Local Conference Call
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4Q24 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 to all. Thank you for participating in our earnings call regarding the 4Q and full-year 2024 earnings. Initially, I will be here once again in the presence of the entire Company's Executive Board, and they and I will be available to answer questions from analysts after my presentation. I will be speaking with Roberto Bellissimo, our CFO.

Before discussing the result specifically, I wanted to put it within the context of our strategic cycle. I will complete 10 years as CEO of the Company this year, 2025, and we are also finishing our second strategic cycle at the Company. Our first strategic cycle was digitalization from 2016 to 2020. We took over this Company with 10 billion GMV, 2 billion online, and our first mission here—my mission and that of our Executive Board—was to digitize the Company in a world that was becoming more digital, especially e-commerce, especially e-commerce of discretionary products. We had this challenge here at the Company. We had a very successful cycle from 2016 to 2020, and the ultimate test of this cycle's success was that, in 2020, the year of the pandemic, with 1,300 stores closed, we managed to grow 50% that year.

At that time, we lost 50% of our business, but we still managed to grow, showing that the company was digital and had already completed its digitalization process. If we take the Fast Forward Today, the 2 billion online people in 2015 turned into 46 billion GMV. It is a very significant, expressive growth cycle that left its legacy here for the Company, a digital Company with physical points.

When the digitalization cycle ended, which was very much inspired by the American experience, our trips to Silicon Valley, and American digital companies, we found inspiration in China for our new strategic cycle. This cycle was about building the ecosystem, whose objective, as in the first one, was to digitalize the business. The second one aimed to diversify our sources of revenue and profit so that we could make our results less cyclical.

We digitized Magalu in that cycle, but a good part of the result came from the gross profit from the purchase and sale of electronic goods, even online. We had this very high dependence on 1P retail. It was multichannel but still strongly depended on 1P retail in a specific category.

In this ecosystem cycle, we were greatly inspired by the Chinese companies Tencent and Alibaba models. At Época, these were the two ecosystems that attracted our most attention. We did an intense job of making several acquisitions and diversifying our results, so we added Netshoes and KaBuM! to our portfolio, bought five logistics companies that became Magalog, and bought an extensive fintech and other smaller payment processors that became Magalupay. We made a series of moves—we launched Magalu Ads and Magalu Cloud—to present results, even in a negative cycle of high interest rates, which we never achieved in the past. When I took over the Company in 2016, 2015 had been a cycle of high interest rates. In the year 2015, we had a negative result precisely because the interest rate had gone from 7 to 14, so a cycle of high interest rates.

Our business has always been, and we can see even from companies that operate in this sector, that when there is a cycle of high interest rates, many companies, even large companies, go into receivership or judicial recovery or extrajudicial recovery. This is the reality of the core category. We like this category. We have been around for 67 years, know how to operate, and have experienced several economic cyclical situations. However, I had a challenge with my team in this cycle of creating and consolidating the ecosystem to make the result less cyclical.

Just as the ultimate test of our digitalization cycle was increasing our revenue even with physical stores closed—and we proved it—the ultimate test of focus in this cycle is generating profit even with high interest rates. And that is exactly what we presented in the last quarter of the year.

On the next slide, you can see that Magalu's ecosystem has proven itself in the company's cycle as a whole. We had significant growth in EBITDA margin throughout the year. We first presented the fifth consecutive quarter of net profit in the context of high interest rates. When we started last year, we had already shown results recovery in 4Q23, and we presented this recovery in all quarters of the year, closing the year positively.

When we started the year 2024, the Focus bulletin said our outlook was to close the year with 9, 9.5% Selic, and, in fact, the Selic not only was not 9 but went to 13; it increased. Even with this increase in interest rates, which tends to continue this year, the company's results showed tremendous growth.

And I wanted to highlight the annual value: We grew our EBITDA by 40% in the previous year, 39%, to be more precise. We closed the EBITDA at 3 billion, a little above the consensus at the beginning of the year for our results. We managed to reduce financial expenses in the year that saw an increase in the Selic rate, and we presented an adjusted net profit of 277 million. The net profit reported was even higher, but finally, adjusted, taking out non-recurring factors, it was 277 million, making up for a result that had been negative of 550 million in 2023.

A very significant, unquestionable leap, very consistent work from all areas of the company, from all subsidiaries, companies from Magalupay, Luizacred, through KaBuM!, Netshoes, including Ads, which is already contributing to our results, 3P, which significantly improved its profitability, 1P, which managed to recover all the margin we lost in 2023 and which was a Herculean task to recover the margin of 1P, we lost 5 points of margin in Magalu's 1P, we lost 7 points of margin in Netshoes' 1P, we lost 9 points of margin in Época's 1P.

The company did a spectacular job, totally focused on restoring our level of profitability. We have always liked to work with profit. The team had come from two difficult years, 22 and 23, of negative results, and it was a critical issue to prove the success of our cycle and for our team to recover our results.

And I would also like to highlight the operational cash generation. Practically, 100% of EBITDA is converted into cash, and 3 billion in EBITDA is converted into 3.1 billion in operating cash. Roberto Bellissimo will talk more about this on his part. I wanted to highlight two things like this: The first one is working capital, very efficient and competent management by Fabrício Garcia's team in relation to working capital and our inventories, which was also very competent management of our subsidiaries, Netshoes, KaBuM!, all with a lot of control over inventory and working capital in general; But I also wanted to highlight our work on monetizing tax credits, which was one of the highlights of the year. It is a complex job that involves the legal departments and the Company's operational areas, including the financial area. It is also a very cool job to be able to reduce and monetize the tax credits on our balance sheet.

Anyway, it is a very cool, focused piece of work that shows the consistency of our results and operation.

Next, please. Even with all this effect, we gained practically 2 points in EBITDA margin, going from 5.8 to 7.8. It is challenging to see a retailer, in one year, gain 2 p.p. of EBITDA margin from one year to the next. Even with all this effort to adjust margins and profitability, the company still grew—it still grew by an average single digit in the year, from BRL63 to BRL65 billion. We have a GMV of BRL65 billion and BRL46 billion in e-commerce. We are one of the most relevant players in Brazilian e-commerce.

Here, we had a massive highlight of the year: almost 20 billion physical stores, with a growth of 12% in same-store sales and 10% in total. We closed some stores at the end of 2023, but same-store sales growth was 12 in the year and 8 in Q4.

Next, please. I would also like to highlight the very competent work of our operations team, also led by Fabrício Garcia, who will be able to answer your questions later, but all in all, we are in a perfect moment. We had a difficult time in physical stores in 2021. After the pandemic, we had a quarter that I remember. We reported minus 18% in same-store sales, harmful, and minus 18% in 3Q21. We had never reported negative.

I remember that the market often questioned our physical store strategy, saying that physical stores were a business of the past, that they would end, that they were an anchor for our future, and that they were a strategic problem for the Company. Today, the physical store has proven to be not only a profitable channel but also fundamental for online results—and I will discuss this a little more later. It was an excellent job; we maintained our Capex, we kept the field team motivated, we kept the team intact, and we continued to invest in technology to improve store processes, especially store delivery processes, Store Pickup, ship-from-store, and store service level processes, mobile checkout, fast checkout, we made a series of Capex and also changed the store POS to a much more... that is, we maintained the Capex in the store even when the market was skeptical about it, and we are reaping these rewards now. We will continue to reap them looking ahead, not only - and now this is the big news - to the format of Magalu itself, but also - Next slide, please - we started a process that in this last year of the ecosystem cycle, which is now in 2025, it is very symbolic, which is the opening of physical stores of the Group's companies.

We opened the KaBuM! store last year, and a store we opened here at our location on the Tietê riverfront, in our Mega Store on the Tietê riverfront. This store is an absolute success; it attracts thousands of buyers a year; it has been a super important success in all aspects for the Netshoes brand, KaBuM!, and we replicated this now two weeks ago with the opening of the first Netshoes store in 20 years, which we also opened in the exact location here, we ended up occupying the entire property there, and it is a Netshoes outlet, which has also been an enormous success, lines and lines of cars, we had to open a new parking lot there.

We are proving that our success in the previous cycle was primarily based on multichannel. We are winners in 1P in Brazil mainly because we offer the options of Store Pickup, store return, Ship-from-Store, and Buy and pick-up in-store. This is a difference for Magalu that we now want to replicate for the other brands in the group. Soon, we will have a location in an iconic Brazilian retail location: Conjunto Nacional, the store that was the old Livraria Cultura store. We will have a Magalu space, part of the Magalu's ecosystem, with all the group's brands.

Not only Netshoes and KaBuM!, as is the case here at the store on Marginal do Tietê, but also Época Cosméticos and Estante Virtual. In short, we are very excited about this experience. We are very convinced, given the recent success of the stores we have opened, that this is a path of no return for us to replicate and increase the number of physical stores of these brands in the group because multichannel is, has always been and will continue to be Magalu's differentiator and a strategic differentiator. No one knows how to operate a physical store like Magalu, and I believe that in the physical store environment, we have much less fierce competition than we see in the online world.

I wanted to highlight the online world and make some essential highlights. We continue to lead in ticket categories above BRL1,000.00 and are doing significant work to expand this leadership. We launched Magalu's fulfillment in 2023 and doubled its participation last year—I will talk a little more about it in a moment—but one of its differentiators is that it allows sellers to stock large-scale products, products with a larger cubic volume than any other operation in Brazil has.

We can fulfill white goods and real estate, which will be a huge differentiator. Above BRL1,000.00, we continue to focus on gaining market share and growing this business; fulfillment will certainly be an important part of this.

But I wanted to highlight some points, precisely about fulfillment: We started in 2023, launching it a little later than the other market options. Still, as I said a little earlier, our idea in relation to fulfillment was to replicate the multichannel experience in fulfillment. We launched multichannel fulfillment, in which sellers stock the products in the same distribution centers as our 1P. When purchasing from a fulfillment seller, the consumer can choose the same shipping options as when purchasing from 1P because they can, for example, pick up the item in-store.

We have seen growth from 12% to 24% of the total 3P orders in fulfillment, there are more than 4 thousand sellers who are stocking here, the service level is 95%, there are already 9 DCs, and it is challenging to get authorization in each state here to be able to operate and make this operation work from a tax point of view for the seller and for us as well. Still, we managed to expand from 4 to 9 DCs last year. The benefit of fulfillment, in addition to the 2x increase in conversion—which I will talk about later, which is the theme of the year—also helps in a point that was a focal point, every year we have a theme of the year and last year's theme for Magalu was the theme of increasing the level of service—we called it Encanta Magalu.

We had come from cycles in which the theme of year one was operational simplification, which was basically the integration and connection of acquired companies with our business, which we did very successfully. We had a year that was the year of profitability, in which we were also very successful. Last year, we wanted to increase our NPS to a level that is a global benchmark. We increased the Company's corporate NPS from 67 to 77, a level well above local operations. A good part of this 10-point growth in NPS for the year came from 3P.

We did a very strong job, and of course, fulfillment contributed a lot to this. The 3P NPS increased from 55 to 71, practically a 15 p.p. increase in the year as a whole and helped the Company grow a lot. The current 3P NPS level is 70, but the 1P NPS of stores is 83. In other words, the more fulfillment increases its participation of the Company's total business, the more this number will evolve. We will reach corporate NPS, which is challenging to achieve above 80. We did work that did not just involve fulfillment. There was a lot of work there in relation to making it easier for consumers to cancel, allowing them to return the product they purchased, cancel and return the product in all of our stores, and not having to send it to the post office.

We did a lot of work with our seller reputation. We disconnected 40 thousand sellers last year with a low reputation and new payment options. We focused a lot on service level and logistics and reduced the payment refund period. So there are a number of jobs here. When we set a theme for the year, we focus a lot on it, and the result of this focus from the Company, from our very engaged team, always happens. I am sure it will happen this year, too, and I will I talk a little about the year's theme later on.

The other highlight I wanted to give to our online operation was the strategic partnership between Magalu and Alibaba, which we announced in June. We launched it in less than six months, which was extremely complex. Magalu itself is complex due to the size of the company and the number of systems we have to work with. However, AliExpress is also complex. It basically has the same platform all over the world. Making a specific local adaptation for Brazil would also involve many people there. We managed to do this in record time, launching both Magalu and selling our products on its channels, with great success, and also placing Chinese sellers through AliExpress's Choice line on our platform, which is the marketplace, greatly expanding our diversification category, the potential, obviously, to take this partnership further in other areas, such as logistics, looking ahead. We are, therefore, very pleased to be able to air this and the evolution we have also observed in business.

I would like to highlight—and I will soon hand over my word to Roberto—two other important points that have contributed significantly to our profitability and that have the potential to continue contributing going forward. We believe that we are not yet at the ceiling of our EBITDA margin, there is still potential to grow and monetize our 65 billion GMV, especially the 46 billion online: One is Magalu Ads. We had an extremely productive year with many deliveries here from the Magalu Ads team, now under the leadership of Célia Goldstein, who we brought in at the beginning of last year, who put together a top-level team, both commercially and we also reinforced our product teams; We had very significant improvements there, mainly in terms of platform and product, improvements in the algorithm, performance and ability of Ads for advertisers. This is the self-service model for large customers. Hence, they no longer need to speak to someone, a professional from the group, to create their ads; we significantly improved the display product, we doubled Ads revenue compared to the previous year, we increased the number of key account advertisers by 15%, and we continue to have a very high number of visits.

We still have a lot of potential. It has already contributed to that increase in EBITDA margin that we announced with the year's results, but the trend is that since a good part of these deliveries were in the 2H of last year, this will happen even more significantly in the coming years, and especially this one.

I would also like to highlight—Beto will talk about it in more detail, but I cannot help but highlight it—the increase in the results of all operations that are under the Magalupay umbrella (formerly MagaluBank, but now we're talking about Magalupay due to Central Bank rules, we cannot say Bank, so I will call it Magalupay). We had an extraordinary, exceptional result from Luizacred, with an ROE well above the market average—Beto will talk about this ROE in the 4Q—, even with the capitalization giving a very high ROE in the quarter, and with default rates, which are all-time low, we obtained authorization from the Central Bank to operate, a financial institution that had been in regulatory proceedings for a year and a half and we obtained approval here last month, which is the financial institution that will be the financial institution of Magalupay, which should operate the products that are not in Luizacred, such as, for example, the DCC, especially direct consumer credit, both in stores and in the online operation that we operate—announced last year.

We had a very positive year for our sub-acquiring, Magalupay, our payment processor, sub-acquiring which also had a very positive year in terms of results, and also the Consórcio Magalu (Magalu Consortium) and Seguros do Magalu (Magalu's Insurance) operation, which had a very good year. All of them contributed very significantly to the 2 p.p. increase in our EBITDA last year.

With defaults absolutely under control, with an ROE that is above 30, there is no reason why we should not accelerate more credit. A little bit of the authorization from the Central Bank, there is fiscal efficiency here in the matter of taking the DCC to the financial institution, but there is also the possibility of us expanding more credit, both via credit card and via DCC as well. Default rates have been very low for many quarters, which confirms that the time has come for us to accelerate credit, and it will be one of the levers of growth looking ahead, always with all the care in the world, which we always take a lot in this operation.

Next, please. And now I will pass it on to Roberto to detail the financial issues and then I will talk a little about our perspectives for 2025 and open it up for questions.

Roberto Bellissimo: Thanks, Fred. Good morning, everyone. Thank you for participating in our earnings conference.

I will start by highlighting the main highlights of the quarter. Reinforcing, total sales of 18.4 billion in this quarter, a growth of 3%, highlighting physical stores with same-store sales of 8%. Once again, we achieved a gross margin above the 30% level, practically stable compared to the same quarter last year, but a margin that was, once again, quite high. We achieved an EBITDA this quarter of almost 850 million, with a margin of 7.8%. An adjusted, recurring net profit of around 139 million. Again, accounting net profit, including non-recurring results, was 295 million in the quarter.

At the EBITDA level, we did not have any relevant non-recurring expenses. Most of this difference between recurring profit and accounting profit is in the income tax line, income tax credits and social contributions, in subsidiaries, in affiliates, in companies that we acquired. And in this quarter, we had a cash generation of 2.1 billion, a very strong generation, ending the year with a total cash position of almost 8 billion.

When we talk about the year as a whole, we sold 65 billion, a growth, again, of around 4%. A highlight for physical stores, which presented same-store sales of around 12%, and the highest gross margin yet, of around 30.6%. In the year as a whole, we expanded the gross margin by 1.4 p.p., which contributed significantly to this EBITDA of 3 billion, margin of 7.8%, and to the net profit of 277 million, adjusted net profit for the year, and here also considering the dilution of expenses, the improvement in Luizacred's results and the reduction of financial expenses.

When we talk, again, about the accounting net profit, we reached almost 450 million, including tax gains, mainly in the income tax and social contribution line again. And cash generation for the year, more than 3 billion, ending, again, with 8 billion in the cash position plus receivables at the end of the year.

Moving on, just to go into a little more detail, in this quarter our gross margin remained practically stable, varying by 0.2 p.p. Again, in the 4Q of last year we had already made a very large increase in the gross margin, so the base was already more comparable, we had already finished transferring the DIFAL and increased the margins as a whole, but the highlight here in this quarter was the dilution of operating expenses, SG&A contributed with 0.3 p.p.

Again, we highlighted this in the last quarter, in this quarter again we kept operating expenses practically stable in relation to the previous year, they grew approximately 1%, even considering the higher sales growth and higher inflation. This is largely the result of the company's work in managing operating expenses. And the highlight here is Luizacred, which contributed 0.6 p.p. In previous years, Luizacred pulled our EBITDA margin down and this year was a highlight, especially in this quarter, contributing to the EBITDA margin and explaining most of this increase from 7.2 to 7.8% in the EBITDA margin.

When we look at the year as a whole, on the next slide, the improvement was across all lines. The 2 p.p. increase was due to gross margin, dilution of operating expenses, equity equivalence of Luizacred and everything else. It was a very consistent, very complete result.

On the next slide, we talk a little more about working capital. And here again, I wanted to highlight the production of working capital. In this last quarter, it contributed BRL1 billion to cash generation. Cash generation in the quarter was 2 billion; 1 billion coming from working capital, but there was another 1 billion, 1.100 billion that came mainly from EBITDA and other improvements in tax recovery, for example, as well. And when we look at 12 months, we also increased working capital by almost 400 million, also contributing to the operational cash generation.

When we talk about financial expenses, we show here a very consistent decrease in financial expenses every quarter. Even in the last quarter with the CDI rising again, we diluted financial expenses again, reaching a level here of 3.6% on net revenue. We have always said that one of the important indicators we pursue is not guidance, but one of our objectives, which is financial expenses over EBITDA. In the last quarter, we had it at practically 50%, this quarter we reduced it even further, bringing it to a level close to 45%, and this is largely due to the reduction in debt, the operational cash generation, the improvement in payment methods, with emphasis on the growth of PIX, sales with interest, sales in the DCC and everything else.

And when we look at the year as a whole, the reduction was more than BRL500 million reais, from practically 2 billion financial people to 1.5 billion. The improvement in the total result came from practically 1 billion in EBITDA and practically 500 million in financial services, an evolution in results, as Fred mentioned, very significant in retail in such a short period of time.

When we move on to the next slide and talk about the quarter's cash generation, in the quarter we increased our cash position by 1.3 billion, with operational cash generation of 2.1 billion, minus capex, minus rent payments, minus interest and principal on leasing, we repurchased bonds on the secondary market, paid interest and even so we significantly increased our cash position at the end of the year.

And on the next slide we comment a little more on how we see cash generation for the year as a whole. Again, we start with a cash flow from operations of 3.1 billion. As Fred commented, the conversion of EBITDA into cash generation was extremely high. And remembering here that between the two, we already include the cost of receivables discounts. Discounting receivables is a financial expense in the P&L, but in the cash flow from operations it is in the operational category, because it is related to accounts receivable. And receivables discounts were around 900 million last year and we offset all this cost of receivables discount with the improvement in working capital, which we showed, with the monetization of taxes and other assets that were even in the long term. This is one of our goals that we have achieved to convert EBITDA into cash generation.

After this cash generation, we have an investment of around 700 million, there was the capital contribution to Luizacred and other smaller subsidiaries here of around 600 million, and the leasing account of around 800 million. After all these events, we had a free cash generation of 1 billion and it was not just the capital injection into Luizacred, which was a somewhat non-recurring event, we would have a free cash flow of BRL1.5 billion in 2024.

And after this generation, we have an expense here in interest on loans of around 600 million, leaving plenty of cash flow here to pay off debts as well. Last year, we had a private capital increase of 1.250 billion and we paid 2.8 billion, we reduced the total gross debt balance by almost 3 billion, which is very significant. To summarize here, for the entire year, our total cash position went from 9 billion to 8 billion, a decrease of almost 1 billion, but reducing 3 billion in total debt.

We greatly improved our net cash position, which is what we show on the next slide. And just before talking about net cash, we show here that this cash flow from operations of 3.1 billion was the best in history, exactly the same as in 2020, which was the year of the pandemic. However, at that time, a large part of that cash flow from operations was generated by sales growth and changes in working capital, which, in a way, was returned when sales slowed down.

This cash generation is now much more sustainable, because it comes again from the profitability of the operation itself. And when we look, again, at net cash, we increased net cash by 1.6 billion to a position of 3.3 billion.

In the next slide we show exactly what this position is. There are 7.9 billion in cash plus net receivables already at present value, minus a total debt of 4.6 billion, totaling 3.3 billion in net cash. On the right side, we show the reduction in gross debt and also the extension of debt that we concluded at the end of last year, moving 2 billion that were due in 2025 and 2026 to 2027 and 2028. Today our debt is well distributed over the next 4 years.

Finally, regarding Luizacred, a major highlight, its results this quarter showed a significant decline in delinquency, with NPL over 90 days and NPL under 90 days at historically low levels. Provisions decreased the result by practically 20%. With the capital increase, we also reduced the funding cost by practically 30%, with this Luizacred's net profit, which was already growing, reached a record level of 145 million in the quarter, practically 300 million in the year, an increase of practically 400 million in the year, reversing the result of 2023.

And all of this is already increasing the credit portfolio a little, which has now surpassed 20 billion and also significantly increasing the level of provisioning and coverage, reaching almost 160%. And once again, achieving a ROE above 30% for the quarter—highly capitalized and well-prepared to accelerate growth in the coming quarters and years.

With that, thank you and I will hand it back to Fred to conclude. Thank you.

Fred Trajano: Thank you, Beto. I will end here before opening up to the Q&A by quickly giving the scenario here for this year and a little bit going forward.

As we have been communicating quite consistently with the market, our focus in recent years has been almost exclusively on improving profitability, although we have also worked on other areas, such as operational simplification with the integration of acquired companies and also the level of service for customers, especially in the last year. But, it was a very focused agenda, especially on increasing the Company's profitability.

And that this year, which is the last year of the ecosystem cycle, we will continue to look at increasing profitability. We believe that we have not yet reached our margin ceiling, in terms of monetizing our 65 billion GMV. We will continue to focus on it, but this year we will also start to look at sales.

The challenge we have, specifically for 2025, is that it is still a year in which costs, especially financial expenses, tend to continue to increase, due to interest. Interest rates tend to increase, anyway, the consensus today is for 15, it is a reasonable consensus, it is difficult for interest rates not to continue rising going forward, but demand remains strong.

If we look, today we are in a situation of practically full employment, with very low unemployment. Almost all benefits and salaries are at a high indexation level, so you have inflationary replacement plus a real gain of a good part of the salaries and benefits that are poured into the economy, so there is no reason to be very pessimistic about consumption, demand, and I have said that it is not difficult to sell, the difficult thing is to sell and make a profit. This is the challenge for any retail company CEO, and especially retail companies have to make a profit.

There are some competitors that do not need to make a profit because they have a head office to send the money when they have an annual cash burn. In our case, we have to deliver results, we have to make a profit regardless of the scenario.

In this scenario, the way for us to balance profitability with growth again is by looking at a very important index for the digital world, which is the conversion rate. Just as we had Monetiza Magalu, focusing on profitability, Simplifica Magalu, Operational Simplification, Encanta Magalu—which was the focus I mentioned last year on improving the NPS—, this year the index that will converge the focus of our entire operational team the most, this involves practically all areas of the Company, will be the conversion index.

We have hundreds of millions of visits here at Magalu, almost 500 million visits/year across the entire Magalu's ecosystem, not counting store visits, which are also many, and we want to make better use of these visits. The way to responsibly return to looking at growth, but without giving up profitability, is by increasing conversion, and not necessarily increasing marketing spending. This is a very big focus that we are going to have.

The focus on conversion is much broader than it seems. The work is being done, first, in visits, to generate quality visits. We have the construction and implementation of complex attribution algorithms, complex incrementality algorithms that involve very strong martech work. Usability, filter improvements, search, general UX improvements, product page improvements, more information on the product page, general indexing. Now we have to start indexing not only for search engines, but we also have to index for LLMs, for chats. There is a series of work being done here in relation to this.

Another important point is the offer, the variety of products and the right product. It is also no use having a lot of offers, we have 80 million offers with very high prices or with very bad deadlines, so you have to have the variety with the right advertisement.

And payment methods. I have already talked about credit here. We launched digital credit, but a series of issues, two cards, MyPix cards, payment method, facilitating the payment method for checkout conversion.

There is work here, obviously on top of all this there are the basics, which are the best deadline, the best price, the lowest shipping. Now, doing all this in a sophisticated way, without giving up margin, this is the great challenge of our year, but I am sure that the team, like every year that we set the theme, we can implement it, we will succeed too.

The challenge of this agenda is that this is a very technological agenda, and it is a challenge that is not short term. That if we look ahead, in companies, in any segment, more and more manual processes, more and more decisions that are human decisions will be automated and will be decisions that will be made automatically by software systems, by algorithms and by artificial intelligence models, so with AI and this will be even more so.

That more and more companies will go through a very strong automation process and that is why we have just announced a major change in our structure, which is the merger of two vice-presidencies of the Company, one that was responsible for the Company's technology area, the other that was responsible for the Company's digital channels, into a single one, and André Fatala, who was our CTO and who is responsible for all of our technology here, also takes over the digital business area. We merge this structure because we believe that these teams must be absolutely integrated.

We will not evolve, for example, in the conversion agenda if we do not evolve in the automation of our processes, in the implementation of artificial intelligence models, in sophisticated algorithms for pricing, in sophisticated algorithms for defining freight and delivery times, incrementality models, attribution models. There was a need to have these teams closer together, working in a more integrated way.

And to strengthen the team and this great challenge for Fatala, we brought two extremely experienced, high-quality leaders here to our team, Ricardo Garrido, who is participating in our first earnings call here today, who has a long experience here in the market, especially nine years here at Amazon, the last five years running the marketplace at Amazon, almost five years running Marketplace at Amazon, and Marielle Paiva, who is coming to take over the new Growth Office, which we didn't have, focused on this issue of visits—I talked a lot about this here in the last slide. We have a major reinforcement here. We had already made other hires last year for the digital business team. Finally, Kael is in charge of the Commercial area, Raul is in charge of the Cross-Border and Platform part, finally, a series of structures, Célia herself for Ads.

We are here with a very reinforced team. I am very convinced that we have a team with a proven high delivery capacity here so that we can continue to evolve this year and overcome the challenges that any company operating in Brazil faces.

With that, I thank you all again for your attention and open the floor for questions. And again, all of our officers will be available here to answer them. I will try to distribute the questions as much as possible.

Q&A Session

Gustavo Senday, from XP Investimentos: Hi, good morning, everyone. Thank you for the space. My first question, if you could detail a little about the growth and profitability equation for this year; you have several initiatives, the conversion initiative itself, the new financial license. If you could give us a little more detail about how you think growth will look this year across the different channels, that would help us a lot.

And in terms of profitability, especially gross margin, how much room do you see for improvement in the gross margin of goods or if the improvement going forward should be more in the mix, with services gaining space in sales and less here in the improvement of the goods margin. That is my first question.

And the second question is about suppliers. There was important progress this quarter, understanding whether it is a one-off initiative or a more structural change. We have seen other players commenting on new entrants in the market, sometimes with more aggressive deadlines. Understanding whether this improvement was more punctual, more structural going forward. Thank you.

Fred Trajano: Hi Gustavo, thank you very much for the question. I will answer it initially, then I will ask Fabrício to talk a little about merchandise margins for you and Beto will talk a little about the issue of suppliers.

Well, anyway, this, again, is the last year of the ecosystem cycle. As I said in my presentation, we have a series of initiatives that we have developed over the last few years, and we intend to capture the results of them this year. One of them, without a doubt, is the issue of all companies under the Magalupay umbrella, including Luizacred, continuing to improve their level of profitability. Finally, we launched the digital DCC at the end of last year, and its growing participation in online sales will also contribute significantly. Our online credit penetration is much lower than in stores and credit greatly helps store results and also tends to help monetize online results.

We have some margins to capture both in this credit agenda for online purchases, as well as in the agenda of increasing insurance sales in the online world, online consortium. There are a series of initiatives here in the umbrella environment of companies that are under the Magalupay umbrella for us to continue increasing margins through these financial operations and we are excited. We should also accelerate credit, given that default is very low and ROE is very high, there is no reason for the company not to accelerate credit here again, which tends to contribute to the increase in IPP with the increase in profitability.

There's also Ads, which I have already mentioned, which is an important monetization agenda. It was a very foundational work that the team did last year, and now it is time to reap the rewards. We have a very senior sales team; the product has improved a lot and is receiving a lot of praise from advertisers. We still have significant inventory to sell, visits not only on Magalu, but also on Netshoes, KaBuM!, and Lu's own monetization, which has been an important source, our digital influencer. Recently, it ran campaigns for Uber during Carnival, as well as previous campaigns on WhatsApp and for Amstel. Finally, we are even monetizing our digital character, our digital influencer Lu.

We still have a long way to go in Ads. There will also be the issue of Ads for physical stores, retail media. These are all important points for margin growth and sales growth in physical stores as well. As I said, we are going to resume the opening process here now with the group companies, Netshoes, we will be at the point of Livraria Cultura, but with the success of this initiative, we will certainly be scaling up to the other issues.

The physical store continues to do very well, we continue to operate very efficiently and continue to have enormous market potential. Our share in physical stores is still low compared to online. Our online share is greater than our physical store share, believe it or not. There is still a lot to grow our share and, ultimately, we remain excited about the possibilities of physical stores.

Of course, overall for the Company, we have a more difficult comp because we had a good year, especially the margin comp, but, anyway, we believe that we still have a lot to reap.

About gross margin, Fabrício, if you want to comment on anything.

Fabrício Garcia: Good morning, Gustavo, thank you for your question. Fabrício is speaking. Regarding margin, we have seen a huge increase in margin over the last two years. As Fred said, we had the challenge of increasing our margin after passing on the *difal*, keeping our margin higher than in 2022. We managed to do that, it went very well, in fact.

That this year's merchandise margin should remain stable, we do not have any price increase movement to make, which is also good for us, we focus a lot on sales there. And we have an opportunity. Yes, as Fred said, in addition to Ads, in the services area, which services, have grown a little more than sales in physical stores, historically, in recent years, and we have a great opportunity in online services, both in 1P and 3P, which has been showing a better performance this year than in the previous year.

That is it in relation to the margin, in relation to the emergency.

Roberto Bellissimo: Good morning, Gustavo, and I will add something about the line of suppliers you asked about. In fact, there was no relevant change in deadlines in the purchasing deadline line. Yes, there are some suppliers with longer terms, new entrants, and everything else, but, on average, our average purchase term remained practically stable if you adjust for the fact that, in this 4Q, we purchased more than in 4Q23. At the end of 23, we had a dynamic of reducing inventories in the 4Q, so purchases were lower, so we even, at the time, commented that we also anticipated payments to certain suppliers a little at the end of 2023, which reduced the supplier balance a little at the end of 2023.

At the end of 2024, we sold more and also bought a little more, we reinforced our inventories a little at the end of the year, mainly because the Fantastic Sale was on January 3 this year, so it was very early, so we ended up receiving a little more merchandise at the end of the year. It is something very specific, no structural changes. That in terms of suppliers we already have a very healthy average purchase period, which finances our inventory turnover. And the more we improve inventory turnover, which we believe we will do a lot this year, we have the opportunity to expand this financing between suppliers and inventory and generate more cash.

So, when it comes to working capital as a whole, we remain very optimistic about generating strong cash flow this year, mainly driven by supplier and inventory dynamics—particularly inventory turnover—and also by tax monetization. As you saw, tax monetization accelerated at the end of last year and is expected to continue throughout this year, organically generating an even higher tax-related cash inflow within our operations than we achieved last year.

On the money capital, we are quite optimistic too, Gustavo. Thank you.

Gustavo Senday: Perfect, guys, thank you very much.

Luca, of Banco UBS: Good morning, everyone. Thanks for taking our questions. The first is about Luizacred. Luizacred's results have already been improving over the last few quarters, but now in Q4 the improvement has been quite significant. We wanted to understand how we can think about these results evolving in 2025.

And the second, about e-commerce, you have already touched on the subject a little, but we also wanted to understand what is the mindset regarding the trade-off between growth and profitability, especially in e-commerce, for 2025. Thank you.

Fred Trajano: Luca, thank you for your question. Luizacred—I will comment here, Beto, I do not know if you will want to add anything, but anyway. We have been gradually improving the result quarter after quarter and we have reached this result with a return on equity of 30% at the end of the year, a fantastic result and it is the basis for this year now.

We already have enough elements to accelerate credit again, to accelerate growth in this line, but we have very good prospects for the year, and you see that the result does not come with a reduction in provisions, in fact, provision coverage increased in 4Q compared to 4Q23, from 140 to 160, as Beto said. Finally, the number is very solid, the indicators are very comforting, so the time has come for us to think about accelerating this agenda, which is the right thing to do at this time.

We have to discuss this within the scope of Luizacred's Board of Directors, but I believe that the numbers more than show that this is a safe and correct strategy for the year. Looking at it in this sense, we have good momentum here in terms of results and this has been proven throughout the quarter.

Remembering that this was a market concern a year, a year and a half ago, anyway, and it has been, just like a physical store, it was a concern, it has been two highlights here in our business.

In relation to e-commerce, that the issue of conversion, as you said, I already answered, that the recovery comes from an efficiency agenda and a very strong focus on making better use of our visits, bringing in more visits and making better use of them. It is a change of focus, but we must be very careful here, because let's remember that financial expenses continue to be under pressure due to the increase in interest rates, so we have to work on this in a way that grows with profit and not to the detriment of profit. I will not accept this agenda.

So, our work here, and the work of the entire team, is to focus on these conversion agendas. I have already mentioned several of our initiatives in visits, usability, checkout, quality, quality work on offers, and then Fatala's team, Garrido's teams, Marielle's teams, teams from various areas here at the Company will be very focused on improving these components. It is a complex agenda, it is not a simple agenda, it is an agenda that depends a lot on technology, but we have all the conditions to evolve in a sustainable, progressive, gradual way, with great care.

This continues to be the last year of the ecosystem cycle and this ecosystem cycle, its main focus is to make a profit even in adverse conditions. So this continues to be the Company's focus.

Luca: Super clear, thanks for the answers.

Felipe, of Citibank: Good morning, thank you for taking my question. I wanted to explore the changes in business structure a little more. You have already given details, but I wanted to understand a little better what these changes in terms of growth initiatives and capital allocation between online and physical stores. Thank you.

Fred Trajano: Thanks for the question. I am going to start talking about capital allocation. It does not change anything at all, that, in short, it is more about the issue that I explained about the integration of technology areas with digital business areas, so we remain focused. Lately, remembering that we have a multichannel operation, so if I expand the physical store, I prioritize online, because the physical store is a distribution center for the online, it is a collection point, it is a support point, so here the issues are very focused. And lately, our CAPEX has been absolutely, almost exclusively focused on technology.

In terms of capital allocation, nothing will change. Now, from an organizational perspective and a bit of what we are envisioning, I will let André Fatala share some of his thoughts. He is just coming in, and there is still a lot to define, but I believe he can give a brief highlight of his perspective on the structural approach.

André Fatala: Thanks, Fred. Thanks, Felipe, for the question. Explaining a bit about our focus on bringing technology closer to the business structure, especially in the marketplace, we can already see this in action. As Fred pointed out, the growth trajectory depends on advancements we need to make in our approach to conversion optimization.

And when you look at that part of the conversion, it is very much about usability for the consumer. So here, all the work must focus on reducing friction in matching what the consumer wants with the best offer available on our platform. This process heavily relies on continuous technological advancements.

And another point that is important to highlight is that growth will also come largely from how much we can empower and facilitate the management of the seller's sale within our platform. All the long tail categories where we do not have the sales assistance part for these sellers, all the tools and services that we need to build to facilitate this operation for the long tail, it is essential for this growth.

So, from all the tools available in the seller portal to logistics services, including advancements in fulfillment—which already accounts for 25% of orders and is experiencing significant growth—we see strong progress. To illustrate with some figures, in the Southeast region, the GMV of 3P has already surpassed that of 1P, with 3P now representing 50% of the total. However, there are still other regions where we need to drive greater penetration.

And when you look at the reason, one of them is very focused on delivery time, and for us to solve the delivery time in front of 3P, it is very focused on the fulfillment front. Looking at São Paulo as an example, we can already make promises with full delivery of around 75% by the next day, D0 and D1. Taking this type of experience to other regions is a strong lever for conversion growth for our 3P.

And, as Fred said, all of this is basically a very strong effort for us to optimize, to seek much greater efficiency in various types of processes through technology.

And, the last point is that, from now on, we will start working even harder. Magalu already has several types of initiatives using artificial intelligence in its operations, on a daily basis, we already do the dynamic pricing part, dynamic deadlines, on the supply front there is a lot of artificial intelligence. We have already started integrating generative AI into the customer experience, using it for review summarization and improving translations from the AliExpress catalog to better adapt content to Brazilian Portuguese, making it easier for consumers to search. However, there is still a lot of room for improvement and innovation with AI. As we have shared with the market, we are actively working on developing a new channel, and Fred has emphasized our focus on leveraging technology to create AI commerce—this is a key area of our strategy for the future.

And another area that we have also been working on very hard with IA is how we can greatly optimize the logistics network for Magalu and increasingly reduce the deadlines.

So, to summarize, the key shift is fostering a much closer integration between business and technology teams, working as multidisciplinary teams aligned with our major strategic objectives. This approach will drive growth across multiple opportunities while ensuring that we do not, in any way, compromise the profitability we have built over the past years.

Felipe: Thank you very much.

Kelvin, of Banco Itaú: Good morning, everyone. Thanks for allowing me to ask a question. There are two here on our side. First, I would like to ask you to give an update on the initial results of this partnership with AliExpress and also how you expect to advance this agenda to also become AliExpress's logistics partner.

And the second is just exploring the issue of growth a little more, as you yourselves mentioned, 2025 should be a challenging year due to consumption due to the cycle of high interest rates and inflation accelerating in the account. When we look at the data here from IDAT, which is Itaú's proprietary data, we already see some indicators pointing to weaker consumption in this first month. And I wanted to get your perception of how this demand is in this 1Q, how this is being reflected so much (and mainly) in the physical store, which had a sequential slowdown in the 4Q. That is it, thanks everyone.

Fred Trajano: Good morning, Kelvin. Thank you for the question. I will quickly talk about both questions. Regarding AliExpress, as I said, we have evolved very well in our conversations, both outward and inward. Again, this is a highly complex operation in terms of system integration, customization, and adapting systems to accommodate these partnerships. That said, we are on a positive growth trajectory, both in outbound and inbound operations.

Anyway, we have not disclosed the partnership numbers, but I can say that we are satisfied with what we have observed, and we are, indeed, in talks to explore and expand the partnership to other channels. The most obvious of these is logistics. There is a desire on both sides here to evolve in this area. But, anyway, when we formalize and close, we announce it properly. So, we are excited—it has been a strong start, and there is great potential ahead for further progress.

In the very short term, I do not see a demand problem. As I said at the beginning, we have an indexed economy, in short, all the disputes, they pass on inflation plus a real gain. There is no income problem in Brazil, Luizacred's results prove this, that we have low default rates, because low-income workers, who are mainly Luizacred's customers, have enough income to cover their expenses. So, I am not seeing a demand problem.

Our problem is interest, it is how to sell at a profit. So, the problem is not selling, the problem is selling at a profit. This is the Company's biggest challenge looking forward. The only way we can sell profitably is by increasing conversion. So that has been the focus of the year. It is a focus that we depend on systemic changes, because I can increase conversion simply by discounting the product and operating with a small gross margin, but that is not the objective. I can increase sales by accelerating marketing spend, but that does not necessarily mean improving conversion—it just reduces EBITDA margin by increasing selling expenses.

We have to do this intelligently. How to increase sales with profitability? The only way is to increase conversion, and we have already talked about that extensively.

I want to emphasize that I do not see a demand problem. I do not think the economy will cool down as much as forecasts, remembering that last year's GDP surprised everyone on the upside, closing at 3.4, it should slow down this year without a doubt, much less than people think, because the economy is indexed to real gains, both in private sector salaries, our own trade dispute was above inflation, and also for social benefit programs.

We have a highly indexed economy, which should not represent major losses there. Since unemployment is low, I do not see a demand problem. Now, how to turn this demand into results is the most challenging, because with the increase in interest rates, anticipating payments becomes more expensive, capital costs become higher for suppliers, who have to pass this on to prices, there is the issue of the dollar, so there is one of the issues that has more to do with cost than with demand, and that is why it is important for us to continue with our monetization agenda and focus on profitability.

Kelvin: Perfect, super clear, thank you very much.

Irma, of Goldman Sachs: Hi, good afternoon. Thank you for the opportunity. I wanted to ask two quick questions, maybe they are related, but if you could go into a little more detail about the drop in service revenue this quarter, it may have some temporary effects, but if you could explain a little bit the dynamics of the 4Q and outline a little bit how we should think about this line. I know it is small in total revenue, but it obviously comes with higher profitability, so as it dropped, it obviously caused a little bit of pressure on gross margin.

And the second question is about fulfillment. Obviously, there has been significant progress in 3P penetration year over year, but the current level is still only at 25%, without undermining the steps taken so far. What I would like to understand better is how far you think you would like to go, what makes sense as a target, and perhaps any challenges you are facing in convincing marketplace sellers to join the fulfillment program. Of course, there are several other marketplace platforms in the market, each offering their own incentives to bring sellers on board.

And, as you said, Fred, now with higher interest rates, the seller may not have enough working capital to place inventories in several marketplaces, several fulfillments at the same time. So, I wanted to explore that question, how we should think about this. Thank you.

Fred Trajano: Good morning, Irma. Thank you for your question. I will start with the last one and then I will pass it on to Beto to talk about service revenue.

The correct analysis regarding the evolution of fulfillment is that it is an absolute success. In fact, we just do not have any more because, well, because of Magalu itself. There is no difficulty for the seller in convincing him to bring the product here. Remembering that we went from zero, we launched this in 2023, the offer, mainly in our main competitor, which is the only one that obviously has a large fulfillment operation, which is Mercado Livre, they started this offer practically six years ago the fulfillment, and in two years we went from 0 to 24, so we did this at the limit of our capacity to deliver something. If you take his curve, our curve is above what it was in the second year of his operation.

It is very complex if you expand fulfillment internally, because, as I said, you need authorization from all states. You need a very specific authorization to be able to operate and for it to be fiscally worthwhile for the seller to operate, and we have achieved all of this with a lot of work from all areas.

We launched our fulfillment with the possibility of doing roadside fulfillment as well, which the seller has no other place to do, not even the manufacturer itself, who is sometimes a seller on the platform as well, so it is a very big possibility. Finally, for me, I consider that we are in a gigantic evolution. It just took us a little longer, but I already explained why it took us a while to launch, because we wanted to launch it on the same DCs as 1P, so that it would be something accretive that would help us improve and leverage and have operational leverage in it, and not just open the DC for fulfillment, it would be much easier, although we have some for fulfillment, but the focus is almost exclusively on operations that have 1P together because of the benefit of multichannel.

It is simply a question of progress, and we think that over time, in the timeline, we are making very positive progress. We will continue to evolve, over time we will reach the market benchmark level, which today is 50%, but after 5 years, Irma. It is finally evolving very well. Okay?

Irma: Perfect. Very clear.

Fred Trajano: Now I am going to pass it on to Beto now to...

Roberto Bellissimo: Good morning, Irma. How are you? Thank you for your question. I will talk a little more about gross margin. In fact, the gross margin of products increased a little, the total margin decreased a little, but very small variations and this variation in the consolidated gross margin, which is related to your question, the revenue from services decreased a little in the quarter, in the 4Q compared to the 4Q of last year, in the year as a whole it grew, but in this quarter specifically it decreased a little, but it is a good question to clarify that this decrease is not related to any change in strategy, any change in trend, it was something very specific, very specific to basically two accessory things: One is a revenue that has decreased, we call it correspondent banking, it is a revenue that we invoice for services to Luizacred, and these services are related to our own sales force, to the services that we offer in stores for Luizacred products; and we had a very high efficiency in the store's operation as a whole this year and this ends up being passed on to Luizacred and also ends up helping with the operating expenses line at Luizacred.

It is basically this reduction in correspondent banking revenue and a reduction in logistics revenue at Magalog, which is very small, very specific too. But the most important revenues, let's say, from the marketplace, from Fintech, from fulfillment, from Ads, and from Cloud, have grown; they continue to grow and continue to show a very accelerated growth trend for the coming years, and these are indeed relevant to influence the expansion of the gross margin going forward. Thank you, Irma.

Irma: Perfect. Was this dynamic only in the 4Q of the banking correspondent or did it start in the 4Q and should it continue in the coming quarters?

Roberto Bellissimo: This dynamic of the banking correspondent, Irma, has been intensifying throughout the year, as we have been increasing the productivity of the stores throughout the year, so it will continue, but it has a small effect on the gross margin and the total result of the Company since it decreases as revenue from services, but, in fact, it is because we also reduced the operational expense at Magalu. This compensation ends up existing in our SG&A, which we even showed diluted and, in addition, reduces the cost at Luizacred as well.

The gain in productivity ends up benefiting the result as a whole, mainly due to the reduction of this cost at Luizacred. So that will continue, but it is marginally smaller.

Irma: And the net is positive. Perfect, great.

Roberto Bellissimo: The net is positive, no doubt. Thank you, Irma.

Gustavo Fratini, of Bank of America: Hi, everyone, good morning. Thank you for the opportunity. I wanted to talk a little about your credit plan, the one that is outside of Luizacred. We took a look at the financial statements and noticed that it grew well now in Q4, close to 20% year over year. On the other hand, on the next page, there is a breakdown of the default section, and, from what we saw, it seems that default increased twice as much. Maybe it is not just related to that, but we wanted to understand what caused this large increase in defaults on past-dues and how you are seeing the evolution of the quality of this credit now at the beginning of 25 and for the rest of the year. Thank you.

Roberto Bellissimo: Thank you, Gustavo. I will continue here too. First, over the past year, we have significantly improved our credit portfolio, and in fact, we have been improving this portfolio consistently for almost two years. It is a portfolio with a super controlled default rate, super low in fact, a super profitable portfolio, as Fred mentioned, and the excellent news is that this portfolio is already very profitable and once we migrate to the new financial institution, for which we have just obtained the license and this transition should begin in the next few months, this portfolio tends to become even more profitable due to tax efficiency.

First, we stop paying ICMS (State Value-Added Tax on Goods and Services), PIS (Social Integration Program) and COFINS (Social Security Financing Contribution), very high rates on retail, to have the tax rates of a financial institution and then basically IOF 3% and PIS and COFINS 4.65%, so it is a tax burden, as a financial institution, well below the tax burden that we have in retail, so this portfolio tends to be even more profitable, not to mention the improvement of capital structures, the reduction of funding costs and a series of opportunities that we have with the new financial institution. The trend of this portfolio is to continue accelerating going forward.

Specifically regarding the fact that delays increased more than the total portfolio in this quarter, this is actually a mathematical issue and is related to the portfolio acceleration curve. As we accelerated this portfolio one, two years ago and the recent growth trend was a little lower, because we made a leap in DCC's participation in physical stores, it reached a more stable level and the delay always takes a little while to arrive, so as the denominator did not grow that much, the numerator has a lag and this ends up generating this effect.

But the good news here is that we are also super provisioned for this portfolio here that we show here of 1.5 billion with more or less 300 million overdue installments, we have 500 million provisions and also the indicators for granting new harvests are super low, super controlled, super profitable, as we already said, both at Luizacred, on the card, and at DCC, both physical and online DCC as well, which we started to scale and are already scaling this product with profit as well. I think that was it. Thank you, Gustavo.

Gustavo Fratini: Super clear. Thank you, Beto.

Andrew Ruben, of Morgan Stanley: Hello, thank you for your question. I am curious to know what you think about the outlook for physical stores, considering that there have been some closures in recent years. If you could talk about whether there is still room for the physical stores base to be optimized or, otherwise, what would you have to look at to return to selecting the growth of store sales?

Fred Trajano: Good morning, Andrew. Thank you for the question. In relation to the store, as I said, we are now very focused on these experiences that we are doing with the physical store formats of the group's companies. I talked about the Netshoes store, I talked about the experience of Conjunto Cultural, which will have all the stores in a single space, I also talked about the KaBuM! store, so we are exploring the possibility of doing this physical expansion through stores of the companies we acquired, which are companies in the ecosystem, Netshoes, KaBuM!, Época also have a very high potential.

And the possibility of this expansion could be either in existing points, absorbing idle spaces or spaces that we will convert to have store-in-store within Magalu stores, or exclusive points, large stores like Livraria Cultura, or exclusive points for each of the brands as well. We still need more data, but, as I said, the very short-term data is very comforting in the sense that it confirms the idea that opening physical stores for these group companies is a good path. And that when we accelerate, we should even accelerate more in the sense of opening store-in-store of these stores, specific stores for them.

And Magalu, there are still some regions where we do not have a store, for example, the state of Amazonas, some states in the northern region, one or another location in the existing states, but I see there the greatest potential to open physical stores, store-in-store or stand-alone, or in this format like the Conjunto Nacional point looking ahead.

But there is still a little data or information to pass on beyond that.

Andrew Ruben: Very clear, thank you.

Rubem Couto, Santander: Do you hear me now?

Vanessa Papini: Yes, we heard you well, you can continue.

Rubem Couto: Great, sorry. Good morning, everyone. Thank you for the question. All of my questions were asked, but I have some follow-ups here. First, in fulfillment, Fred, in this evolution from 25% to eventually reaching 50% in a few years, how do you think about the issue of profitability here in this movement? In this first start here in two, three years that you reached 25%, did you have to have a lot of subsidies for sellers to encourage this migration to your fulfillment? And how should we think about this going forward, whether it is neutral for the margin or not?

And on the cross-border point, we have been following some news about the Revenue Office strike, which seems to be delaying things a lot in terms of import clearance, there in addition to this partnership that you have with AliExpress, did you feel any level of impact in this 1Q or nothing significant? Thank you, and sorry for the trouble.

Fred Trajano: No problem, Rubem, thank you so much for the question. Well, I will start with the last one. We are not feeling anything. Remembering that our entire cross-border is PRC, so it has a much faster process in relation to the Revenue Office, so we are not having any type of problem or operational stress resulting from the Revenue Office issue. I, for example, was not even aware of this. We finally have the operation in order and, as I said, with great potential for evolution.

As for fulfillment, that is a great question. Today, our growth has been concentrated in areas that were previously underutilized. So, there has not been much need for subsidies because these were existing spaces within our DCs that had room to be filled. It is important to remember that our model operates as a multichannel fulfillment operation—the same DCs used for 1P. With inventory reductions, we freed up space to accommodate sellers' inventory. In some cases, we did not charge sellers, but this was not a costly subsidy for the company since we were simply utilizing existing capacity that was already accounted for.

And by selling more of this seller's product, increasing revenue, generating sales commissions, we end up being accretive, so there is still space here to occupy some DCs. Some are already well occupied, others like DCs in the Northeast and some DCs in the South, we still have room to increase regional occupation. Eventually, we will have to increase the area for both, but this is an issue that we will look at very carefully. And finally, when it makes sense, we will have a monetization strategy, but for now it has not been necessary in this regard.

The issue of fulfillment is important. We have seen important technological developments that Fatala mentioned. We now have 60 integrators, which are software companies that integrate sellers' systems into our systems. We have received a lot of feedback regarding the need for improvements in the integration systems. We are doing very well for having only operated for two years, but there is still a lot to improve in terms of giving the seller more control and more visibility.

We are evolving in this sense of improving the technological platform, facilitating the integration of these sellers with our platform and with their integrators. There are still some challenges in this regard, but, anyway, the teams were integrated so that we could carry out this technological agenda more quickly.

That is where we have to move forward, but it continues to be an important and promising agenda for us. Our focus will be to have more control over the delivery process as a whole, either via fulfillment or via Magalu Entregas as well.

Rubem Couto: Good, super clear, thank you.

Fred Trajano: Thank you.

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.

Fred Trajano: I would like to thank everyone for participating in the call and also congratulate the entire Magalu team for their 2024 delivery. Thank you very much! Good morning to all.

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.