



Local Conference Call
Magazine Luiza (MGLU3)
2Q25 Earnings Call Transcript
August 08, 2025

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 very much for participating in our call. To present Magalu's results for the second quarter of 2025, I wanted to start by emphasizing that this was another period of consistent execution, with significant efficiency gains, growth on strategic fronts, and resilience in our main categories. Without a doubt, the main highlight of our quarter, once again, was our profitability and our financial discipline in execution. We reached an EBITDA of R\$727 million in the second quarter of 2025. It's important to remember that we are in a context where the CDI interest rate, the Selic rate, reached 15%. This is a growth of over 45% compared to the average Selic rate in the second quarter of last year, which implies a series of challenges from a P&L perspective for the company, both on the top line and the bottom line. So, in this context, we maintained the discipline that we have already been demonstrating in other quarters of improving our margin and growing our operating income.

In this sense, the main highlight for achieving this margin was, in fact, expense control, with a well-controlled SG&A, showing our management capability. I think there are things that are not in our hands. The Selic rate is not in our hands, but our expenses, our costs are in

our hands, and we have been working on this very efficiently. Despite an inflation of five percent—and the costs of any Brazilian company are indexed by inflation—we managed to control our expenses nominally and achieve this 8% margin. I also wanted to highlight another theme that has been a constant in our results, which is the discipline of management and cash generation. We had a good quarter for cash generation: R\$597 million in operating cash. Roberto Belíssimo will detail this further in his presentation. The main highlight here, let's say two highlights, were a R\$150 million reduction in inventory during the quarter, and also the monetization of taxes, which is another line that we closely monitor in our cash and working capital committees, one of the most important committees here at the company.

We have absolute control. Fabrício can talk a bit about inventory formation. As we are entering the third quarter, I just wanted to anticipate that we built up the second quarter's inventory with a higher dollar exchange rate than what we had at the beginning of the year; it almost reached six at the beginning of the year. So, the inventory was formed at a higher dollar rate. We thought it wise to reduce these inventories. Now, we had a sale. In the quarter, we made an inventory reduction, which also has a positive side. Fabrício can detail this, but now we have formed the third-quarter inventory with a lower dollar. The dollar was already lower when we made the negotiations. We are confident in having made good negotiations here to have more competitive strength, especially in our 1P, website, and stores for this third quarter. So I think this inventory reduction was providential and important, with good timing here for negotiation conditions. But well, we will enter the third quarter, without a doubt, with better competitive conditions than we had in the second quarter for those channels where we have our own inventory. Not only at Magalu, we also did this at Kabum, and in other companies of the group as well.

Anyway, regarding sales, I wanted to highlight the resilience of the group's main categories. We managed to grow net revenue by 1% in a context of a high Selic rate, which ends up impacting the market a bit. I want to make it very clear that the market remains heated and in a situation of full employment. The latest employment report shows that unemployment is at historically low levels, the employed population and social benefit levels are only increasing. There are still things to come, such as a potential income tax reduction for people earning up to R\$5,000, for families with an income of up to R\$5,000. So there is still a heated economy.

Now, when interest rates are high, our ability to make offers, for example, 24 interest-free installments or 20 interest-free installments, our ability to be aggressive and have a more positive contribution margin is smaller. So it's not that the market is smaller. The consumer market is affected in terms of the actual capacity of a retailer, which still has high-ticket categories, to make more aggressive promotions with better long-term prices. So, I think this is the tone of the market. We believe that in this third quarter the Selic will still be high, but as I said, we have costs for which we managed to get good negotiations for this quarter. I believe we will have an even better third quarter from a sales perspective, continuing the

logic of efficiency from the second quarter. So, in the second quarter, we had growth in physical stores, a growth of 3.5%, which would be 5% without considering the South region. Last year, a very large amount was poured into the South due to the floods. Excluding the South effect, which also ends now in July of this year, the same-store sales would have been higher than this. The 1P also grew, so it showed a dynamic slightly superior to the first quarter. And the 3P showed a drop, and this was a tactical decision not to enter, mainly, into a competition now in the market dynamic of free shipping in lower-ticket categories. We have a very strong discipline of not selling products with a negative contribution margin. In short, it was a tactical decision for the quarter, not a long-term strategic one. It's worth remembering that even in low-ticket categories, we had a great performance in the grocery and consumer goods categories. But we effectively did not enter a war here. We did not get into that discussion of categories with negative contribution margins, and we believe we are in a position to do so. I think this will pass, this is not a perennial thing. And we are in a position to recover throughout the semester.

But I think what I want to make clearer from Magalu's point of view is that Magalu has an economic model with three growth engines. So, unlike other markets that have only one engine, which is either just a 3P engine or just a physical store engine. There are several that have only a physical store engine or only a 1P engine. We have the 3P engine, we have the 1P growth engine, and we have the physical store growth engine. So, I think we have managed to be resilient even in specific market situations. So, as the 3P engine now finds a more, let's say, bumpy road due to a specific economic situation, 1P and stores compensate. When the stores, back in the third quarter of 2021, faced a 15% drop in same-store sales, 3P helped the stores a lot at that time. When 1P also had a difficulty there in '22, '23, when we were rebuilding inventories, there were some issues there that we needed to evolve, 3P helped as well. So, having this ecological balance between 1P, 3P, and stores is an important competitive differential for Magalu. And that's how we built our operation. When we set up our 1P, we didn't set it up to the detriment of physical stores; it was very integrated. As we build our 3P, we will not build the 3P to the detriment of 1P and physical stores. We want this ecological balance between these three growth engines, these three important channels for the company, and that's how we will proceed. We also highlighted that for categories, especially those where we are market leaders, within the Magalu channel, categories above R\$1,000, we had a growth of 5%, 1P + 3P combined. So, in these categories, we continue to protect our share, even gaining share. I think this is an important highlight that, in fact, the issue that happened online was very specific to very low tickets, largely due to this short-term matter.

It is important to highlight how well the companies we acquired and that were part of our results diversification cycle are doing. I will talk a lot about the ecosystem. The ecosystem is not an end in itself. And we did not adopt an ecosystem strategy because of an ecosystem buzzword. The idea of investing in companies through the acquisitions we made in the period was to diversify our revenue streams. Just as an asset fund manager has to diversify

results, not put all the eggs in the same basket, Magalu also wanted to diversify its results and complement the core category of electronics with other categories. And here we are highlighting three companies we acquired that are doing very well: Kabum, Netshoes, and Época. All of them operated with a profit. Kabum had a R\$12 milli on net profit in the quarter, with GMV growth. Netshoes also, R\$24 million, did very well in the quarter in terms of results, also with GMV growth. And the same for Época, profit and growth.

So, we have not only a very important position when I talk about durable goods categories, but also a very important position in computer accessories and in the gamers segment. A super important position also for products related to health and sports. Netshoes is in a very good phase, also in the beauty line. So, Magalu has managed to conquer an important competitive presence in these categories as well, with profitability. So all of them are following the same line in this sense. I will talk a little later about the issue, because for these operations, we also want to have the three engines. A large part of these operations when we bought them were only 1P. We added the 3P, for example, 50% of Netshoes is 3P. Kabum's 3P also grew a lot and Época entered 3P now. And for all of them, we are also adding a physical store engine.

I will talk about this at the end of the call, with the launch of our large format, which is the Galeria Magalu. Still on the ecosystem, I think that in other situations, if we faced a Selic rate at 15%, with high interest rates, we would have felt it much more strongly in our results than we are feeling it now. Again, the ecosystem is not an end, it is a means for us to achieve a less cyclical result, which has always been the traditional pattern of our traditional categories. And that is exactly what we are achieving. I wanted to highlight some fronts here of the evolution of our strategy, which I would say was the last major cycle and year of the ecosystem cycle.

I wanted to start with logistics. Magalog, which was a department of the company, after we bought three or four logistics companies, became an independent company from Magalu. Today Magalog provides services to Magalu's 1P and stores, provides services to Magalu's sellers, but is also providing more and more services to companies outside of the Magalu ecosystem. We reached the mark of 90 external clients at Magalog, which are generating significant revenue for Magalog. It ceases to be a cost center to become a revenue center for the company. We are gaining a lot of share in segments like Fashion, for example, Zara in Brazil operates with Magalog, Renner operates with Magalog, Pets, Petlove, Sports, Electronics. So, we have an important expansion of the network here. This helps us to dilute costs and have competitiveness here for Magalu itself as well. So, it has been going very well. Magalog has been achieving this with the level of excellence it has always operated with for Magalu. Let's remember that Magalu's NPS is 80. 85 for 1P and stores, 75 for 3P. So, 80 overall. And Magalog is transporting this level of service to its clients as well. We achieved the RA1000 seal this quarter, and several excellence awards. Several of these external clients awarded Magalog as the best logistics operator of the quarter. We turned it

into a company last year and we already have 90 clients. This is growing a lot. I think also of note, going back a little to 3P, is the penetration of fulfillment.

I'll let Fátala and Garrido talk about this later, but it went from 24% of orders in the first quarter to 27%. And here we have a much better service level. There are already 10 more of the company's distribution centers that are operating fulfillment for sellers. This, I think, is an important evolution for us, as we end up growing 3P where we have more control, more competitive conditions, and more resilience for the future. We are swapping a bit of partner shipping for sellers who use Magalog, so you have fewer partner shipments and we are compensating for this by growing within Magalog.

I think the other highlight, it has been a highlight for some time, but this quarter another important highlight. And Beto will talk about it and Jorg is here too to comment, was MagaluPay. All the companies here in our credit, financing, and financial services arm did very well. We had a record profit at Luizacred, R\$100 million in the second quarter, with an ROE of 19%. Once again, compared to last year, delinquency indicators are falling, and with high coverage. We will have here, I think Jorg will detail it as well, a great novelty that we got authorization for our financial institution from the Central Bank, which will operate mainly lines like CDC, consumer credit. We got the authorization and should start operating it now in the third quarter of this year. And through it, obviously, we have a great opportunity to continue increasing the penetration of products. Remembering that our penetration in physical stores is just over 40%. There are physical retailers in Brazil that operate with a financial products penetration of 70%. The regional ones operate in the 70% range, so there is still a lot of room to grow. And it is one of Jorg's focuses today, even in physical stores, the opportunity to increase the penetration of services in physical stores, while online the opportunity is gigantic, with a penetration of less than 10%. We also have several initiatives here to increase the penetration of services online. I think now in the third quarter we will evolve in these aspects as well. And finally, Magalu Pay as well. I also wanted to highlight the excellent moment of Consórcio Luiza, Consórcio Magalu, which had another quarter of very significant growth. The consortium does very well in times of high interest rates, because it is a great alternative both for investment and savings and for purchasing. And it has been growing a lot, with a lot of profitability as well.

So, another pillar of the ecosystem that has been supporting us a lot at this time. Magalu Ads is also a great opportunity for us to monetize 1P and 3P. And we grew a lot, 66% compared to the 2nd quarter of last year. An expansion of the average ticket of ads, more brands participating, more sellers participating, and a great evolution of formats and tools. Video has now been introduced, new spaces, and improved metrics for the advertiser as well. So, we are in a very important evolution of our work in Ads and with market recognition. In relation to this, I think our differential in Ads, as I always say, will also be the application not only in the online world, but also on the panels in physical stores. The new store, which I will talk about later, will already be born with many spaces for brands to advertise within

their real estate. So, in short, it is like the other channels of the group. A great opportunity to monetize, but it also has this omnichannel differential.

And Magalu Cloud, I think it's also important for us to highlight its evolution. 40% of Magalu's workloads have already been migrated to the proprietary cloud. We have more than 1,000 clients using Magalu Cloud. We have five zones enabled in two regions and we are seeing a 20% growth in monthly revenue with external clients. I think this is an important point for us, I think there is a huge opportunity, Fátima can detail it later as well, with this whole issue now, with this geopolitical issue, all these issues that we have been seeing in the news. We have talked about tariffs, but there is a very important aspect of sovereignty, which is data sovereignty. Whoever does not control their data does not control their future. The country that does not control its data does not control its future. There is a great concern from state governments and the federal government regarding National Data Sovereignty. And I think Magalu Cloud will be very well-positioned for future bids from the public sector as well, because this is becoming an imperative. Other countries have already moved in this direction, like France and China. I am sure that Brazil will move to the same level and there is no cloud in Brazil as prepared for this as Magalu Cloud. We are excited about this possibility, and we already have the capacity to sell and to have even more growth, not only with private clients but also with public clients. Remembering that national sovereignty is not only public. There is also private national sovereignty, because the same risks that the state runs, private companies also run. So having a local partner subject to specific Brazilian regulation is a competitive differential as well.

And now I pass the floor to Beto Belíssimo for him to talk in more detail about the financial results. I will come back to talk a little bit about our initiative that we are going to launch now in the third quarter and then we are open for Q&A.

Roberto Belíssimo: Thank you, Fred. Good morning, everyone, and thank you for participating in our Earnings Call. I will quickly go over the main financial highlights here, reinforcing some big numbers. First, total sales of R\$15 billion in the quarter. Grow the even in stores of 3.5727 million with an 8% margin. We had a very high conversion of EBITDA into cash generation, reaching operating cash generation of almost R\$600 million in the quarter and R\$2.6 billion in the last 12 months, one of the highest levels in our history. And a very strengthened total cash position, in the order of R\$8 billion. With this result, we had a adjusted net income of R\$2 million. Again, we had no relevant non-cash expenses, relevant non-recurring expenses, and we made an additional non-cash provision of R\$26 million for doubtful accounts, also non-recurring, due to a change in methodology.

Next, we show the sequential evolution of our EBITDA, just to reinforce the consistency. Since the second quarter of last year, we have kept the EBITDA margin very close to 8%. And with the main levers here on the side, highlighting the performance of physical stores,

the performance of Luizacred, the expansion of fulfillment, and also the operational efficiency, expense control that Fred also mentioned.

On the following slide, we show the variation of the EBITDA margin, which increased from 7.9% to 8%. In this quarter, we had a slight reduction in the gross margin, which we explained in the release. And it is closely associated with the inventory reduction we made at Magalu, mainly in this quarter, looking only at the sales channel in Magalu, the parent company. We reduced inventories by R\$150 million this quarter and we had a stronger mid-year sale this quarter as well to help with this inventory reduction. And this put some pressure on the gross margin for merchandise. If it weren't for this sale and this inventory reduction, we would have maintained the gross margin at a level very similar to last year's. And to compensate for this reduction in gross margin, we managed to keep operating expenses again at a very controlled level. Overall, our net revenue grew by almost 1.5% and our operating expenses grew by almost 0.5%. So, we had a dilution here, an operating leverage, which contributed with 0.2 percentage points. We had the performance of Luizacred which added another 0.2 percentage points and a recurring performance of provision for doubtful accounts which was better than last year and contributed with another 0.1 percentage point. So, overall, we increased the margin to 8%.

On the following slide, we first highlight the performance of working capital. And here we show that in this quarter, sequentially, we improved working capital by R\$200 million from March to June. We reduced inventories, as we mentioned, on a consolidated basis by R\$150 million. We reduced taxes to be recovered again. And here's an observation, when we look at the working capital here compared to last year, it seems a little worse. But in fact, it's because as we are managing to accelerate the monetization of inventories, the short-term taxes to be recovered are higher, but in the long term, they are more than R\$700 million lower. So overall, we are reducing the total taxes to be recovered by almost R\$600 million. This has contributed a lot to our cash generation. On the right side, we show the performance of financial expenses. And here, it is worth noting that we kept financial expenses at a level very similar to the first quarter, even with the Selic rate rising throughout the semester. When we look in relation to last year, financial expenses grew between 20% and 25%. Compared to the Selic, again, which grew from 10.5% to 15%, it grew close to 45%. So we managed to mitigate the effect of the Selic quite a lot. We reduced the volume of discounted receivables due to the cash generation and the fundraising we also did. For those who are looking, the balance of discounted receivables decreased by more than R1 billion this quarter and we increased the balance of available receivables by more than R1 billion. It is also worth mentioning that the supplier agreement operation, which in our view is not a debt, it is part of our accounts payable, part of our total supplier balance. It also decreased this quarter by more than R\$600 million due to all the controversy regarding the IOF on supply chain finance. There was a reduction in demand, but with no impact on our average purchase terms and our working capital performance here.

Next, we comment on the quarter's cash flow. So a cash flow from operations of R\$600 million which was more than enough to cover investments and rents, generating a free cash flow of R\$200 million. We had fundraising of R\$2 billion, we paid debts of R\$400 million, we paid interest of R\$200 million and we also paid dividends of R\$200 million. In total, we increased cash by R\$1.3 billion to R\$8 billion. When we look at the sequence, this same view in 12 months has the same trend. The cash flow from operations is, again, much higher at R\$2.6 billion, free cash flow of R\$1 billion. And we had interest in the period here around R\$500 million. So we generated cash, even considering the payment to interest. In the year, we had the fund raising and debt payments and debenture buy backs that we mentioned, the capital injection in Luizacred, and the payment of dividends. Overall, we increased cash by R\$1.5 billion in the last 12 months.

On the next slide, we comment, as we did last quarter, on the conclusion of the operation we had already announced with the IFC and also with the IDB, for a total of U\$180 million, practically R\$1 billion for a term of 5 years, strengthening our capital structure and also guaranteeing the resources for technology investments this year and next year.

Next, we show our cash and indebtedness position. We ended with R\$8 billion in total cash, minus R\$6.2 billion in total gross debt. We have a net cash position of R\$1.8 billion. It is very stable in relation to last year and in relation to the previous quarter, due to the operating cash generation we had. Perhaps the only difference is in the payment of dividends and the capital injection in Luizacred. We show where the profile of our debt, quite long-term, no wall maturing in the next—oft his debt here in 2025, we have already paid R\$400 million in July, which was a debenture issued by Kabum. And we already have all the resources to make the short-term debt payments. And what remains are very long-term debts, maturing in the next 5 years. So, a very solid and comfortable capital structure as well.

And finally, speaking of Luizacred, a portfolio of practically R\$20 billion with a delinquency rate that continues to improve. Short and long-term indicators are significantly better than last year, na even higher coverage ratio, and a very Strong quarterly result, more than R\$100 million in net income in the second quarter for Luizacred, reaching an ROE of 19.5%, one of the highest for the same period in Luizacred's history.

These were the main financial messages. Again, thank you. I'll pass the word back to Fred to continue. Thank you.

Fred Trajano: Well, thank you, Beto Belíssimo. The last point I wanted to make before we go to the Q&A, I wanted to reinforce a bit of Magalu's operational model. It's a model that doesn't depend on a single engine. We have three engines that have to work in a very balanced way, generating synergy for each other. The 1P engine, the 3P engine, and the physical store engine. The 1P guarantees us scale and also a very strong proximity and relationship with the main manufacturers in Brazil, whether they are in electronics, sports products, or products related to the beauty and health line. The 3P guarantees us

assortment and relevance. A complement, assortment, relevance for the customer. So, the more products you have, the higher your conversion and so on, the 3P has a fundamental role for us in guaranteeing assortment and relevance for the final consumer. And finally, the store guarantees margins. Because the store is one of the main vehicles here, with a higher gross margin on merchandise and also from the point of view of financial products, it is a great sales channel for financial products that generated this profitability for Luizacred that we are seeing, the sale of services. It has a great vocation to contribute to our margin, not only the retail margin but also the financial one, besides the fact that the store is where the customer has proximity and experience with the brand. So our store is a great strategic differential in relation to any other operator. There are operators that have 1P and 3P, but few have 1P, 3P, and stores. And we have this vision and want to expand it to the entire ecosystem, as I said, when we bought Kabum, Época, Estante Virtual, all these businesses. They were mainly purely 1P businesses. We added the 3P layer. And this 3P layer has been more and more important for these businesses, not only to allow, for example, Magalu itself to sell there, as with other sellers as well, but also to increase assortment and relevance for them. And now we are adding the final layer of the ecosystem, which is the physical store. So, we are going to inaugurate. We already have some very successful experiences in opening physical stores for Kabum and Netshoes. A specific one here in our Tietê store that increased sales significantly. Not only did it bring incremental revenue for Netshoes and Kabum, but it also greatly increased the revenue of the Magalu store that was there. Fabrício can detail some of these numbers later. Now we are going to set up the first physical space with all the group's brands in the same space, which will be the Galeria Magalu, in one of the most iconic spots in São Paulo, which was the location of the Livraria Cultura. A department store in which we will have L'Oréal and Chanel meeting Apple, we will have Adidas meeting Nvidia, because we sell Nvidia's video cards here at Kabum. A meeting of brands, more than 150 brands will be participating in this project with us. They are actively working on experience issues. It's a store that will be omnichannel, it will be super interesting. We are very excited about this inauguration. We are talking about it now, because we will probably inaugurate it before the next call. Adding this layer, and completing this business model for us. I think we are very convinced that we will be successful in this venture and that we will be expanding this. Both formats similar to Galeria Magalu, and others going forward, giving yet another competitive differential to these companies we acquired, which are, as I said, in a good moment, but which will have this moment boosted by physical stores. Remembering that the brands that work with these companies have been asking us for physical stores for a long time, because for the brand, the storytelling of the physical store, they cannot do in an exclusively online world. So, once again here guaranteeing the ecological balance of our channels. We have a unique model and I need to emphasize the importance and the strategic differential of this model of three engines: 1P, 3P, and physical store. So, now I open for questions. Thank you very much.

Vanessa Rossini: We will now begin the question and answer session. To ask a question, please click on the Q&A link at the bottom of your screen. Write your name, company, and

the language of your question to enter the queue. When announced, a request to turn on your microphone will appear on the screen, and you must then activate your microphone to proceed with the question.

Vanessa Rossini: Our first question comes from Luiz Guanais, from BTG. Luiz, please, you may proceed.

Luiz Guanais (BTG): Good morning, Fred. Good morning, Beto. Good morning, Vanessa. I have two questions on my side. The first, Fred, I know you commented a bit on this ecosystem of physical stores and different brands within the same ecosystem, how this is important for value generation and margin improvement. But if you could give a little more detail on the drivers you see for Magazine Luiza's margin expansion, looking forward, that's the first question. And a second question, if you could also comment on the evolution of the sellers' conversion rate and eventually how credit can be important within this indicator. Thank you.

Fred Trajano: Good morning, Luiz. Thank you very much for the question. I think that the drivers for monetization, profitability, and margin expansion of our strategy are very much based on what we have already presented here, and on the channels I described. So, I see Ads penetration still very low, now it has grown significantly in the second quarter. We still have enormous space to penetrate Ads, which improves the margin of the online business and will improve that of physical stores as well, because let's remember that our Ads will be relevant for physical stores too. I wanted to highlight the fact that Magalu, more than a marketplace, is a brandplace. We are the best channel for brands, okay? Because we don't have an excess of white-label products imported from Paraguay. So, for brands, there is no place with better brand safety than advertising here in the Magalu ecosystem. We are having very good traction also because we are much more selective in the type of product we allow in 3P. I think Ads is an important channel and we are having good evolution and traction with brands and ads, with evolving tools, and with better indicators. I think there is, as I said, an opportunity for financial product penetration. In physical stores, we are at 40% penetration of card and CDC; there are regional operators that have 70% penetration, there is still room for us to increase penetration without increasing risk. Jorg can talk about this later. And online the opportunity is gigantic. With penetration below 10%, we can and should significantly improve the penetration of financial products online. We have several initiatives such as – certainly but not exclusively – the new financial institution and the investments Jorg is making in the team, in improving products, and also in the purchase journey. In terms of conversion, this is a year in which we are doing work not only for 3P, but for the company in general, to improve conversion. We have been evaluating several issues, they are 360° issues, such as delivery time, cash and installment pricing, improvements in marketing bidding algorithms to bring visits with higher conversion. So, there is a series of improvements and structural investments that we are making here so that we can see an increase in conversion from now on. In a way, we had a quarter of controlled SG&A

expenses – there's the S, right, which is selling expenses. Part of the evolution this quarter was also in the sense of having discipline in media investment, so that the traffic we bring, we convert more. But we still have a lot to evolve here to seek growth. The caution here is that we will not enter a war that generates conversion but with a negative contribution margin, for example, entering a war of low freight, of free shipping, that results in a negative contribution margin. We don't see, for our model, for our business, for Magalu, a reason to enter a war, even for long-term reasons. At this moment of interest rates at 15% a year, discipline has to be great and our characteristics also give us this option to seek conversion as long as it has a positive contribution margin. You can have a very large increase in conversion in other ways. I think later, Fátala, Garrido, if you want to talk a little bit about conversion initiatives, I think it's worth talking about the grocery category and a little bit about what we're doing with closeness, if you want to add.

Ricardo Garrido: Okay. Thank you, Fred. And thank you for the question, Guanais. As Fred said, I think one of the main assets we had this quarter and which is important for the issue of seller conversion is precisely the growth of Full [Fulfillment]. We grow Full as we manage to take advantage of the virtuous effects of omnichannel. So we piggyback on the DCs and the collection and delivery operations of 1P and physical stores, and with that we can offer coverage, even free shipping for in-store pickup. Today, 37% of deliveries made by Magalog are through this In-Store Pickup operation, which we consider a differential. And with this, Full can offer customers, in addition to a faster delivery time, greater coverage of free shipping, in a way that fits within this culture of rational spending that Fred mentioned. Today, Full is offering a conversion rate two times higher than delivery made by the sellers themselves. So, as we manage to increase the share of Full in orders, which we reached 27% now, an increase of three percentage points versus the last quarter and six percentage points versus last year, we can lead the sellers to a higher conversion level. Regarding the main evolutions from now on, we have just launched in August, in a soft launch, and we will explore the announcement of this more at Expo Magalu which happens at the end of this month, a feature to attribute free shipping as the cart reaches R\$200 in supermarket products in Full. This includes 1P and 3P in Full. So this will practically make this category, which has lower tickets, viable within Full, without hurting the margin. So we believe this is a next frontier for Full's participation growth. But I also wanted to say that in collection operations, we managed this quarter to move more than 2,000 sellers who were using Post Office shipping to the Magalog delivery network. So we are taking advantage of the scale, including with the external clients that have been coming in, as Fred said. This improved, for these 2,000 sellers, the delivery time by more than 5 days, the conversion by more than 20%, and for us, a saving in operational costs. So this whole front of logistics operations, of logistics services for sellers is super important to be able to drive conversion forward as we protect the business's margin.

Luiz Guanais (BTG): Excellent, everyone. Thank you very much for the answers.

Vanessa Rossini: Thank you for your questions, Luiz. Our next question comes from Antônio Cardoso, from Jefferies. Antônio, please, you may proceed.

Antônio Cardoso (Jefferies): Hi, everyone. Good morning. Two questions on my side. One, you commented a bit about MagaluPay, if you could elaborate a little more on that subject, please. Now in the second half of the year, where will we already be able to see some difference, some possible result, and what are the opportunities, whether for growth or also for cost savings. Perhaps it's worth having Jorg speak with us. And a second question, regarding the marketplace, how do you see its positioning in the medium and long term? What should we expect from the marketplace? Is it growth in line with inflation, can it grow as the market has been growing? What is the medium and long-term positioning? What are your thoughts on the marketplace? Thank you very much, everyone.

Jorg: Thank you, Antônio, for the question. Yorg here. I'll start by talking about the short and medium-term opportunities at MagaluPay. We have many opportunities related, first, to operational and fiscal efficiency, by migrating the retail CDC to the financial institution. And later Beto can even talk a little more about these impacts. I also see a gradual evolution at Luizacred and, as both Beto and Fred commented, I think we will have a second half of the year capturing the benefits of the investment made in Luizacred, both in product improvements and in delinquency control. And I am very optimistic about the consortium; as we highlighted, the consortium has been becoming a sales force within the platform, growing more than 30% per year, reaching total sales of over R\$1.5 billion just in this second quarter. In addition, and this is new, we have been investing heavily in data and credit expertise so that we can expand our ability to serve recurring customers in the ecosystem. Therefore, these customers obviously have a less risky profile, but today they are not utilized to their maximum capacity within MagaluPay. Next week, we are already bringing in a very senior executive as head of credit and data analytics, with more than a decade of experience in companies like Nubank and Capital One, to help us raise the bar for these disciplines within the ecosystem and for us to start materializing this potential in the short term.

Fred Trajano: Well, continuing with your question, I think I've already talked a bit about this. The role of 3P for the company, we don't give guidance for each of the channels, but I think without a doubt we expect to grow above inflation and above the market, not only in 3P but also in 1P and in stores. We want to grow in all three channels, we don't have one engine, we have three engines. The marketplace, just like 1P, gives us strong scale, while the store provides margin, proximity, and helps with the logistics operation. 3P also ensures assortment and relevance, because it creates frequency, we can list items that have a higher consumption frequency, and also profitability. A well-operated 3P can greatly help the company's EBITDA margin. The issue is to have the discipline not to pursue growth in 3P at any cost and to have a very strong discipline to make it fit within the company's overall value proposition. It can contribute with specific aspects, where it has a vocation to contribute, as I said: assortment, relevance, margins, and also growth, where the market presents this

opportunity. So you have to have a very tactical reading of how the market is and accelerate where it makes sense. I am sure that, for the long term, we will be one of the great options for many sellers and for many DTC (Direct to Consumer) brands, who will have a very high level of security here to scale their operations. A brand, for example, that does D2C, like a Samsung, a Whirlpool, in addition to 3P it also has 1P, it has the physical store, there is a lot of synergy in the process and also for sellers who will benefit from the same omnichannel infrastructure that we have. The in-store pickup that Garrido mentioned, accelerates not only for 3P, but also for 1P and physical stores. Obviously, we want to grow above the market and above inflation. When this situation is possible. And we have a positive contribution margin. There may be a moment, one or another quarter, where we opt more for margin than for growth. That was the case this quarter. It depends a lot on the dynamics. We are now in a context of a retailer that, both in 1P and 3P, has high tickets. Usually, you leverage the sale of high-ticket items with payment terms or promotional interest rates; with the Selic at 15%, this is very expensive. So this temporarily limits some of our firepower, but when the Selic falls, this changes – and you can look at Magalu's growth pattern, when the Selic falls, we grow well above the market. So we are in a specific context of a high Selic, where we have a little less capacity for growth, specifically online. I am sure that when, and I believe the Selic has hit a ceiling, when it starts to fall, we will once again be one of the main vehicles in retail and online in Brazil to capture this growth with profitability. Now, we have to have discipline and a strong focus on our project without entering into a growth-at-any-cost war.

Antônio Cardoso (Jefferies): Very clear. Thank you, everyone. Cheers.

Vanessa Rossini: Thank you for your questions, Antônio. Our next question comes from Ruben Couto, from Banco Santander. Ruben, please, you may proceed.

Ruben Couto (Banco Santander): Good morning, everyone. How are you? Thanks for taking my question. I wanted to follow up on Magalog and fulfillment. Fátala commented on some points here about the evolution of the program and the penetration of fulfillment in 3P, which has been evolving well. I wanted to understand if this increase in the number of orders has been more due to the conversion of sales from sellers who are already using full, or if there has already been a good contribution from new sellers starting to use the services – which you highlighted this quarter for the growth of sellers using it. And looking ahead, how is this onboarding process for new sellers going? Is it a process that depends heavily on price aggressiveness, or do the service level and access to the Magalu ecosystem end up contributing? I wanted to understand if these recent market movements of being more aggressive on shipping have affected this growth and addition of new sellers to use your full in any way. Thank you.

Garrido: Hi, Ruben. It's Garrido here. I was the one who gave the first answer. Answering your question, Full today has been growing in line with the average ticket and the categories we generally have in 3P and 1P. So, we have a higher average ticket for Full than you would observe in other marketplaces. We have been converting much more from the growth of

sellers who are already within Full. We have new sellers coming in, but that has not been the focus. The focus here has been on structuring Full to allow for this long-term growth that will come. So, as I said, we are enabling what we call 'closeness,' which is the R\$200 cart to make categories characterized by more volume and lower tickets, like groceries, viable. So this will be a theme for acquisition launches throughout the second half of the year. Thinking about long-term growth, I would say that today we are working much more on the quality of the operation, the structure, and the evolution of the roadmap to allow for growth with new sellers. New sellers are coming in, but that has not been the theme so far.

Ruben Couto (Banco Santander): Understood. Thank you, Garrido.

Garrido: Thank you.

Vanessa Rossini: Thank you for the question, Ruben. The next question comes from Laryssa at XP Investimentos. Laryssa, please, you may proceed.

Laryssa (XP Investimentos): Hi everyone, how are you? Thanks for the space to ask a question. On our side, we wanted to explore the demand point a little bit. You commented on the sale, which was very successful, but still, we saw revenue a bit in line. In our view here, this must have had a demand effect. If you could comment a little on how this dynamic was during the quarter and also what you are already feeling at the beginning of this third quarter. Thank you.

Fabício Garcia: Hi, Laryssa, good morning. This is Fabrício speaking. Well, we really did have the Liquidation [Sale] in the second quarter, at the end of the quarter. We saw that the performance in the month of June was better than in the other months. We have to remember that we did the Liquidation with 1P items, which we have in stock. So, our growth in 1P in the month of June was good, it was in the mid-single digits. And as Fred said, we started the third quarter with more adjusted and better-negotiated inventories. We started the third quarter well, we had a good month of July both online and offline.

Laryssa (XP Investimentos): Super clear. Thank you, Fabrício.

Vanessa Rossini: Thank you for the question, Laryssa. Our next question comes from Andrew Ruben, from Morgan Stanley. The question will be asked in English and the answer in Portuguese. Andrew, please, you may proceed.

Andrew (Morgan Stanley): Thanks very much for the question. We see the speech and focus, I think, shifting even more towards multichannel. You mentioned the Galeria Magalu. So I'm curious how you're thinking about store growth as part of the more normalized strategy, what do we need to see to begin a more steady pace of core store openings. Is it just about interest rates or anything else you want to see in terms of the store-level returns? Thank you very much.

Fred Trajano: Hi, Andrew. Good morning, thank you very much for the question. I wouldn't say the strategy is shifting or changing to more omnichannel. It has always been this way. We have always had a very large balance, especially in the Magalu parent company, between store, 1P, and 3P. This balance, as I said, is almost 1/3, 1/3, 1/3. We bought assets, like Netshoes, Kabum, which did not have physical stores, and Época Cosméticos as well. And here we set as a strategic sequence to add 1P and 3P. So, we put 3P in the marketplace in these operations. They all use Magalog, MagaluPay, so they became integrated into the ecosystem, and they were missing the physical store layer, which is why I say it's the final cycle of the ecosystem, in which we are now opening the stores. We are testing some formats. And the format we are testing here is a single physical point with all the stores integrated. We have already done one here at the Tietê Store, it was a huge success. We are doing the second one on Avenida Paulista. The idea is that, seeing the economics work, based on the good experience of the Tietê store, I am sure we will have an excellent experience on Paulista, and with this model working, we intend to open more. Based on the positive experience of the Tietê store, the expectation is that, upon observing the good performance of the economics model at the Paulista unit, the company will decide to expand this format. It is obvious that we have the issue of interest rates and when you talk about physical stores, you put capex upfront. The lower the interest rates, the better the ROIC of this operation. We also have dozens of Magalu stores that have enough space to be transformed into Galeria Magalu. These are stores that have a large square footage. Between 3,000 and 4,000 m², which we can convert and put Netshoes, Kabum in the store. Even before opening new points of sale, we have this possibility of making conversions of what we expect. So, it's more or less that. For me, it is super important, having capital allocation discipline, for us to see what the results will be. I am very optimistic because the Tietê one was very good. I am also seeing the enthusiasm of the brands, of the suppliers, because they need physical points and the physical points in Brazil in general are less active. So, the supplier needs this space for brand building, for brand construction, for margin control as well. For example, some Chinese companies like OPPO and Vivo, which chose to enter Brazil exclusively in physical stores, and these Chinese phone brands are super online there in China. And then when you ask them: "Why are you entering physical stores?" They say: "Here I guarantee brand building, here I guarantee I can operate with slightly higher prices, because with this in-store experimentation, with good promoter work, I can sell the product better." So, we see the Chinese, who are ultra-digital, coming to Brazil, and OPPO is entering the market very well here, for example, with this work. I believe this balance is important, brands that went too much online-only, like Nike in the United States, failed and commoditized the product. You need the ecological balance. So, a platform like Magalu gives the brand the opportunity to operate all three channels, I think that's different. I just wanted to emphasize that this is not a shift. Because this has always been our strategy from the beginning. You can see an interview with me in 2005 talking about omnichannel, in 2015. So, we have always prioritized this balance. It's the market that ends up seeing only one channel, only 3P, only marketplace and doesn't look at the importance of the strategic

role of 1P or the strategic role of the physical store and ends up not giving it the value it deserves.

Andrew (Morgan Stanley): Thank you.

Vanessa Rossini: Thank you for the question. Our next question comes from Rodrigo Gastim from Banco Itaú. Gastim, please, you may proceed.

Rodrigo Gastim (Banco Itaú): Good morning, Fred. Thanks for taking my question. Following up on the previous answer, and thinking about the major value levers, both in 1P and in the physical store, I wanted to ask you what exactly is the focus in these two channels over the next 12 months. Thank you.

Fred Trajano: Good morning! Could you repeat the question, please? I think I had a connection problem.

Rodrigo Gastim (Banco Itaú): Of course, Fred, no problem. Following up on your last answer: you commented on both 1P and the physical store and, thinking about the major value levers of the thesis, what are exactly the main indicators and the main things you are focusing on in these two channels over the next 12 months? Thank you.

Fred Trajano: In the next 12 months, I think we have to, again, seeing a context of Selic at 15, maintain a very strong discipline on margin. A very great discipline in working capital management and cash management. We are undoubtedly looking for and investing a lot of our attention in how we can reconcile this level of margins we have achieved with more operating leverage and sales. So, I would say that in these next 12 months we will try to better reconcile the margin we achieved this quarter with more expressive top-line growth. I would say that for the coming months, these are the alternatives we will explore: 1P, 3P, and store, margins, still with these monetization opportunities that I described and also growing in our acquired companies. So, I think it's a lot about trying to reconcile this margin with greater growth, looking ahead. That is our challenge. Obviously, if I have to choose, I prefer to deliver a positive result, but the ideal is to deliver a positive result with top-line growth.

Rodrigo Gastim (Banco Itaú): Excellent. Thank you, Fred.

Vanessa Rossini: Thank you for the question, Gastim. Our next question comes from Lucca, from UBS. Lucca, please, you may proceed.

Vanessa Rossini: Well, let's move to the next question. The next question comes from Felipe from Citi. Felipe, please, you may proceed.

Felipe (Citi): Good morning, everyone. Thank you for taking my question. A question regarding expense control, where you have managed to be quite disciplined and keep it stable even with a high inflation scenario. So, I wanted to understand what the main drivers are for this control and how you look at this going forward. Thank you.

Fred Trajano: Thank you very much for the question. There was an open microphone here. Well, I think expense control is, again, the only thing that is in our hands. We don't depend so much on the market. So, I think SG&A is more a matter of discipline from a cost control point of view. We have our matrix management of expenses, we did a ZBB [Zero-Based Budgeting] last year, we reduced a lot, for example, administrative structures in physical stores last year, reducing the proportion of salespeople to those in the back office, a lot of control of expenses from electricity, to, well, rent, rent negotiations. We have a very strong committee here to monitor these items. We already predicted it would be a difficult year from the point of view of rising interest rates and financial expenses. What was in our hands, since the Selic was not, was this control of D&A. From the point of view of selling expenses, there's a bit of our management that I've been talking about, the focus on conversion. I answered Guanais' question a bit along those lines. And of, well, initiatives generally with conversion. I'll even take this opportunity, Fátala, if you want to add anything about our more technical initiatives here for conversion improvement, I think you could complement. I didn't pass it to you that time, I think it would be good for you to speak now.

Fátala: Well, talking about the work that has been done on conversion, we have three main fronts: one that is directed at competitiveness, another where we are working on the delivery service level, and then the whole part of what we do in terms of customer experience in digital channels. Within the digital channels, there is a great effort being made. We are doing very directed work, research we have been doing with consumers, points of improvement very focused on the search front. We are removing all kinds of friction from the checkout process, also a greater opening in payment methods to also facilitate the purchase for our customers and also a work being done very directed at the seller base, where we have been building tools for them to better operate the part of their sales and also greatly simplify how they operate their store within Magalu. So, the combination of these fronts, especially what Garrido also mentioned that we have been focusing on fulfillment, where it already brings, compared to the partner's own shipping, with our full, we increase conversion by two times. So these are the main fronts directed at when the seller is operating and the consumer has their experience within the channel. Besides that, a great deal of work is also being done to improve conversion in the investments we have in traffic. So, we have been working on algorithm changes and building models for media investment and also a structural work where we have been building a strategy to direct a greater diversification of where this traffic comes from through a video strategy. So, we are building a part of a community that can create videos and we are going to do more directed work on social channels to bring visits from an experience that also brings much more depth in demonstrating the products. We see a trend that was built very strongly by the Asians. We observed it, saw the impact, did

internal tests, and are now working in a structural way to scale this as well. I think it's worth mentioning, which is part of a future work, but Fred already mentioned it in the last call and we have made evolutions and started to test on the AI e-commerce front. So, we are already with a soft launch of Lu's brain, within WhatsApp. We have about 1,000 Magalu employees here testing it. Based on this feedback, we make improvements. And it is also a channel where we believe it will greatly help the consumer experience and the conversion levels through this channel should be much higher than what we see from traditional channels today, due to the level of ease and removal of friction from the purchase process that you bring through these assistants that can help a lot in the consumer's decision process.

Felipe (Citi): Thank you very much.

Vanessa Rossini: Thank you for the question, Felipe. The next question comes from Nicolas, from J.P. Morgan. Nicolas, please, you may proceed.

Nicolas (J.P. Morgan): Thank you, Vanessa. Good morning, everyone. Thanks for taking our question. I wanted to talk a little about working capital. I think Beto talked a lot about it in the presentation. I wanted to understand if you have any target, any guidance for where we might see this working capital going in the next three years. Maybe you have something in mind, some improvement, some number of days of improvement. It would be super useful for us here to benchmark the improvements. Thank you.

Roberto Belíssimo: Good morning, Nicolas. Thank you for the question. We don't give guidance on financial numbers, but we have opportunities to improve inventory turnover. We have been talking a lot about this. We have a good relationship between purchase terms and inventory turnover, but this is a number we are always dissatisfied with, always seeking to improve, working very hard with the entire commercial area, logistics area, technology area to always be evolving in all processes. We do have an opportunity. I think we also have to consider the fact that we have already reduced, if we think about it, in recent years, the inventory reduction has already been, uh, brutal. We have gained a lot of efficiency in recent years, we are gaining again this year in relation to last year. And there is a part of the inventory that is the store display, the minimum replacement stock in the DCs and so on, that if we accelerate sales, we certainly don't need to increase this inventory availability. So, there is a potential leverage effect here as well, just as we have operating leverage when we grow sales, we also have an extremely better turnover performance when we grow sales. So, we are very close to that. We continue to improve inventories, we have a very strong relationship with our suppliers, purchase terms, and everything else. And I think we do have an opportunity, in this relationship, going forward. I can't give you a specific indicator, but we can improve, yes, not a target per se, but I think we can improve by between 5 and 10 days of inventory turnover in the next 12 months, for example. In addition, I think speaking of working capital as a whole, I think it's always worth highlighting that we reduced almost R\$600 million of taxes to be recovered in the last 12 months. And this is also a trend that should even accelerate in the second half of the year, which is the most favorable period for



the monetization of taxes, with more sales, more tax payments, more compensation of accumulated taxes. So, we also have a very positive perspective on reducing the balance of taxes in the coming quarters as well. So, all of this tends to contribute to a very strong, stronger cash generation and again converting a lot of our result into cash generation.

Roberto Belíssimo: Thank you, Nicolas.

Vanessa Rossini: We now conclude the question-and-answer session. I would like to pass the floor to Frederico Trajano for the final remarks. Please, Fred, you may proceed.

Fred Trajano: Well, thank you very much for participating in our earnings call. Have a good Friday and a great weekend everyone.

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.