



**Local Conference Call
Magazine Luiza (MGLU3)
2Q21 Earnings Results Call
August 13th, 2021**

Operator: Good afternoon, ladies and gentlemen and thank you for waiting. Welcome to Magazine Luiza's conference call to discuss the results for the second quarter of 2021. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. Afterwards, there will be a question-and-answer session. Questions should be asked by phone. Questions via webcast will be answered later by the investor relations team.

Now we'll turn the conference over to Mr. Frederico Trajano, CEO of Magazine Luiza. Mr. Trajano, you may begin the conference.

Frederico Trajano: Good afternoon everyone, thank you for joining our conference call related to the second quarter of 2021. Slightly unusual time for this call, 4:00 PM Friday, a very hectic week with several results being published, so that is the slot we managed to find.

I'll try to be very to-the-point in this presentation, I'll be speaking myself and then Robson Dantas about Fintech and Roberto Bellissimo the financial highlights, and right after that we're going to start a Q&A session. All the managers of the company, as usual, will be joining us in this call. We will try to work on different questions so they can also help with the answers.

So the second quarter, on the first slide, the second quarter started with a hiccup in late March or had somehow to go back to last year's picture and shut down all the company stores, we're going through a second wave, it was like a nightmare after everything that we've been through last year, the difference being that actually we consider to be well prepared this time, better prepared to shut down the stores, many stores already had a mobile remote system with 70% of the billing even though all stores were shut, the online operation was very fine-tuned, very robust in order to have additional volumes coming from stores that were closed. So, despite this hiccup, even though we didn't want to have Brazil going through the same moment again, we were calmer to go through the second quarter, and luckily the second wave and social distancing, moves by the government became more effective.

It was intense and on April 20 we opened the stores, so we had 20 days closed and we had approximately 2/3 of the stores open throughout the quarter, and last year, over year 2020, we had 2/3 of closed stores. So, this is more favorable now, and like I said, the more robust, better prepared condition including physical stores and remote sale model in order to hold our billing.

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So despite all difficulties in early April, we already went back to normal in our operations over May and June, and for the quarter I think the highlight to explain if you think about the sale – now on slide number 3 – we managed to have very significant growth at the company, particularly owing to the stores, like I said before 2/3 of the stores were closed last year and more than 2/3 of the stores open this year, so we have an easy base.

Like I said in the beginning of the year, the base of the second and third quarter would be easier than last year, we had a hard time owing to the pandemic and this year we were easier, growing 102% in physical stores, but if you compare sales in physical stores in the second quarter of this year year-over-year, or better say in 2019, many analysts are right about considering this base, we increase 16%, so we managed to hold our sales at the stores by increasing the area, but even with same store sales we had a positive territory, and which is good because Brazil as a whole went digital after the pandemic.

Speaking of digitization on the next slide, the big highlight this quarter this year was e-commerce growth on top of the most challenging base in the market. Last year we had a second quarter that was brilliant in e-commerce growing 80%, compared to other companies we had the highest growth and the whole market expected early in the year to have a stronger impact even coming closer to levels in 2019, but we managed to increase by 46% e-commerce into this base and total growth over 2019 of 313%, the highest average for the last 2 years with a big emphasis on 3P.

E-commerce as a whole increased by 313% over 2019, 3P increased more than 400% with a very good market share, we had 10 billion online GMV and 3P from 3P, so we highlight e-commerce as a whole, and 1P was well above the average of the market, we increased also 40%, but 3P this quarter alone increased 60%. So, once again, e-commerce as a whole 300% vis-à-vis 2019 and 3P 400% showing the robustness and resilience of our business.

And at the end of the day, any retailer wants to grow the business at large, so on the next slide we can see that by managing to support our growth and having good numbers of stores and having exponential performance in e-commerce, we increased 60% vis-a-vis last year total GMV of the company including 1P, 3P, physical stores, and 50% growth which was already extraordinary in the previous year, vis-a-vis 2019 140% growth. Anyway, the big highlight no doubt about it this quarter was our growth and managing to support growth on top of a significant base, particularly for e-commerce as we had last year.

And the highlight here and what really puts ourselves as unique in the market is that we can do that with profitability. Obviously, last year because the stores were closed, the company had an EBITDA margin which was lowered, 2.5%, but the stores were closed, we had to pay the rent, employees were there, the stores were closed, and like we said in the second quarter of last year, this resolved eventually goes down

Magalu

dramatically, but that was temporary, and after the pandemic now the profitability level EBITDA percentage is around 5%, like we showed in the last quarter of last year and first quarter of this year, once again in the second quarter of this year a more normal profitability level with a company that is growing at the rate that we are, with the positive EBITDA territory growing 210% on top of a very bad base last year and 89 million adjusted income.

Roberto is going to give you more details later on, but we are heavy capitalized, so the company consistently delivers with growth and cash generation, that's not something for a couple of years, for the last 5 years Magalu is the only company in the e-commerce Brazilian market managing to grow, we are the fastest growing company over 5 years, by far the biggest inversion e-commerce, but the only company that can do that with profitability and consistent cash generation, it is not being profitable one quarter and not the next one, we have consistent result generation, the only time we were not positive was last year, like I said, because the stores, nearly all stores were closed, but even in add 2020 which generated cash, cash generation with consistent results, which is our approach.

And early in the year, we had this concern, a big concern about this quarter not only owing to a low comparison, but out of competitiveness and because we don't have competition in the market, it has always been competitive, but our model once again proved to be resilient and growing in a positive territory, both in results and cash generation regardless of competition because every year we have different competitors, investors always can see we have different competitors, but we keep on delivering and adding new elements and finding new avenues for growth at the company. Roberto is going to tell you more about it.

And speaking of growth, I would like to highlight again our arrival in Rio. A lot of what we did in the quarter is to sow seeds for the future and very intense efforts even though we open Rio stores only in early July all the preparation for Rio happen in the second quarter, very intense work, training thousands of staff, renting, renovating stores, dozens of stores, so we got into the second largest consumer market, about 15% of the consumer market in Brazil, 11% of Brazilian e-commerce in Rio, and our penetration was only 5% of our e-commerce in Rio and zero percent physical stores. So, the arrive in Rio is a game changer when it comes to market share of the company and Rio expresses very well the power of being multichannel.

We already opened 33 stores – later we can talk about expansion in Rio – and we'll be opening another 50 stores by year-end, we had a distribution center, the only physical operation in Rio was a DC of 130,000 square meters and in Xerém, where Zeca Pagodinho was born, and we also open 3 hubs that are cross-dockings in order to speed up delivery in Rio, and with the 50 stores – and 30% of the area is for delivery purposes – we will be accelerating more than twice the delivery time and delivering by half, reducing by half the delivery time, increasing conversion and taking Rio to more significant levels in our revenues and therefore have more share.

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So, Rio is the evidence of multi-channel, and we had a very robust entry plan, we got into Rio in a very comprehensive manner, 360 degrees, presence in BRT, bikes in Rio, and we also have in sunscreen, so we illuminated the Christ in blue, so the first impression is very important and naturally we delivered an excellent first impression in Rio.

Another highlight for the quarter, like I said before, when it comes to GMV growth in marketplace more than 60% this quarter, 400% growth vis-à-vis 2 years ago or 3 years ago, 3P is the fastest growing in Brazil, we posted amazing results and also the entry of sellers. For the last 4 months we had 34,000 sellers into our platform, active sellers generating revenue and naturally we have a criterion to report the number of sellers, which is very robust. They have to be active and deliver significant sales to be in the platform and 84.000 sellers is more than what we've had in the 15 prior months, so in 4 months we were equivalent to 15 months before, speeding up with 10,000 sellers per month into our platform, and important is to highlight that half of them come from a platform that we designed last year to save physical retailers in the pandemic, Partner Magalu, clean water this time, rather than approaching sellers who already went digital now we're focusing in more than 7,200 million analog sellers in Brazil, 7,300 million in total only 100,000 selling online, and the rest are physical, they're not online, and we created a platform to make these companies digital, it is Partner Magalu launched in the pandemic, and today it is a driver for growth in our marketplace bringing new sellers with a different profile, local inventory, regional inventory, very important to our ambition to have a hyper local marketplace in the process.

And the physical store – that's a very important thing to say – our point of uniqueness in our approach for marketplace, in our marketplace vision, our marketplace will be molded channel, so the physical store is both a hunting and farming and seller point and also, as I'll say later on, a logistics point. So, this multi-channel approach is a uniqueness at Magalu, and Magalu now for the last 5 years had the fastest growth and the best profitability in the Brazilian e-commerce, and this is what really makes a difference into 3P and certainly will make a difference in the future.

It's a different model, no longer the same; it's a marketplace model which is multi-channel, and checking the ranking, half of the sellers come from local stores, the stores are helping us bring local commerce in the neighborhood and it does make a difference for ranking, which is not so obvious.

So, this is the year of “you blinked, it arrived” (Piscou, Chegou) logistics. We've been heavily investing in logistics, 4 billion primary in follow-on, and this funding has several goals, but undoubtedly one of the most important use of proceeds of the funding is to invest in logistics. We have the fastest delivery in Brazil, 50% of our deliveries are in one day. In June we launched one-hour delivery, the logistics team was just amazing, 140 stores are ready to have their inventory serving customers who want to have one-hour delivery, we have 30 cities, we want to take one-hour

Magalu



delivery the all big capital cities, including more cities until the end of the year, and conversion when we offer one-hour delivery, which is something new to Brazil, it increases by 60% compared to conversion when we offer 48-hour delivery, it's a very high conversion rate.

We believe marketplace operations, which don't have a physical presence, e-commerce operations, which don't have this presence, will never get to one-hour delivery, so that's an important differential to the company. And to make it more robust and give more capillarity to our growth, we had another strategic acquisition, another one in logistics after LogBee and others, we have Sode now. It was already a partner in these ultra-fast deliveries, and it's a fleet model that is more similar to motorbikes and bikes and it's going to grow and together we're going to expand very significantly in this one-hour delivery process.

The bulk of our revenues will be available there and we are confident it's going to be a sustainable driver for growth, it is not only that is temporary that you do with high cost or access marketing expenses, but by providing a good level of service and with these delivery times we are going to have all-time-high here. Just to give an idea, in 1P our NPS is 85, general at the company we are reaching 77 NPS in e-commerce, it's the highest NPS in the market, and we expect to increase it even further by bringing 3P into the game.

On the next slide, a couple of words of this. Like I said, the whole uniqueness we have for multi-channel, which allowed the company for the last 5 years to generate cash, be profitable, grow above the market, this will be used for 3P as well. I already talked about ranking, sellers, now focus on logistics. We have 590 stores ready for online and 3P pickup, by year-end more than 3,000 stores will be enabled for that. I know it doesn't sound very big, but we launched this modality very recently and today more than 10% of all customers who buy 3P at Magalu decide to have a store pick up, they don't want to pay the shipping fees, sometimes there's nobody at home, there is not a porter, so click-and-collect, which was very good for 1P, is now uniqueness for 3P and helping us grow above the market average, and certainly going forward it's going to be even more significant growth wise.

And another highlight for physical stores in 3P as well is Magalu Agency; our stores now have a partnership with the Postal Service. So, some stores are ready to do that, about 600 stores by year-end, and the seller who sells in Magalu's platform rather than leaving the product at a postal office unit, they can have it at Magalu store, so they can have the drop off inside Magalu stores and use the truck that was there to deliver a product by click-and-collect or supply the stores, the truck goes out empty and we are going to use this trick to distribute the sellers' goods. We always optimize the chain a lot and certainly is going to be another differential of ours.

We already rely on less and less from the Postal Service, more than 10% of the volume 1P is at the post office, and going forward, in 3P we're going to use it less

Magalu

and less because we want to have our own structure, and this structure is going to be powered – on the next slide – by investing in area and physical points. For the first time since our IPO, since we went public, since our IPO, for the first time we have a guidance for our operations, we're going to strongly invest so we can have the most capillarized, dense, and regional distribution and logistics in Brazil, which will equally serve 1P and 3P, from 1 million square meters of storage area to 2 million by the end of 2020, 185 DCs and hubs, 400 in total, and 1,400 to 1,700 stores, and this is for storage as well, it's a DC, so more than 2,000 points of storage and delivery and cross-docking in Brazil serving the bulk of the Brazilian market in Brazilian cities.

This capillarity if you don't have a physical store and if you don't have all this investment, hardly ever will this be backed and this seamless operation for 1P and 3P is quite a differential. The Chinese which come with pure marketplace without one-day delivery, one-hour delivery cannot beat our level of service, including pure market player that have 20 or 30 DCs or 40 DCs they cannot beat this capillarity of 2,000 points we have. so, it's a great point of uniqueness, it was a differential for 1P, multi-channel approach brought us here and it will also take us forward and help sellers sell more and convert more.

By the way, we have our Expo Magalu, this is for our 90,000 sellers and this is going to be held next Tuesday, we have Magic Johnson with us, who will be a keynote speaker next Tuesday at Expo Magalu, Ricardo Amorim will also be there, I'll be speaking, Luiza Trajano will also be there, Nathalia Acuri, Rebecca from the Olympics is also going to be there, and all our management will be sharing news of these 3P universe including news on logistics, like Agency Magalu and 2P, we're going to let you know all about it next Tuesday. We're very excited with the possibility of exchanging information with sellers, mobilizing everyone and showing that e-commerce has come to stay.

And we also had very emblematic acquisitions and I'd like to highlight 2 of them, which were recently announced: one of them is KaBum, we have a pillar of new categories, we also have a brilliant performance by Netshoes, an amazing performance, it was having losses for many years, but we had a turnaround and from Q1 this year is posting very significant growth, a leader in the Brazilian sports marketing and showing the capacity of the company to deliver via super app and generate results from acquisitions, and also Época Cosméticos, it is amazing as well; and we just got into another vertical, actually it's a super niche, one of the fastest growing markets in the world, which is the gaming market. We acquired one of the most amazing e-commerce companies in Brazil, KaBum. The consumer base is very loyal, 2 million active users, 3.5 billion as revenue, very profitable, R\$300 million very well managed by the founding members and they will be with us for a couple of years at least, and I'm very happy to see that we just concluded the acquisition, actually we're just waiting for CADE's approval next month,

And we're very excited with their arrival, that's a niche, the gaming niche, that is the

Magalu

fastest growing in the world, 95 million gamers in Brazil investing more and more in physical and digital products in the gaming environment, and KaBum is going to be just amazing for us to grow and explore this super niche, just as quick did with other players that we acquired, and certainly they'll be adding value and bring in super app catalogs and bring all this capillarity and logistics.

KaBum has already delivered these numbers with just one DC, so just imagine 2,000 distribution centers. This is what happened to Netshoes increasing profitability, and certainly KaBum will deliver the same success for the future.

Finally, we acquired some other companies in the Fintech universe, Hub Fintech, and we had already acquired way back then, but the approval by the Central Bank only happened at the end of June, and Fintech is obviously one aspect of our business which is not very well known in the market, and our objective from now on is to grow this business, increase the relevance, it's already big, it's already profitable, but the potential is huge if we look ahead. We have a very clear objective here with these acquisitions, with everything that we do in the Fintech universe, and with already existing operations, for instance with Cardif and with Itaú insurance and credit, and we want to take advantage of the scale of the digital world and give this Fintech the possibility to grow on top of our scale, on top of our business, and the Fintech will be, on the other hand, monetizing our ecosystem.

So, we are placing our bets on the Fintech to help to monetize and bring more profitability and bring the profit pool, well, the profit pool is huge with the Fintech, and you will certainly see over the next few quarters and years a bigger weight of the Fintech in the revenues of the company, but mainly in the top line.

And I would like to ask Robson to explain our Fintech strategy, the products so that you meet Robson, because he's the head of our operation and he's the one who will be leading this business, we already have over 500 people.

Robson Dantas: Thank you, Fred, good afternoon everybody. I came here today in order to talk about something that within Magalu has become higher and higher priority, and in the short time of operation has already shown exponential growth and a huge potential, and we are placing a lot of efforts here, and this image of the infinite represents what we have here. Fred's talked about monetizing the ecosystem, and in practice this is already happening, and we develop products there today connect or promote connections in the Magalu system, and this exponentiality of the company allows us to bring beside monetization another important component.

So, as we are able to gain scale, we lower our operational costs, and this represents a gain for the whole ecosystem. And there is another point that is very relevant, which is to bring frequency to the chain, so besides monetizing, we also look at frequency, and I will be talking about Magalu Pay, but by means of the Fintech we are able to bring new clients on board, clients that are not necessarily trying to buy



something in order to bring frequency to the super app, this is very important.

So, this quarter was an extremely relevant quarter for us, many investment that we started making last year, we put them in practice already within this quarter and Fred talked about the Hub Fintech, with the regulatory approval it brings us a regulatory framework which is very important for us to grow and to add scale and gives access to the Brazilian Payment System besides bringing a very robust team and the structure for the processing of prepaid cards. We have already started all the integration and later on I will be talking about this in detail.

And the second big acquisition was the Bit55, which is a platform for the processing of the credit cards and this platform, besides contributing to the strategy of the hub, that is to say, it brings another roll of services, it contributes for the strategy of Magalu as well because in the concept of Fintech, credit is one of our top priorities and this is what we're working on.

On the next slide, I will start by talking about Magalu Pay. I would like to remind you that we launched Magalu Pay last year and we read 3.3 million accounts, we started with cashback and we evolved the product in order to become a digital wallet, so I always say that we have a very close connection between cards and the wallet, and one of the points that we worked over the quarter was a connection of the new Magalu card, which is a top hit, we launched this card at the end of the third quarter/ beginning of the second and we have been able to double the volume of monthly issuances of cards, so 6 million cards with a total credit balance of 13.5 billion and a product that is offered to the card holders and they have a personal credit already of R\$1 billion, and in this quarter we closed our operation with 10 million TPV and we have a road map to make this experience card wallet become better and better.

Cashbank is already a reality, so the clients that buy it in the ecosystem they have cashback and Magalu Pay has been helping increase loyalty and we are able to place many benefits for those who have the cards so that we may bring in the concept that I mentioned; recurrence and frequency.

Next slide, and here as Fred said, the blue ocean, our acquiring operation that works with sellers, we have an infinite potential for growth. I would like to remind you that we launched Magalu Pagamentos last year in the vision of capturing electronic transactions for the sellers and factoring of receivables is really the most important, and we launched the FIDC in order to offer credit to these sellers and we see that part of these loans that we give our sellers is used in order to drive their operation with us. So, we are spending a lot of energy in order to improve the journey and to grow and we started to schedule this and then we get into the very big news that have to do with the acquisition that we have made. If we take the TPV that we had in the last quarter, we're talking about R\$4 billion, and if we add Pix, we reach 5. All this money basically does not stay in the hands of Magalu, it is sent to the accounts where the sellers have the money, and with the Hub Fintech arrival, we launch the

Magalu

digital accounts and this money that the sellers have in Magalu it can be deposited to this account, this is for free, free of charge starting with a prepaid card and with the Bit55 acquisition we will have the functionality of credit card in the platform, and Fred has already told you what is going to happen.

On the Fintech side, we will be launching our devices during our event and these little devices will be divided into 3 audiences: one for the entrepreneur; one for a stronger establishment; and another one fully integrated to the Parceiro Magalu (Magalu Partner) where we bring about the digitalization you can sell online and offline.

Well, that's what I had to say, and now I give the fall back to Beto to continue the presentation.

Roberto Bellissimo: Thank you very much, good afternoon. Thank you very much for participating in our call.

I'm going to mention first our main highlights, let's talk about our financial highlights, which are 6 the main highlights that we have on this slide. Just to repeat or reinforce, 60% total sales growth from a very high base, e-commerce 46% growth, 112% total physical store sales growth, almost R\$14 billion total sales, 455 million adjusted EBITDA, increasing threefold vis-à-vis last year, margin of 5.1% and net income 89% net margin of 1%. These are the main financial highlights.

And on the next slide we explain the evolution of our EBITDA margin, we doubled from 2.6 to 5.2%, gross margin was practically stable in this quarter, and the big highlight here was the dilution of expenses in spite of April with part of the stores still closed, mainly in April, but even with this situation we have been able to have a very big operating leverage and we grew net revenue over 60% and our expenses grew little more than 40%, so in fact, this is a very big leverage of our administrative expenses lower than 3 percentage points, a very big dilution here, all in all with a dilution of 2.6-2.7 percentage point dilution, which explains the leap in the EBITDA margin.

And overall, we have been keeping our SG&A between 20 and 21% and it is one of the lowest historical levels ever. Once again, it is because of our multi-channel model which is fully integrated, and it is able to combine growth and income and cash generation.

And talking about cash, we go to the next slide where we get into details. First of all working capital, and about the history, in March last year when the pandemic really hit, we had the need of 500 million in working capital, then the e-commerce sales accelerated very quickly and we grew very fast and the variation of working capital was of about R\$\$2 billion last year when we generated a lot of cash, and then afterwards we continued to evolve working capital reducing our needs for working

Magalu

capital over the year, March this year, because of the seasonality and the closing of stores again our need for working capitals went up to 900 million, better than March last year, and now in June we have improved this again vis-à-vis March something around 200 million. We're not yet in the same position of June last year because of a strategic decision of reinforcing our inventories and preparing ourselves for the second half, and we have to look at the coverage of our inventory for the second half. Last year when sales went up very steeply, we ran with a very low inventory level and we had some stock outs, and this year we have reinforced our inventories and with a lower risk of any kind of interruption.

On the right, we show the adjusted net cash, and it is a direct consequence of the evolution of the working capital and also of the investments that we have been making and that we will be showing on the next slide. And here I would like to mention that with a follow-on we would end June with a cash position, a net cash position of 7.7 billion, almost 8 billion, our best position ever and very well prepared to make the investments that we will be making from now on.

On the next slide, we show cash generation for the quarter, again another quarter with a very strong characterization, and if you add depreciation and variation of working capital, we generated R\$400 million cash, we invested 300 million, we paid leasing and interest 200 million, we bought back shares and paid dividend 400 million, we had a funding of 700 and follow-on of 3.9 reaching a cash position adjusted of 10 billion. Once again, our highest ever cash position.

On the next slide, we get into details about cash generation in the last 12 months. We had 800 million net income depreciation and the variation of working capital associated to the inventory that I said. All in all, we generated almost 1 billion in cash flow from the operations, we invested 1 billion between investment and acquisitions, we paid leasing 600 million and interest, we bought back and paid dividends 1,400 billion, and once again, the funding and the follow-on in order to reach the 10 billion cash.

So, you can see that our cash position is very, very sound and we are very well prepared, and on the next slide we'll be talking about the results of consumer credit.

Luiza Cred had another spectacular quarter, we had already talked a lot about the cartão Magalu (Magalu card), Robson talked about it extensively, and we've done the pace of sale of new cards reaching 6 million cards in this quarter, and the total volume also grew, the TPV, to almost 10 billion over 60%, and in the half year also very accelerated, it's very positive for the result of Luiza Cred as a whole.

And on the next slide, we show another highlight which has to do with delinquency. Short-term and long-term delinquency also going down and the coverage ratio went to over 220% vis-a-vis 160 last year, and provisioning very strong, and even with this very strong provisioning Luiza Cred was able to double profits to 48 million, and in



the half year more than doubled to 84 million, and here just for comparison purposes in BRGAAP, which is the way we report, 200 million net income in the half year, so you can see that it is even higher than the net income in IFRS, reflecting the quality of the result and the quality of the portfolio Luiza Cred.

And on the last slide, just reinforcing the follow-on. We concluded this in June, we had a primary funding of almost R\$4 billion, a very strong focus on investments in logistics, technology, and acquisition, strategic acquisitions such as the Hub, such as KaBum, Sode and all the others.

And with that we add our presentation and now we would like to open for questions. thank you very much.

Question-and-Answer Session

Operator: Ladies and gentlemen, now we will start the Q&A session. In order to ask a question via telephone, please press star 1, or you can send your question via chat.

Mr. Luiz Guanaes from BTG.

Luiz Guanaes (BTG Pactual): Good afternoon everybody. I have 2 questions here on our side, and the first point has to do with the service platform. You have been talking about this for quite a long time and could you talk about these super app Magalu? What about the evolution of that from now on?

And the second question, getting more into the engagement on the part of the seller, do you see an increase in this engagement with the initiatives that you have been developing, mainly on the payment side? So, maybe you could talk about that as well.

Frederico Trajano: Good afternoon, Luiz, thank you for the question. Well, the mini apps, well, something I didn't tell you about during the presentation, about the launch of some operations within the content that you mentioned in this month. So, Fatala, could you please answer this question?

André Fatala: Thank you. Well, regarding the mini apps, we launched the first mini app that was built with the AiQFome and it is already published in the Magalu app, we are operating in 60 cities, taking a lot of feedback about the utilization on the part of users and having some improvements in the experience, it's running very well, we are already developing another one with an external partner regarding the development kit, and we have all this learning curve and we are getting feedbacks of third parties using this solution, and we are having an integration with Magalu Pagamentos as well, doing everything through Magalu Pagamentos, and we should have some news to import and when we have a very good structure already up and

Magalu

running we will be rolling this out for other companies in the group so that they may connect by means of the super app, and also, we will be publishing the SDK APIs for third parties involving solutions that will be published also in the super app.

Luiz Guanaes (BTG Pactual): Thank you, Fátala.

Frederico Trajano: About the salary engagement, when we see 400% growth of 3P vis-a-vis 19, we have a very robust growth of GMV, sellers, and when I consider in this seller world, you have 2 large groups in fact, there are more segmentations, but I'm going to simplify: you have the big sellers, the ones that have practically an operation in which they don't even need services, like Electrolux and MadeiraMadeira and big sellers, and they don't really need a very big array of services, be them financial or logistics, and they have been growing of course, but our focus is the base of the pyramid, the small sellers or the medium size sellers, many, as I said during my presentation, coming from a blue ocean, the analog sellers and who are selling for the first time digitally with us, and for these sellers who are the focus of Magalu they're growing much more than 400%.

And so, we're totally focused on these sellers in the sense that we have a very high level of services, we issue their electronic invoices and which is a very big difference because these sellers were not used to sell online, and we do factoring of their receivables and we have the delivery part, and now with the drop-off, it will be much easier for them to use the services so that they may post the product as of our store, and we will always work to be better than the government postal office.

So, I don't have a disclosure of their engagement, but you can see that the growth of the active base of sellers is huge and also the GMV growth. These are the seller that really need Magalu. Magalu has a purpose to digitalize and help Brazil to become digital and digitalize the Brazilian retail in general and bring access to everybody, to the masses. Our focus has always been the masses. Magalu has no vocation for the big sellers, but the smaller and the medium ones we are doing a full service, and Leandro Soares and his team they're working very hard to guarantee that we may deliver the best level of service, and the fact that we have the local support in the store not only bringing the sellers, but supporting them in their basic needs, helps a lot, and not to mention the education because we have courses for them of all kinds, so we give them training so that they can be totally digital to be able to use the platform.

So, I'm super, super enthusiastic about it, and we are talking about 7,200 million analog sellers and we are going to help them become digital, we are going to grow with their help, and we are going to help them increase the penetration of e-commerce in Brazil and bringing this up to the rates that we have in more mature countries.

Luiz Guanaes (BTG Pactual): Thank you very much, and I think there is another

effect which is the growth of the regional e-commerce.

Frederico Trajano: Yes, undoubtedly, and it has everything to do with our focus on our marketplace being multi-channel. When I talked about that way back then, people said “well, this is not going to be any difference”, and our 1P today is totally dominated, it dominates, and you can see that it grows much more than the market and very much because of multi-channel, and I'm sure that multi-channel brought our 1P here and it is also going to bring our 3P. Nobody does that today, many investors do not understand this difference, this competitive advantage, but you can be sure that the 3P is going to make a very big difference.

Luiz Guanaes (BTG Pactual): Thank you, Fred.

Operator: Joseph Giordano, from JP Morgan.

Joseph Giordano (JP Morgan): Good afternoon everybody, thank you for the questions. about the ecosystem that you are creating regionally with AiQFome and others, how are you evolving in this connection of sellers and grocery shops? And what about synergies from the regional logistics viewpoint?

And another point that I would like to ask has to do with the digital platform that you are setting up and how much you would be able to leverage credit for non-digitalized consumers and those who do not have a bank account, for instance. How could you leverage this with third party platforms maybe?

Frederico Trajano: The first question is the following, our top priority now VIP Commerce already has 200 clients, supermarkets, and they have a very good penetration in Brazil, and the focus of VIP Commerce is to integrate this catalog to the super app, this is more or less what we did with AiQFome that Fatala described, and the idea is to do a little bit differently conceptually, but bring this catalog here, and at the same time they are growing their client base, and I think the following for products that are domestic products: the products that are easier to plan, buying non-perishable products and with a very high turnover, part of these products we can have here in house with the 1P, 40% of the 1P items sold by Magalu were market items, but most of what is sold today in the market are very regional, with very complex logistics involved, and operating a chain nationally with perishable products and products there are too regional because they are not all perishable, but there are sometimes very regional, and it's difficult to become relevant in this segment without having the marketplace, without having the 3P operation.

So, the focus of Vip Commerce is to integrate, take the catalog of 200 and deliver the services for payment and even logistics for these networks, once you plug them here you also plug Magalu Delivery (Magalu Entregas), Magalu Pay (Magalu Pagamentos) and this is the focus of the logistics' team and the VIP Commerce team also has the objective of increasing the number of sellers and extending their 200



chains to others, and half of Brazilian retailers are supermarkets, this is the biggest segment and 1% penetration online only. So, our focus is to help these companies increase their online participation.

About the credit for sellers, I'm going to give to Beto and to Robson, and then Beto adds.

Robson Dantas: Joseph, good afternoon, thank you for the question. I'm going to address your question in 2 parts. First part, when it comes to distribution channels, Fred already told us more about it in the beginning of the presentation, Magalu has a very strong sales force and a lot of experience in offline and online. Naturally, our strategy is going to be mixed, we cannot just say that we will be online only, the test we ran in recent months gave us good insights on how the operation model should work. Naturally, in our strategy we have a whole mix of formats that we're working on and naturally it will go through digital and physical using our salesforce; second point, about scalability funding and operations, which is the main point of your question, today we structured our own FIDC, our own capital. We use partners to support in the concession process and we've been working a lot in experience, we understand the most simple to the point and timely experience the better traction we can have. To what extent is going to be like that in the future or if we're going to lever using third party capital or having quotas in the market, it's too early to say anything. There are several possibilities, but right now the strategy is to work on experience, run tests and then begin to scale it up.

Frederico Trajano: Beto, anything to add?

Roberto Bellissimo: Perfect. Well, I believe this is it, I think you said it all it. It has to do with origination and the ability to generate and manage and also including seller relationship. Funding, Joseph, I think it's the easiest part, we have FIDC, which is our own capital, but easily we could also resell credit and have the origination fee or share of the risk. There are many ways to leverage the FIDC and other financial institutions we can use to provide funding. The value lies in origination, that's a fact.

Joseph Giordano (JP Morgan): Thank you, thank you.

Operator: The next question is from Robert Ford, with Bank of America.

Roberto Ford (Bank of America): Good afternoon, thank you so much for taking my question. Could you tell us more about apparel and personal care? I know the rates are low, but what about the behavior once consumers go back to shopping malls? And how do you expect the 3P proposals to stay or to compete with the integrated rivals, like groceries for instance?

Frederico Trajano: Hi, Bob, thank you for the question. Eduardo is going to answer the first part of your question.

Magalu

Eduardo Galanternik: Thank you. Hi, Bob, thank you for the question. These verticals or categories are very constructive adding sellers, assortment, we have a number of developments taking place and novelties, particularly for the second half of the year, naturally owing to the nature of the category, or it was not so significant in the past, but it has been growing very significantly now. If we think about the growth rate, it's among the highest.

So, I think we're very excited with what we are to build, we know these are drivers for growth in the future and to some extent this is it, unfortunately we cannot give a teaser of what we're doing, but you'll hear from us soon.

Joseph Giordano (JP Morgan): Thank you.

Frederico Trajano: As for the market, I think I spoke a little bit about it, right, Bob, the way how we think about it. We believe local operators and regional operators have a very strong power in the market, this market is not so concentrated yet and it's not by chance, and that's because region and proximity to local consumers is still very important. So, our approach once again is to be 1P with categories that are easier to be run with better economics, turnover more predictable and high demand and the long tail for categories and sellers. So, having local networks, regional networks and supporting them with their own e-commerce and plug their capital into our platform via 3P. So, it's more 3P rather than 1P overall speaking. 1P is important, but the focus, the main focus of the category for the future lies in 3P, and Vip Commerce helps us because at the end of the day the smaller midsize networks or chains they don't have something for or as a platform, so VIP Commerce is a pioneer for grocery stores being specialized in grocery stores. So, the idea is to grow in midsize networks and also in small chains, moms and pops for the future.

So, our strategy is the long tail and being regional and absorber 3P, and as for high inventory products, we can have 1P at Magalu; that's our focus.

Joseph Giordano (JP Morgan): So, proximity should exceed integration in terms of cost of delivery and local scale?

Frederico Trajano: I think it also involves regional knowledge. If you know the industry well, it's very specific, the mix is very different, sometimes you have different mix by cities, for instance, or by region. Brazil is a continental country, so it's not only that, it's hard to work with a centralized operation, that's what I mean, but obviously, it involves economics and local inventory, no doubt about it.

Joseph Giordano (JP Morgan): Thank you.

Operator: Richard, from Bradesco.

Richard (Bradesco): Hello, good afternoon. Could you talk about the one-hour

delivery from the technological side and the operational side? What are you doing or what do you have to do in order to map the products that will have a higher demand for one-hour delivery and what is your road map to roll this out for the next few months?

Frederico Trajano: Hi, Richard. I'm going to ask Fabrício to answer your question, and specifically in terms of technology, Fátala will come.

Fabrício Garcia: Thank you very much for the question. Well, the acquisition of Sode was very important for our strategy, and because of this we will be able to scale and roll out this modality very quickly. We know which are the best sellers, we have our algorithm in the distribution area and replacing the store, the items that have this very high turnover and that can be delivered locally by bike in the future, and we are very well-adjusted. In July we launched the ship from seller, another modality, and we will be able to place ultra-fast delivery for them. In terms of structure, of course, we have to recruit the couriers and prepare the stores in order to serve this modality, so everything is very well adjusted already.

the product that has to be separated, well, this is done in 15 to 20 minutes and then it is delivered in up to one hour, and our goal is less than one hour. Today, we already have 184 stores in 40 cities and by the end of the year this will be present in all the capitals and 400 stores. This is our rollout road map.

Frederico Trajano: Fátala, would you like to add something, something specific?

André Fátala: It was very well said, and as we understand the demand on the part of the consumer by means of the app and other channels, we can enrich the models of our algorithms in order to be able to send the products that have the highest demand for ultra-fast delivery, and we have been doing a lot of work in software in order to manage these items in the physical stores, like a mini DC for instance, and we are working on that, and as Fabrício said, it is simpler to do the rollout to all the stores and be able to send the correct products to the stores in order to be able to offer this to our client, that is to say, the ultra-fast delivery up to one hour.

Richard (Bradesco): thank you for the answer.

Operator: The next question is from Daniela Eiger, with XP Investments.

Daniela Eiger (XP Investimentos): Good afternoon, thank you for taking my question. At the end of the day, my question is recurrent in the industry. I'd like to better understand your mind with these competitive dynamics, we had this concern in the industry at large of having the take rate drop or some are more aggressive in marketing. So, what are your thoughts about possible levers or drivers, take rate, cashback, free shipping? So, I'd like to better understand the vision of the competitive scenario that you're facing right now. Thank you.

Magalu

Frederico Trajano: Daniela, I think I answered this question a couple of times to you in previous calls, and it's very important, it's a latent point of concern, and ever since we went public, I answered questions about competitors.

You have a different cycle of competitors, it's always changing, so for many years speaking of Amazon and more recently now the Asian ones, so our industry is competitive, I always say that it's Fortnite game not FIFA, there are several competitors simultaneously, including banks with their own marketplace. So, I hope it has come to stay, I hope it's always a competitive market, I wouldn't enjoy to be in a monopoly or oligopoly, it's important to be a winner, but once you have good competitors and you start overcoming them.

Our style remains the same, Daniela, that's a style of working on the sustainable intelligent competition. If you check our track record, we've always grown without concessions for this growth, so I tend to say that growing by using investors' money and subsidizing sellers and end users without generating a positive long-term effect or a good LTV over CAC ratio, this means to destroy value of those who are betting your business, shareholders. So, we don't want to bring shareholders value to an end, we want to increase the share value overtime, so we want to grow by building sustainable foundations for growth.

So, everything that I've said before, Daniela, to some extent is for that purpose, one-hour delivery for instance or making it available drop-off to sellers at the store level or click and collect, these are intelligent solutions, services that we are delivering with a marginal cost to us because we already have brick and mortars, we have the truck going and coming back from the store, and I can benefit from this multi-channel approach to provide higher level of service.

So, if you have high NPS as we do, if you have great level of service, if you have ultra-fast delivery, much faster than our competitors and you can do it at a very low cost, you don't need to work on irrational concessions. If you check our trade offs for growth in the past vis-a-vis the margin, they happened, you're right, we might do it in the future, but not because of a short-term practice, just for the sake of competition, we only do that because we want to grow more and because there was a good LTV over CAC ratio.

So, for instance, this quarter is worth investing because we managed to find a good equation to monetize this customer in the future and will be profitable with cards, with sellers, but if we check our results, our EBITDA margin, this quarter was the same as we had in the first quarter of the year, the same of the last quarter of last year. So, we've been managing to support it and we are building new monetization vehicles, like Fintech and other aspects that we mentioned before.

So, competition is an average, a variable that is going to be here. So, our option by and large is to be in this competition by showing a unique value proposal, both for



end consumers, our clients, and our sellers who were also clients of ours. So, if you have a unique level of service for the end user for sellers, at the end of the day you grow with fewer concessions that are not sustainable or not so intelligent.

Daniela Eiger (XP Investimentos): Crystal clear, I'm sorry to insist, but that's the point that we always want to know, to understand the dynamics, which is very lively like you said. You have different competitors coming up, strategies changing their shape, but it's crystal clear now, and congratulations on the results.

Frederico Trajano: Thank you.

Operator: Our Q&A session has come to an end. We would like to turn the floor back to Mr. Frederico Trajano for his closing remarks. Mr. Trajano, you may proceed.

Frederico Trajano: Once again, I would like to thank you all very much for your presence since is rather unusual time, Friday afternoon. Thank you very much to analysts who have asked questions and our team with the brilliant execution and with a very strong comparison base of last year, and I would like to say that I'm very enthusiastic looking ahead, 10% penetration in e-commerce in Brazil.

And you can see that there is a lot of room for growth and for improvement of digitalization of the country and so that more retailers may experiment the growth potential of their businesses by means of participating in the digitalization of the country, and we are sure that we can help because we have done this here at Magalu, and I am sure that we can help them, and transferring all this experience and also our will to help these companies looking ahead.

So, we have a huge opportunity ahead of us, we are very enthusiastic about it, and we want to obtain the same success in the future as we have been obtaining so far.

Thank you very much, have a very nice weekend.

Operator: Magalu's video conference has come to an end. Thank you very much for participating and we wish you a very good afternoon. Thank you.