president in 2016 involves bringing in new people. We've added two executives, and we're very happy they're joining the group: Jorg Friedemann, who will be the CEO of MagaluBank, and Ricardo Garrido, who will be the Executive Director of our marketplace operation. Both are extremely strategic business units for the company. Garrido brings nine years of experience from Amazon, and Jorg has a strong background in the financial sector, particularly with the last three years at Nubank. We're very excited about this.

We also made a significant structural change by merging the Digital Channels and Technology areas, creating a single platform vice-presidency under the leadership of André Fatala, our CTO for many years and the driving force behind LuizaLabs and MagaluCloud. This change, in my understanding, is essential because to make quantum leaps in areas like conversion, pricing, recommendation, search, and marketing precision, these advances must come from algorithms, not from manual or empirical decisions. Therefore, it's crucial that the technological platforms, many of which will use sophisticated artificial intelligence models or automation, are led by strong technological expertise.

With this structural change, the Technology and Business areas will be much more integrated, enabling rapid execution. The management philosophy will also shift more towards automation rather than non-automated decision-making. We believe we've brought in the right people and made the right organizational changes that will enable us to continue operating with margin and gross profit growth, creating value for shareholders, while also regaining growth, especially in online platforms. The stores are already performing well, and we aim to do this in a sustainable manner, which we think is crucial in the current scenario.

Now I'll pass the floor to Beto, and I'll come back before the Q&A. Thank you very much.

Roberto Bellissimo:

Thank you, Fred. Good morning, everyone. I will quickly go over the highlights. We've already mentioned total sales of over 16 billion in the quarter, with same-store sales growth of 7%. Our gross margin is above 30% since Q1, which is typically the quarter with the most liquidations, and the EBITDA margin is also above 8%, with a growth of 8.1%. Adjusted net income was around 11 million, and the accounting net income was about 13 million, with a very small difference as we had no significant non-recurring expenses or revenues. Both profits are very similar, and we finished the quarter with a robust cash position, totaling 6.7 billion.

In the next slide, we show the quarterly evolution to reinforce the consistency of our EBITDA margin. Last year, we started the EBITDA margin at around 7.4%, which evolved throughout the year, and this year we've already started at a higher level. A highlight here, as Fred mentioned, is the growth of service revenue, which increased between 4% and 5%, driven by the marketplace, marketplace commissions, the Ads platform, and also by the sale of insurance.

We also saw an increase in the merchandise margin, and a highlight for the expansion of fulfillment, the gain in market share from physical stores, and the profitability of the physical store channel also growing, with the big highlight being the profit from Luizacred.

In the next slide, we explain a little more about the evolution of the EBITDA margin from 7.4% last year to 8.1%. The gross margin contributed 0.7 percentage points, with a notable contribution from the merchandise margin of 0.6 percentage points, reflecting the pass-through of the CDI increase to final prices, thus raising our merchandise margin. Service revenue contributed another 0.1 percentage points to the consolidated gross margin.

Our operating expenses, particularly general and administrative expenses, remained very stable, just like they were last year at a very stable level. This quarter, once again, they remained stable, and sales expenses increased slightly, which Fred mentioned were mainly investments in expanding fulfillment operations, increasing routes, and delivering faster. This should bring more sales conversion and results in the future.

Next, we highlight the results from Luizacred, which saw significant growth, contributing 0.4 percentage points, along with the reduction in provisions for doubtful debts (PDD), particularly from the CDC, which contributed another 0.2 percentage points in the quarter, reaching a total of 8.1% of EBITDA margin.

In the next slide, we talk a bit about working capital. Here, we begin by explaining the variation in Q1, which is highly seasonal. The variation of about 1.5 billion in Q1 is entirely related to the payment of suppliers, and our supplier balance decreased almost by the same amount. As you know, this is quite seasonal, and it tends to reverse throughout the year. The supplier balance will likely increase again and finish the year at the same level as last year, or even higher.

A key highlight here, which is more of a long-term trend, is that we once again reduced our inventories and improved inventory turnover, both in comparison to December and the previous year. There's also a major highlight here in terms of tax monetization, as we reduced the amount of taxes to recover both in the quarter (around 200 million) and compared to last year (over R$500 million).

This is a trend that should continue throughout the year, meaning that working capital is likely to keep improving as it did last year, with an even better performance expected this year. The consequence of all of this should be reflected, as shown on the right, in financial expenses.

In Q1, financial expenses increased by 27%, primarily due to the seasonal payment to suppliers, which led to the need to advance more receivables this quarter. We increased the volume of receivables advanced compared to the same quarter last year. It's worth noting that last year, in Q1, we had a private capital increase, so this year, without the capital increase, the volume of receivables advances increased, and the future interest rate curve went from around 11% to 14%, contributing to the 27% rise in financial expenses as well.

Thus, the total increase in financial expenses is a result of the higher future interest rates. If we look at interest expenses on loans and financing, they decreased by 20% this quarter, despite a higher CDI rate, due to the reduction in debt that we made last year. Last year, we reduced nearly 3 billion in debt, and in the last 12 months, we reduced 2.1 billion, so the trend for loan interest is downward.

Next, I will detail a little about our total cash flow. We started with an operating cash generation of around 2.4 billion, which is practically a record for this time of year. Remember that last year, we also had very strong operating cash generation, converting a significant amount of EBITDA into operating cash, and this year, the trend should be exactly the same.

After operating cash flow, we had investments of around 700 million and lease payments (from finance leases) of around 800 million, leaving a free cash flow of almost 1 billion (900 million). After deducting interest expenses for the period, around 600 million, we arrived at an adjusted recurring cash flow of 300 million, which is very close to our net income accumulated in the last 12 months. In other words, we are converting net income into cash generation at a very high rate as well.

In addition to this cash flow, we had two relatively non-recurring events: One was a capital contribution to Luizacred, mainly around 600 million, and the payment of debt, which explains almost all of the variation in total cash position. In this case, we pay down debt, reduce cash, and reduce debt without changing our capital structure. In the last 12 months, we paid down 2.1 billion in debt, including the repurchase of our

10th issuance of debentures, which is traded on the secondary market, and it is worth mentioning that the spread on the repurchase has significantly decreased, converging towards the face value of the paper.

Next, before discussing capital structure, we communicated last week a very emblematic transaction for us. We announced a fundraising with the IFC (International Finance Corporation) of 130 million dollars, around 750 million reais. This is the first transaction we've done with the IFC, and it is the first transaction of the IFC with a Brazilian retail company with these characteristics. It's a five-year transaction, completely clean, with a two-year grace period, and it is also our first operation focused on sustainability, with commitments on the evolution of sustainability indicators, specifically related to the collection and recycling of electronic products.

This is a very special operation for Magalu, and the funds will be allocated to investments in technology. So, with this operation, we have practically secured all the investments we will make in technology throughout this year and next, as well as increasing our liquidity and short-term capital structure.

Next, we show our capital structure. We finished March with 6.7 billion in applied cash and available receivables, and gross debt of 4.6 billion, which gives us a net cash position of 2.1 billion. It's worth noting that in September, for example, this net cash position was 1.8 billion, and in the last quarter, it increased. In the Q1 of the next year, it usually decreases due to working capital seasonality, which I mentioned earlier, but it's important to highlight that from September last year to March this year, we increased our net cash position from 1.8 billion to 2.1 billion, meaning we generated 300 million in net cash over the last six months.

As for our 4.6 billion in debt, it's already well distributed over four years, so we have a good profile. We had already extended 2 billion in debt at the end of last year, pushing it to 2027 and 2028. In April, which isn't reflected in these numbers, we completed and communicated the issuance of our 13th debenture offering for 1 billion reais, with a five-year term, three years of grace, and an interest rate of 1.7% per year. It's another excellent operation that, along with the IFC transaction, significantly increases our liquidity, ensures that we can make almost all of our payments this year and next, and also guarantees all of our technology investments for this year and next.

We now have an even stronger and more solid capital structure, and we are also in a very special moment of cash generation. With all these investments already secured through the IFC operation, we have the opportunity to generate more operational cash and increase our total liquidity.

Finally, we have the results from Luizacred, which was another major highlight. Luizacred's operation now has a portfolio of almost 20 billion, with over 6 million active clients. Delinquency continues to decrease significantly, both in the short and long term, and the coverage ratio increased from 148% to 162%, meaning that provisions remain robust and conservative, yet much lower than last year. As a result, Luizacred’s profits have grown considerably, driven by the reduction in provisioning needs, the decrease in funding costs after the capital increase, and the growth in service revenue. Luizacred’s total revenue this quarter also increased compared to last year, posting 84 million in net income and an annualized ROE of 17%.

Therefore, Luizacred is once again in a very special moment—highly capitalized and ready to accelerate its growth going forward.

With that, we conclude the main messages and would now like to thank everyone again for their participation and begin our Q&A session.

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<u>Q&A Session</u>

Vanessa Papini: We will now begin the Q&A session. To ask a question, click on the Q&A icon at the bottom of your screen. Please enter your name, company, and language of the question to join the queue.

Once announced, a request to activate your microphone will appear on the screen. Please activate your microphone to proceed with your question.

Luiz Guanais, Banco BTG: Good morning, Vanessa, Fred, and Beto. I have two questions here. The first one, Fred, you focused quite a bit on conversion within the platform as a key indicator you’ve been looking at more deeply. I wanted to understand how this conversion evolved throughout the quarter and what potential KPIs you are using to leverage this indicator. You mentioned financial products, so I’d also like to explore that a little more, if you could provide some details.

And the second question, regarding margin dynamics, could you comment on the space for margin expansion after you've exceeded 8% EBITDA margin both within e-commerce and in physical retail? Thank you.

Frederico Trajano: Good morning, Luiz, thank you very much for the question. Well, regarding the conversion topic, I think you and the analysts have been following us closely for many years, and you know that every year we end up choosing a theme for the company's strategic cycle, which is fundamental for that particular moment in the cycle.

Last year, we chose service level as the focus, so we set very high goals for increasing NPS because we felt that with all the focus we had on monetization and operational simplification, especially in terms of efficiency, we needed to improve service levels, taking Magalu's service to a historical level – which we've always been, and still are, the market's best NPS – and we succeeded in that. Once that point was addressed, we decided to focus on conversion.

These cycles, these annual cycles, they somewhat follow the American financial reporting calendar, you know? It's like we use Q1 for planning, for developing the indicators. Almost all of the company's indicators today are visualization indicators, not post-purchase indicators. For instance, I don't just see delivery time after a customer buys; I see it for those who just viewed the product, and the same goes for everything. We have greatly improved the company's reports concerning all the potential factors that could help us convert more visits into sales because this efficiency will allow us to grow again with margin, which I think is the big challenge in the company's current context.

So, there are many initiatives we are exploring to achieve this. Delivery time is one of them. Fulfillment itself has a much higher conversion rate for sellers that are using fulfillment. Price, both for 1P and 3P, so getting the algorithms right for defining the best offers, automated price bots, and the same goes for freight costs. We've raised our freight charges a lot, but we are now conducting many studies on offering lower freight charges where we see conversions happening and, in the end, you save on marketing costs when you work with lower freight, for instance. We are also fine-tuning all the bidding algorithms for marketing on platforms – MTA, Multi-touch attribution, incremental testing.

So, it's a very comprehensive agenda that involves the whole organization, not just marketing. It involves departments such as finance, legal, and, as you mentioned, the financial products area, because it's an important conversion point. You have pre-checkout conversion, the shopping cart conversion, and once you are at the checkout, sometimes you don't have a limit on your card or your transaction isn't approved. Approval is an issue because, many times, even if you buy with a credit card, the approval rate is low due to integration issues with the card network. So, we have, just for the checkout conversion part, a series of initiatives managed here, primarily by Jorg's team, aimed at improving approval rates, expanding credit instruments, limits, payment method combinations, and many other initiatives to increase checkout conversion.

But it starts with the type of traffic we bring, passing through delivery time, price, and culminating in what you mentioned regarding payment methods. For example, the simple expansion of the Digital CDC we launched last year, which is one of the big goals for our Fintech team, will help us convert more, because many people don't have enough credit card limit. For instance, a customer who uses a Nubank card often has a limit of R$ 300-400. It's very difficult to buy a R$ 1,000 or R$ 2,000 product (first, they can't do it) without using up the entire limit and then not being able to use the card for everyday purchases.

So, the Digital CDC is a way for them to buy the product without consuming their credit card limit. In addition, we'll have installment payments through PIX, but those are for future plans. I think this is a really cool agenda.

And, Jorg, I think I'll pass it to you now to discuss penetration and additional margins, given how you're seeing the possibilities for Fintech moving forward, especially with the week you started, but what do you already see as opportunities?

Jorg Friedemann: Thank you, Fred. Good morning, everyone, good morning, Guanais. I believe we are in a very privileged and favorable position right now to grow and improve profitability by leveraging the ecosystem and driving sales both in physical stores and online. Looking at the overall financial services strategy, we obviously face the challenge of further integrating operations, taking advantage of the strengths of the ecosystem, and increasing the penetration of services, particularly in the digital space.

But in the favorable position I mentioned, we must remember that we already have a complete infrastructure, both in terms of core banking and processing, as well as a robust licensing framework that allows us to grow with efficiency, scalability, and a larger product offering. We also have all the raw materials needed to achieve leadership within this ecosystem.

I'll mention five key points that were already highlighted by Fred during the presentation, but I see: The brand strength, which brings solidity and credibility; scale, as Fred mentioned during the presentation, with 500 million visits, and 35 million customers who make repeat purchases within the ecosystem; a record service level, with 76 NPS points; the efficiency of the entire system; and multichannel capability, which is a unique advantage of Magalu, allowing us to distribute financial services through digital channels and over 1,200 stores.

All of this should support our leadership over time, which, as we highlighted, will contribute to margin expansion in the future.

Luiz Guanais Got it, Jorg, thanks, Fred. And just a follow-up on the second question, Fred, regarding the margin issue, could you comment on the potential for expansion with the initiatives being taken both in e-commerce and physical retail?

Frederico Trajano: I see, Luiz, so again, we don't provide guidance, but as you've noticed, a good portion of the EBITDA margin delta we've achieved comes from financial products, not just Luizacred. I'd like to highlight again Magalu Payments and the consortium. As you can see, it's very clear from the explanatory notes in the balance sheet that they've certainly been major contributors to this. And I believe we're far from the ceiling based on the data Jorg shared regarding penetration.

Penetration is still very low; there's high penetration offline and low penetration online, and I'm sure that with his management, we will be able to reduce this penetration gap in the online segment.

Luiz Guanais: Excellent, Fred, thank you very much.

Lucca, Banco UBS: Good morning, everyone, thank you for taking our questions. First, addressing the profitability gains you've been presenting in recent quarters, could you comment a bit on how much of this margin gain came from the channel mix, specifically from the physical stores gaining penetration, and how much came from actual improvements in channel profitability?

And also, if you could share how margins are evolving by channel, that would be helpful. I know the release mentions that all channels are gaining margin, but maybe a bit of insight into which ones are gaining the most, or something along those lines.

Second, regarding the partnership with AliExpress, could you update us on the evolution of the partnership and how it's contributing to sales? Additionally, could you comment on the potential expansion of the partnership into logistics and cloud? Thank you.

Frederico Trajano: Thank you very much for the question. Specifically regarding margins, it's an across-the-board gain. So, I think all channels had margin increases. Of course, in the case of 1P online, as we communicated last year, part of this margin gain was almost entirely to compensate for the increase in DIFAL last year, so we had a 5 percentage point tax increase in 1P, and the margin gain was largely to offset this tax hike. However, it more than compensated for it, not just in Magalu, but also in Netshoes, Época, and KaBuM! All of them have relevant 1P operations, and they also have strong 3P operations. Época just launched, but it also has 3P. So, much of this gain, a significant portion of the margin increase, was to offset this tax.

But 1P did have margin gains, 3P had significant gains as well. We've talked a lot about it, we had increases in the take rate, changes in freight bonus policies over the past few years, and stores have been performing very well, very positively, with a slight increase in their share of the total, which also contributed. But I think the margin gain was across the board. All channels, all executives had the responsibility to increase margins, because it was the overall strategy of the company.

Regarding AliExpress, I'll also call Garrido here to contribute with his insights, as this operation is now under his responsibility.

Ricardo Garrido: Good, thank you, Fred. Thank you, Luca, for the question. The partnership with AliExpress started in Q4 of last year, and we're very happy with the results so far and the potential of the partnership. I think in this initial phase of the operation, the most important thing is to ensure process excellence, making sure that delivery times are being properly observed, that the integration is well executed, and we consider this phase to have been successfully completed.

We see that this assortment, coming through the AliExpress partnership, brings a very important diversification of offerings for our customers, and so far, it has been a success. We've seen that the delivery speed is very competitive for a cross-border operation, and as we've gained confidence in this, we've been integrating it more and more into our promotional calendar. So, traditionally, we have big promotions every week, like the Só Amanhã, which starts on Sundays and ends on Mondays, we have Pay Day every month, and now every 11th of the month, we have the International Day where we bring this assortment, which comes through the partnership, for its own special day with a lot of prominence.

So, we're very confident in the partnership and believe it has a lot of potential for growth, even involving other services the company offers, but for now, the focus is mainly on e-commerce.

Lucca: Perfect, thank you for the answers, everyone.

Gustavo Senday, XP: Good morning, everyone. Thank you for the space. I have two questions here. The first is about fulfillment. It has already reached 25% penetration of 3P. I'd like to better understand where you think it can go in terms of penetration and also understand the investment needs, how much you need to invest in terms of P&L to scale up fulfillment. So, that's the first question.
The second question is about the Ads roadmap. It also had significant expansion this quarter, so I'd like to understand what the next steps are for 2025 and how it has contributed to the expansion of conversion within 3P. Thank you.

Frederico Trajano: I'll start here by talking about fulfillment, and then I'll pass it on to André Fatala to discuss the Ads roadmap, okay?

Regarding fulfillment, you saw that we jumped from 16% to 24% of total participation. I think it still has an even greater impact on conversion this year because the conversion rate for visits to products from sellers in our fulfillment centers is significantly higher than for visits to products from sellers not in fulfillment. So, it's very important for us, and one of the key drivers for improving conversion is increasing the participation of fulfillment in total sales.

We're working hard on this, and you can see in the P&L for Q1 that part of these investments are already being made. A significant portion of the increase in selling expenses we had in Q1 wasn't marketing, but rather investments in infrastructure so we can have more fulfillment centers. For example, we're opening fulfillment centers in the Northeast and expanding space to ensure we have more product availability in regional warehouses, some of which were already running out of capacity. So, we're continuing to invest in this, and we're confident that these investments will result in better conversion starting in the next few quarters.

It's a key initiative, and while we don't provide guidance, as you all know, if we look at our current 24% participation and compare it to other companies that have reported their fulfillment participation, we're far ahead of other operations that started from scratch. We basically started this just under two years ago. So, I think this operation will bring a lot of success to our marketplace and to our sellers, and it will greatly help with conversion this year.

Now, I'll pass it on to Fatala for the Ads roadmap, and then Garrido, feel free to add anything.

André Fatala: Gustavo, good morning, thank you for the question. Regarding the Ads roadmap, as Fred mentioned, we had a significant revenue growth of 53%, but a lot of this comes from improvements to the Ads platform. For example, we managed to increase the CTR by 47% in April compared to Q4 of last year, and this comes from the ongoing improvements in the platform and the overall customer experience, with integrations being made across the Ads channels.

We are now working to increase the density of ads within our user experience, as long as they're highly relevant for the delivery compared to what we already have in organic ads. Additionally, a big focus, as Fred mentioned, is expanding partnerships with brands and major advertisers throughout the year. We're also building stronger relationships with advertising agencies to create projects. Not only do we have high traffic across our digital channels, but we also have Lu, who is a major influencer helping with collaborations with other brands, bringing great opportunities for us in Ads investment.

Another important aspect that Fred touched on is our effort to integrate the Magalu Ads platform with our physical real estate as well. From now on, we will also work on making the ads operation within our physical stores much simpler to implement, with advanced technological processes to scale quickly.

So those are the key points of our roadmap to boost Ads growth at the company. Now, I'll pass it on to Garrido to talk about fulfillment.

Ricardo Garrido: That's right, just to complement, Gustavo, regarding your question, adding to what Fred mentioned, you asked about the need for investments to continue the expansion of fulfillment, and there's an interesting point, which is a particularity of Magalu: the multichannel approach we highlight as a differentiator across various areas, even in financial services, as Jorg mentioned earlier. For fulfillment, we already have a network of distribution centers throughout Brazil that serve 1P, and we can enter 3P without necessarily needing to launch new distribution centers or build new facilities, etc. So, the investment required is much smaller, and as you can see when we release our results, and even in comparison with competitors, other companies with fulfillment programs expand in waves.

Currently, we have fulfillment in nine of our 21 1P distribution centers, with 10 including yesterday's expansion in Rio Grande do Sul. There is still a significant concentration of volume in São Paulo, so we expect growth this year to come from advancing our stock and expanding it to other distribution centers.

Another interesting point is the in-store pickup model. Today, within our managed delivery channels, nearly 30%—29%—of deliveries in March were done through in-store pickup, which obviously provides a much cheaper channel for us since it's delivered directly to the store. This allows us to increase the free shipping offer within fulfillment by 4 percentage points compared to the previous year.

So, I just wanted to emphasize how this synergy works and how it significantly boosts the growth of fulfillment. Thank you.

Gustavo Senday: Super clear, thank you, everyone.

Tales, Safra: Good morning, Vanessa, good morning, Fred, good morning, Beto. I'd like to explore a bit here the issue of demand. I think Fred mentioned on the call that it's not slowing down and there isn't an issue, but I'd like to understand by category—white goods, electronics—how you're seeing this demand, how it relates to the replacement cycle, whether there is already a replacement cycle, it's been a while since there's been a consumption boom, whether one is coming, and how that connects to credit. Luizacred had a good result, but I think the Selic rate has peaked now and shouldn't rise anymore. Anyway, how are you seeing credit allocation and the behavior of these newer credit batches you've had recently? Thank you.

Fabrício Garcia: I'll start here. Good morning, Thales. This is Fabrício speaking. Regarding the performance of the main categories at Magalu, we're seeing very good performance in furniture, the mobile phone market has been stable for the past two years, we're gaining market share, and white goods are currently undergoing the replacement cycle you mentioned, which started last year. So, we've been seeing good performance in this category, and it should continue through this year, which is the outlook we have for the categories.

And regarding credit, Jorg will speak next.

Jorg Friedemann: Thank you, Fabrício. I'll speak now, and if needed, Beto can complement. Of course, we will always remain vigilant with the macro environment, and Magalu's history has always been very conservative regarding credit. Yes, we did approve a bit less in the last quarter, but I think it's fair to say that this hasn't significantly changed our risk appetite. Looking ahead, we will continue to monitor the situation, but as Fred highlighted during the presentation, it seems that the tightening cycle is coming to an end, and we're still seeing the main indicators performing very solidly.

So, the NPL (Non-Performing Loans) that we highlighted in Luizacred remains stable quarter-over-quarter despite the historical negative seasonality in Q1. This represents a significant improvement of about 130 basis points year-over-year, which gives us confidence to move forward even in this more challenging macroeconomic environment.

Tales: Alright, guys, thank you, very clear.

Irma Sgarz, Banco Goldman Sachs: Good afternoon, good morning. Thank you. I wanted to go back a bit to the fulfillment question and ask about the unit logistics cost. Is it fair to think that perhaps in the short term it has increased a little, given that you've expanded the network a bit? And where do you see the inflection point, as typically this inflection point also requires scale, with sales growing again?

I just wanted to confirm if you are offering subsidies to bring sellers into fulfillment or not so much.

And still on the fulfillment question, just to understand a bit better, the network expansion you've done was through new centers added in the North and Northeast, support points, or was part of the investment also to expand the number of routes? And yes, I think that's it. Thank you.

Frederico Trajano: Hey, Irma? Good morning. Thank you for the question. Well, regarding fulfillment, as I mentioned, we have not only fulfillment but also, for the preparation of the conversion year, one of the major drivers of conversion is the improvement of delivery time, not just in the São Paulo area, but across Brazil. So, we expanded some storage areas, we added some annexes to our existing operations, and we increased four annexes from last year to this year. We also launched an exclusive distribution center, which is a proposal of ours specifically for Pernambuco, where there is an important fiscal issue that needed to be addressed quickly. So, four annexes and one exclusive CD for the fulfillment operation in Q1.

We're confident that these expansions will be filled with products and sellers, and once the products are there and visitors land on product pages that are part of the fulfillment operation, conversion will increase.

So, I think this small investment, which was quite marginal in Q1, will convert into sales in the coming quarters, and we'll see an extremely positive dynamic. In addition to fulfillment, we are also working on CD shifts and weekend delivery routes. Specifically for Friday and weekends, we had slightly longer delivery times in some markets, and we decided to add shifts over the weekends to make faster deliveries. We were losing a bit of share on weekends compared to weekdays, so we're working on that throughout the year. All these initiatives are part of the conversion strategy.

We do not offer seller subsidies for fulfillment operations. For some operations, we don't charge for the service, but it's important to note that the cost is still marginal. We added annexes, but in other CDs, I had idle capacity. So, on average, the daily increase is very small. We've opted not to charge in order to increase participation, and eventually, we will charge.

Our operation is much more cost-effective than other players in the market, considering that we only have one exclusive CD for fulfillment; all others are shared with physical store operations. So, we share the CD, security booths, security systems, fixed costs of inventory control in the CDs. It has a lot of synergy in our model. There will be one or another specific operation, but even the Pernambuco CD is multichannel, so we also benefit from in-store pickup at that CD.

So, I still see it as an operation that, well, is likely to grow a lot and will also contribute to the margins, especially now in the context of the conversion year.

Irma Sgarz: Thank you.

Vitor, Banco Santander: Hi, good morning Fred, Beto, and the whole team. First, I'd like to explore a bit the relationship between growth and profitability. I understand that your current focus is more on margin improvement, becoming even more resilient in the current interest rate environment, but what I'd like to understand is whether you believe you're already approaching a moment of stronger growth, aiming for greater operating leverage.

And second, regarding the competitive landscape—specifically the entry of TikTok Shop, which was officially launched in Brazil yesterday—if you could share your view on the platform and whether you're already considering working with affiliate links or even partnering in areas like payments or logistics, that would be great. Thank you.

Frederico Trajano: Good morning, thanks for the question. We typically don't talk much about competitors on the call, but regarding the competitive environment, I'd say it's been fairly stable—the same players we've been facing for several quarters now. Given the specifics, the category mix, and also our understanding of how TikTok operates outside Brazil—where it already has a presence in China and some Asian countries—I don't see any short-term impact on our business.

It's one more player, one more option for sellers. Their operations tend to involve lower-ticket items. So, I actually see more of a future opportunity for partnerships than any kind of threat.

Not sure if you'd like to add anything?

André Fatala: Just to add, Vitor, we've also been in talks with them—about TikTok Shops. Magalu is looking to integrate this partnership so that our entire catalog can be leveraged by the creator network to promote our products directly on the platform, taking advantage of the more native experience TikTok Shops offers.

With this setup, creators can generate content, include a direct payment link, and the entire transaction can happen within the platform itself. This is a model that's already been used in the U.S. by Amazon and Walmart, where you can even retain more control over the customer experience, especially around the checkout process.

So we've been exploring both sides of this: making it easier to create content using our products and supporting the marketing push, while also streamlining the user experience by enabling conversions to happen natively within TikTok.

Bob Ford, Bank of America: Thank you very much. Good morning, everyone. Welcome, Jorg.
Fred, how are you thinking about long-term positioning in e-commerce? Are you still aiming to be an everything store, or do you see opportunities in specific verticals where you can dominate?

And when you consider strategic partners, is there a greater role for Alibaba, or room for additional partners? If so, where do you see opportunities to fill gaps?

Thanks.

Frederico Trajano: Hi, Bob. Good morning. Thanks for the question.

Talking a bit about the competitive landscape and our long-term positioning—of course, given all our efforts to build the ecosystem, we aim to be not just an e-commerce player but a relevant omnichannel player across multiple categories. We're the leader in sports with Netshoes, in gaming products with KaBuM!, we have a strong position in beauty with Época, and also in books with Estante Virtual.

What we want now is to bring Magalu's competitive edge in electronics, especially our physical store presence, to these other verticals. So, we have an omnichannel strategy—which you've followed for a long time—and that's always been a strategic differentiator we intend to extend across the entire ecosystem. Our goal is to continue strengthening these operations.

It's also worth noting that Magalu has the second-largest food delivery operator in Brazil: Aiqfome. Aiqfome has been growing rapidly, reaching 3 million orders per month. It's now accelerating our local e-commerce strategy—we're moving beyond just ready-made food delivery and putting more focus on delivering products from local retailers.

We tried doing that through the Magalu platform, but we realized the best way was through Aiqfome, which in turn will be integrated into the Magalu app. So, we have major hyperlocal initiatives via Aiqfome underway, and I believe this represents a huge opportunity not yet explored by any major platform in the market.

I still see a lot of opportunities to expand in these and other verticals, and we're very excited about the possibilities.

And just to emphasize—sometimes people forget that although Magalu is the listed company, we own valuable assets. Netshoes is the largest sports retailer in Latin America, even bigger than some chains with dozens or hundreds of physical stores. KaBuM! is also very significant in its segment, and the same goes for Época. Now, with our multichannel proposition, we believe we'll have a competitive edge over online-only players. This is a playbook we can replicate across other verticals going forward.

We'll explore all these alternatives rationally but also with consistency and a long-term mindset. It's not a sprint—it's a marathon. If you look at our P&L five years ago, before the ecosystem strategy, 100% of our online sales were from durable goods. Today, that's down to just 50%.

That's a huge shift for a company with 60 years of history focused on a single category. So yes, I see a lot of potential ahead. Personally, I believe in multichannel e-commerce. The line between physical and digital retail is only going to get blurrier.

If you look at Brazil, 85% of total retail is still done in physical stores. So, despite all the growth in online, it still only accounts for 15% of the market. The biggest upside lies in combining these channels—there's a lot of synergy between them.

I'm very excited and optimistic about the early results we're seeing in our multichannel expansion into new categories, and I believe it'll further boost our already strong online operations. Just as physical stores helped Magalu become a leader in durable goods online, they'll now help our other businesses become leaders in their respective categories.

Sorry—I hadn't yet mentioned the Alibaba partnership. I think there are categories, especially low-ticket ones—below R$100—where strategic partnerships make sense. Most of our businesses today—Época, KaBuM!, Netshoes—don't really operate in that price range, maybe just Aiqfome in the hyperlocal context.

So, any partnership that complements our assortment in this space and helps us build meaningful presence and penetration—like AliExpress—is very welcome.

Nicolas, JP Morgan: Good morning, Fred, Beto, team. Thanks for taking our question.

I'd like to touch a bit on the CDC (Direct Credit to Consumer). I'd like to understand from your side how the appetite and adoption have been so far, and whether you have any penetration targets you can share with us.

And if possible, it would be great to know how much CDC contributed to gross margin this quarter. Thanks.

Jorg Friedemann: Thanks, Nicolas, for the question. I'll start by discussing the strategy, and then I'll let Beto go into more detail on the operational front.

The truth is I've only been here for a week, so I don't yet have full visibility into all the details.

Speaking about the strategy behind the product: CDC has gradually regained relevance within Banco Magalu's financial strategy over the past few years. That's also partly due to the success of our partnership with Luizacred, which previously had a larger share of what CDC now addresses.

We're looking at CDC distribution as a complementary product—something that strengthens our core financial offering. Expanding the range of credit products is key, especially when you consider different ticket sizes—it gives us another lever to support conversion.

It’s also a product that will benefit significantly from the new financial license, which should bring important efficiency gains and allow us to scale the product further.

Today, much of CDC is funded through a securitization structure, so we see potential for both scalability and improved economics.

And finally, there’s the digital lever I mentioned earlier in response to Guanais’s question. We believe CDC is a strong fit for digital. If you think about its share of total sales, it’s still less than 1–2% of our digital GMV, so there’s clearly room to grow. That, in turn, should drive margin improvement and enhance overall contribution.

Now I’ll hand it over to Beto to provide more details.

Roberto Bellissimo: Good morning, Nicolas. Just to add a bit more context here—CDC’s share, particularly in physical stores, was slightly lower this quarter compared to Q1 of last year.

If you look at the total share of our payment methods in overall sales, it remained relatively stable. That’s because the Luiza Card gained some share, especially with repeat purchases—customers buying more and generating more volume on the card.

Regarding CDC specifically, as Jorg mentioned, we’ve made marginal adjustments to credit approvals—nothing major. We tightened approvals slightly in the second half of last year, which you may have noticed in the slower growth of the CDC portfolio we disclose in our financials.

CDC is a highly profitable product. It already was, and with a slightly more conservative approval policy, it’s now even more profitable. Currently, those returns are reflected in our retail business, but as Jorg mentioned, we’ll soon begin originating CDC through our new financial institution. That will make it even more profitable, with a significantly lower tax burden.

Right now, under the retail structure, we pay ICMS, PIS, and COFINS on the interest revenue—but even with that, it remains a very attractive product.

In this quarter, new vintages are even more profitable because delinquency rates in the 2024 cohorts are much lower than last year’s. That’s a clear trend we’re seeing.

As for the impact on gross margin—you may have been asking about that too—it’s actually quite small. That’s because we recognize all sales at present value and the interest is accrued over time. The impact I’m referring to is more at the sales level itself.

Looking ahead, we expect CDC to resume growth, especially as we start originating through our new financial institution.

Thanks again, Nicolas.

Nicholas: Alright, thanks everyone.

Felipe, Citi: Good morning. I think most questions have already been asked, so I just wanted to get a bit of an update on your macro view. You had been more optimistic than the average when it comes to consumer spending, and indeed, first-quarter data across most categories has been coming in strong. So I'd just like to know whether there's been any change in your outlook for the rest of the year. Thanks.

Frederico Trajano: Well, Felipe, thanks for the question. I think the results you mentioned corroborate what we've been saying. Personally, in the last calls, I've pointed out that demand is not an issue today because the purchasing power of those with formal jobs (CLT) or those receiving social benefits is protected by inflation adjustments. It's not just demand—credit operations and the bank's results are also strong because delinquency is under control.

It's not just Luizacred that posted good results this quarter, which shows there isn't an income problem in Brazil. It's a basic issue. The problem is that interest rates remain high, taxes are high, and converting sales into results, ensuring that sales have positive margins and contributions, is the challenge. This is why the company's focus remains the same: exploring all possibilities to increase the monetization of GMV and, right now, a very strong focus on conversion. This will either allow us to sell more with just marginal marketing investment or sell the same amount with less margin investment, still giving us the opportunity to keep leveraging our results.

So, that's the current scenario, and we maintain the same view. I don't see anything that could substantially change this issue. I believe it's quite wrong to make any kind of evaluation or analysis suggesting that Brazil has an income or consumption problem. That's not the reality, and we're here on the front lines. I have many colleagues who are retail CEOs, and I'm also Vice President of the IDV and a member of its board, so I'm not seeing this income issue that we sometimes read about in the press.

Vanessa Papini: We are now closing the Q&A session. I want to give the floor to Frederico Trajano for his final remarks. Fred, please, you can go ahead.

Frederico Trajano: I would like to thank everyone once again for joining our earnings call, to all my colleagues here and the Magalu team for delivering another excellent result in Q1. Thank you very much.

Vanessa Papini: Magalu's conference call is now closed. The Investor Relations team is available to answer any other queries and questions. We appreciate everyone's participation. Have a nice day.