magazineluiza vem ser feliz

IBOVESPA MGLU3 NOVO MERCADO BM&FBOVESPA

CONFERENCE CALL TRANSCRIPT
4Q17 and 2017 RESULTS
FEBRUARY 23, 2018

Operator:
*Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Magazine Luiza's Conference Call, referring to the Fourth Quarter of 2017 results. At this time all participants are connected in a listen-only mode. Afterwards, we will have a question-and-answer session, when further instructions for you to participate will be given. If you need any assistance during the call, please ask an operator for help by pressing *0. Now we would like to turn the floor over to Mr. Frederico Trajano, CEO of Magazine Luiza. Mr. Trajano, you may proceed.*

Frederico Trajano - CEO:
Good morning everyone and thank you for participating in our call together with the Investor Relations team and part of our executive board we will be available to answer any questions you might have at the end of this call. And I would like to start my presentation saying that 2017 was a very special year for Magazine Luiza, which completed 60 years of history. We celebrate one of our main characteristics, our ability to change, reinvent and innovate. Our 2017 motto was: keep changing all the time. When we look at our history, it is consistent with this trait, we created our first store with no inventory in 1992, our website in 1999. We created the first direct sales model via a social network which is Magazine Você today with over 200,000 people in 2011 when we also created Luiza Labs, our technology development area where we have been implementing several innovations over the last years. I think within a context of digital evolution, where traditional and relevant companies suddenly become irrelevant, our characteristic of not fearing any change, of embracing change and innovation has never been so relevant as nowadays and thanks to this feature, our investments in technology and innovation, coupled with our solid corporate culture, focused on people, both on our employees and clients that we managed to overcome the three worst years in Brazil's economy history. We surmounted such period with our fourth quarter results, the highest-ever result in Magazine Luiza's history. Afterwards, Roberto Bellissimo will discuss in detail our figures, but I would like to point out few aspects of this result. Obviously, let's start with sales growth, notably, the e-commerce which grew by 60%, including there for the first time, the marketplace disclosure which is 60% over a tough basis of comparison with 4Q16 which had recorded 42% growth. Brick-and-mortar stores also grew by 20%, 15% same-store-sales increase and the very strong basis of 7% in 4Q16. Then, we recorded a remarkable growth over a very tough basis, making us feel very pleased with this figure specifically.

I usually say that you have two ways of making your business grow and both are valid. First is to grow very soundly to the detriment of margins and lots of investment in marketing, to the detriment of cash flows. Second is to grow with higher service level based on a sustainable business model. Magazine Luiza always has chosen the second option, growing with higher service level grounded on a sustainable business model. We have been achieving something rare, which is growing very quickly and at the same time delivering profitability. We have been doing this and not increasing prices, in fact, we have been reducing prices, we see our gross margin in 2017 and in 4Q17, which dropped year-on-year. In addition, investment in free shipping also increased compared to 2016, almost 50% of everything we sell online today includes the free shipping option, we have been improving; we managed to increase our operating margin due to a large operating leverage, result of our multi-channel model, present at the company for the last 17 years. This multi-channel model provides higher leverage, the more e-commerce grows, the more our brick-and-mortar store grows, more our fixed expenses are diluted, then with our economic model, we manage to offset such lower gross margin with a strong dilution of our general and administrative expenses. This is the eighth consecutive quarter the Company dilutes its general and administrative expenses, thus, we managed to grow improving our value proposal for a client and at the same time, profitability. There is something much more important that no digital revolution will change is cash clean. A company without cash generation will neither survive in the old nor in the new economy. Magazine Luiza generated R$ 1 billion in cash, over R$ 1 billion in 2016, this added to over R$ 1 billion cash injection we received with the capital increase in September 2017, we ended the year with a very solid net cash position, Roberto will also mention this fact, giving us strength to speed up our investments without running any risk in relation to our long-term business. We always think on business in the long run, but we want to accelerate, we want to grow, but never putting the business at risk, never putting at risk our sustainability. Then, we feel that such cash position today gives us a cushion to speed up such investment and not to the detriment of our future. I also would like to point out that although the short-term result has been historic, which makes me feel more confident is although this is a high short-term result, we planted many seeds and we are going to reap the benefits in the future. Among these many seeds we planted, I would like to highlight an outstanding evolution of the marketplace, which jumped from R$ 3 million in 4Q16 to R$ 120 million in 4Q17, reaching almost 10% of the website GMV within less than one year. Following a very important proposition we highlighted in our letter to shareholders: we are extremely selective with the sellers entering our platform.

We refuse over 30% of sellers who request to enter the platform, and we withdraw others who are not in line with our concern with customer service level. Despite this selectivity, we are managing to build a scalable operation, which will result in various

benefits to the Company's future and will help us to sustain high growth rates for the upcoming years.
I would like to mention specifically our outlook for next year, remind that we will have a very tough basis of comparison in 2018. I usually say that the biggest competitor for Magazine Luiza in 2018 will be Magazine Luiza of 2017. The comparison will be really tough, since we delivered good results during all quarters of the year, also in 2016, but we remain confident especially due to Brazil's economy recovery, this is will be the first year after a long time that we can see a tailwind, we also will have the World Cup. If we track our records, in the year the World Cup is held, we recorded substantial quarterly sales growth both online and offline, then, I remain confident despite a very tough basis of comparison. I would like to reinforce a message that we will focus on two relevant issues in 2018: accelerated growth in the active base of our clients, i.e., we will heavily focus on higher penetration in clients buying both online and offline, then the active base of clients will be our major growth focus. Second, a relevant increase in the company's satisfaction indexes, NPS, reduce the delivery term, improve entire after-sales process, ultimately, we have several initiatives here at the company and we will make significant investments in 2018 to improve and achieve the best consumer satisfaction indexes in Brazil, and we are not mentioning only one index, but several indexes which will be our major focus, both of the company's financial investments and the time and energy invested by our team, our leaders, all employees of Magazine Luiza in this regard.
Finally, I would like to especially thank all our employees who performed outstandingly in 2017, the year when we completed 60 years of history, also for conquering the most relevant award of 2017, the 'best retail company to work for'. I thank you all again for participating in the call, and now I give the floor to Roberto Belíssimo.

Roberto Bellíssimo – CFO and IRO
Good morning, everyone. Thank you for participating in our call, I would like to start on slide 4, talking about our results. Again, we recorded 31% growth, including here the marketplace, which recorded the highest growth rate over the last 5 years. The market grew by nearly 8%, according to the IBGE, this was our highest market share gain rate. At our brick-and-mortar stores, same-store-sales grew by 15%, also highlighting 5 p.p. growth contribution from new stores. The 60 stores opened in 2017 had a very good performance. The e-commerce also grew over a very high basis, the online market according to e-BIT grew only 6% in the quarter, but we grew by 60%, then, this was also an extremely high market share gain. Our gross profit followed the same trend, the very high e-commerce growth pressured a bit our gross margin but helped to dilute operating expenses, as this was the case during 2017.
We diluted expenses by one p.p. to one of the lowest levels in our history, SG&A reached 21%, which is also one of the lowest levels of retail. EBITDA grew by 38% in 4Q17, margin increased from 8 to 8.6., a record margin in a fourth quarter which came

from our IPO. We significantly reduced our financial expenses, and our net income considerably increased to 260% in 4Q17, the margin of 4.6%, also our highest net margin.

Cash generation came very strong, R$ 1 billion in 2017, with a very important contribution from working capital, we improved working capital by R$ 300 million in 2017. We significantly improved our capital structure by approximately R$ 1.8 billion, practically R$ 1.1 billion from the follow-on and R$ 700 million from cash generation of the company's operation in the last 12 months. On the next slide referring to 2017, sales grew by 28% to nearly R$ 15 billion, much above the market. EBITDA reached R$ 1 billion for the first time and net income totaled R$ 389 million, 3.5 times growth. Cash position and receivables totaled R$ 2.5 billion. We significantly reduced our gross indebtedness to practically R$ 800 million, then we ended 2017 with a net cash position of this indebtedness at R$ 1.7 billion, our best capital structure, since our IPO.

Here we have the evolution of our stores, 28 stores were opened in 4Q17, also a very fast pace of store opening. In 2017, we inaugurated over 20 virtual stores. We inaugurated over 20 stores in the Northeast region and the stores have been contributing to our growth and dilute general and administrative expenses. Concerning investments, we increased our investments by almost 40% in 2017. I point out here investments in new stores of approximately R$ 39 million to open 60 stores, resulting in an average investment of R$ 650,000 per store, also evidencing the company’s discipline to look at good and not expensive locations. We also significantly increased our investments in technology, which together with logistics must represent the largest amount of the company’s investments in the future. On the next slide, you can see the evolution of our quarterly sales, growth rate has been increasing, accelerating total growth, a very strong e-commerce growth.

On the next slide, you can see the trend of our gross margin and SG&A, gross margin went from 29.6% to 29.2% in 4Q17, a 40bp decrease, but SG&A, dropped from 22.2% to 21.1%, i.e., one percentage point decrease, then the EBITDA margin gained 0.6 percentage point. Equity income was very consistent during 2017, pointing out results of Luizacred and Luizaseg in 4Q17, which both grew and again contributed to our total EBITDA.

On the next slide, you can see EBITDA on a quarterly basis, from a level of BRL700 million in 2016 to R$ 1 billion in 2017 with margin evolving every quarter, growing by 44% in 2017, mainly due to expenses dilution, as we mentioned. We managed to significantly dilute personnel and rental expenses, the latter had a small increase in 2017 despite other 60 stores opened, and several other fixed expenses were diluted in 2017. Now, discussing on our financial result, net financial expenses dropped from 4.5% of net revenue to 1.6% a decrease of nearly 3 percentage points, excluding prepaid receivables, we had a positive net revenue, then our expenses were basically the prepaid receivables, which also dropped in the quarter. In general, financial expenses reflected the CDI interest rate drop, but mainly our improved capital structure, cash generation, and supply. Our working capital improved in general, standing at approximately R$ 300 million. The inventory turnover significantly improved, better than that, when working capital gain derives from inventory turnover and not from average purchase term. As our inventories are fully integrated, to the extent the e-commerce grows, dilution is higher, the inventory turnover is further improved, as this has been the case over the last years.

When we look at adjusted cash position, the Company went from a debt of R$ 136 million to a positive net cash of R$ 1.7 billion. On the next slide, we can see how we recorded this cash figure, starting with the cash flow from operations of R$1 billion, Capex of R$ 170 million, debt payment of R$ 944 million. As we mentioned during the last call, the company prepaid several debts in 4Q17, considerably reducing gross indebtedness. The Company paid interest rates and issued shares reaching a final position of R$ 2.5 billion. When we look at the capital structure below, we can see that debt went down from R$ 1.8 billion to R$ 800 million, thus, substantially decreasing the interest rate account from now on. On the next slide, page 18, we can see a consistent evolution of the quarterly net income, increasing every quarter. In 4Q17, we recorded a three-percentage-point increase in profit margin, from 1.6% to 4.6% of net revenue and in 2017, from 1% to 3%, also a substantial growth.

And lastly, talking about Luizacred, which also recorded relevant growth in 4Q17 and in 2017, we can see here that Luizacred's annual billings grew by 29%. Luizacred's contribution to our sales reached its highest level in history also, Luiza Card included in our sales, grew by 52% in the quarter. Luizacred's credit portfolio also grew to reach R$ 5.7 billion, the active card base, total card base also increased reaching 3.4 million clients and a significant decrease in the delinquency rates. In 2017, the company practically decreased by 2 p.p. the 90-day non-performing loans, and in 2016, we practically decreased NPL by three points. Then, over the last two years, the company decreased the NPL 90 by 5 points, increasing sales, the portfolio, and substantially Luizacred's size and profitability. On the next slide, we can see Luizacred's quarterly net income, all the quarters of 2017 were more favorable than in previous year, mainly due to improved delinquency and lower borrowing costs. The ROE reached above 23% in 4Q17, so these were our main financial highlights and now we would like to open for questions and answers.

Operator:

*Ladies and gentlemen, now we will start the questions and answers session. To make a question, please press *1. To remove a question from the list, press *2. Our first question comes from Luiz Felipe Guanais, BTG Pactual.*

Luiz Felipe Guanais – BTG Pactual:

Good morning, everyone. My question refers to fulfillment. Fred, you mentioned the company's focus, we have seen over the past years, the focus on service level and improved quality for the consumer. I would like to understand how you see the fulfillment platform evolution in the marketplace, not only for 2018 but also next years. Thank you.

Frederico Trajano - CEO

Good morning Luiz Felipe and thank you for your question. In 2017, the focus on fulfillment was concerned with our 1P, then, we implemented several initiatives, among them, we improved the Click&Collect experience and volume growth. Most of our Click&Collect delivery took place within less than 48 hours, few of them within 24 hours. Another relevant issue is to migrate the delivery network of market standard carriers, the Brazilian Postal Company and other services providers to Luiza Network, there, we achieved more than 80% of Luiza Network penetration in 2017. From the moment, this operation becomes ready for 1P, we start to feel comfortable now, as we said in our letter to shareholders that we started to lead the availability of this model to the seller.

We initiated with a basic level, with Magalu Entregas (Magalu Delivery), where we are basically using market standard partners, but already with some adhesion, subsequently, Eduardo may give you the figures of Magalu Envios (Magalu Shipping). Now, we want to mainly include the network and stores in this process. In 2018, in order to be in line with market's expectation, we will execute a pilot model with any seller, and to the extent, we see this experience is doing well, then we will roll out. As usual, at Magazine Luiza, we will be focused on quality, we will execute this pilot model with few sellers and probably we will roll out it in 2019. This is our focus on quality, on the platform stabilization, a good consumer experience, not rushing, and then we will roll out this product. Our main focus, in this regard, for the marketplace is not having an additional take rate, the main focus of our delivery platform available to consumers is to guarantee the service level to the consumer at the same level as we have at 1P. Then, one of Magazine marketplace priorities is: 3P service level must correspond to the 1P service level. This is a great challenge, we believe that fulfillment is the only way of achieving this. If you want to give other few figures on delivery.

Eduardo Galenternick – Executive Director of E-commerce

Hi Luiz Felipe, this is Eduardo speaking. Only referring to the launch in 4Q17, currently we have around 10% of our seller base, slightly less than 10% of our seller base is already adhering to our product, they are managing to reduce term and cost by approximately 15% to 20 %, this would be their term and cost. This is the status of Magalu Entregas today.

Luiz Felipe Guanais – BTG Pactual

This is excellent, thank you. Just a follow-up concerning this issue, Eduardo, you mentioned the penetration of Magalu Entregas. Would you have any data to share with us about conversion, well, on the purchases made and delivered via Magalu Entregas versus those delivered by other logistics platforms?

Eduardo Galenternick – Executive Director of E-commerce

Not in relation to frequency. What I can say is the main factors of conversion are the delivery term and the shipping cost, and how these sellers who adhered to Magalu Entregas have been seeing these gains, the conversion of their products has been increasing, but overall, I think this what we can say now.

Luiz Felipe Guanais – BTG Pactual

That's great, thank you.

Operator:

Our next question comes from Robert Ford, Bank of America.

Robert Ford – Bank of America

Thank you, good morning everyone. Congratulations for the excellent quarter, Fred. How should we think about margin profile from now on, to the extent that competitors will copy your structure?

Frederico Trajano – CEO

Good morning Bob and thank you for your comment and your question. Bob, our focus here is not to be guided by competition, we also mentioned this in our letter to shareholders this year, our focus is much guided by our strategy, and we feel very safe and comfortable with it, especially by our client. In this client context, as I mentioned at the end of my preliminary comments, we will focus on two issues in 2018: to increase our active customer base, we will make intelligent investments to increase our active base with CLV (customer lifetime value) calculation and looking at the long-term value, then we will invest in marketing and other investments to conquer this base. The marketplace has been increasingly helping us, as I mentioned that we grew by 60% the e-commerce GMV last quarter, but if we look at sold items, it was almost 90%. Then, the marketplace has been making us sell a higher average ticket and conquer a higher active customer base, which is extremely relevant within this context. The second focus which will require investments is to increase the service level. Now, this may seem a generic affirmation, but in fact, the company is establishing very high targets for store and site NPS and the delivery term promise for this year, which will involve company's investment in supply frequency, cargo increase, company's overall investments, and this may pose any impact ahead, not concerned with cash margin, but percentage margin. So, we do not provide a margin guidance, but we will invest part of this model efficiency in improving the service level. Now, I can affirm with the same consistency I have been repeating since 2001, here, we never waived profitability to grow significantly, but we do this with lots of consistency. I have been defending this issue since 2000 when I set up the e-commerce, I even waived growth during certain moments, but this year, we will have some kind of investment, we would have potential reinvestment in the client, both to bring active clients and to improve the service level. As we do not provide any guidance, I cannot specifically quantify this to you.

Robert Ford – Bank of America

Thank Fred and any change in the plans to convert comparable stores and distribution centers, which is the impact would you expect from points-of-sale during the conversion process?

Frederico Trajano – CEO

Bob, we are initiating works in few stores already in March, and we will start the pilot model, we have a high number of stores we intend to convert this year, approximately 100 stores, even so, we carefully monitor if model is doing well, if not, this figure can be more or less, but around 100 stores to be converted in 2018, excluding the new stores to be opened, most of them already in the new format. The impact should be positive in the medium term. Today, few stores are already facing structural problems due to quantity of products in the store pickup model. For instance, a store exceeded 70 tires after the Black Friday and its back-office structure was not prepared, one store received 70 tires to deliver. As we have been increasing Magazine Luiza market, other categories are also entering and fulfillment which will make seller also deliver at the store, then we have to prepare our stores hub for such enormous growth of store pickup volume and provide the best service level to the consumer at the Store Pickup. Just for you to have an idea, we have a separate NPS of the Store Pickup we have been monitoring to make sure that consumer has been well accepted. So far things are going very well, but we need to anticipate such large volume growth. If we look at foreign companies, you will see that some of them have 40% to 50% of total sales coming from the store pickup model. Then, this figure is reachable, this is not a target for Magazine Luiza looking forward, but we need to prepare our stores to deliver a very good service level for our consumers also have a proper structure for our team to work. I'm also worried about the team handling goods at the store, I want to provide them with all the equipment, systems, infrastructure for them to work and provide the best experience as possible for our clients.

Robert Ford – Bank of America
Thank you, Fred. And finally, do you think you have a correct number of software engineers, considering your several efforts concerning stores processes, logistics, transportation, market integration, or could you talk about hiring and retention of good software engineers?

Frederico Trajano – CEO
Well, our CTO is here, André Fatala, I will let him answer your question.

André Fatala - Chief Technology Officer
Hello Bob, this is Fatala speaking. Well regarding the evolvement of our development team, since last year we have been integrating Luiza Labs, by undertaking entire corporate IT of Magazine Luiza. We restructured and reorganized the way how we were dividing teams and we also started to change profile in order to increasingly have more developers to answer for such demand we have in terms of development. In 2018 we are planning to expand the teams, from 41 to 48, with a great focus on the marketplace. We also have been expanding the support to the stores digitalization process, transforming them into a mini distribution center, which also involves technology development. Referring to your question about retention, we have been working this at Luiza Labs, the culture built is very strong with a team over 400 people in 2017, less than 10 people left us, with international companies looking at our developers, but with our culture built here, people are contributing to the challenges posed by our business, they are not only there to deliver demand, we also have a great competitive advantage with the engineers we have in Brazil, they want to stay here and build national technology, and this is what we have been working at Luiza Labs.

Frederico Trajano - CEO
Bob, just complementing, just for you to have an idea, we also disclosed this figure in our letter to shareholders, approximately 30% of the company's entire administrative payroll is at Luiza Labs. Then, the ratio of Luiza Labs in relation to total administrative staff, excluding stores employees and DC operators, only the administrative team, this ratio has been significantly increasing, evidencing here that the company is really becoming a tech company.

Robert Ford - Bank of America
Ok, thank you very much and congratulations again.

Frederico Trajano – CEO
Thank you.

Operator:
Our next question comes from Joseph Jordano of JP Morgan.

Joseph Jordano – JP Morgan
Good morning everyone. Good morning Fred, Beto, Fatala. In my question, I will still discuss a bit on technology and investments to be made in 2018. You mentioned fulfillment, I think there are few investments in the platform. When you look at your marketplace today, which would be the feature missing and which should be your greater focus today? More than that, in your opinion, which is the major challenge to make this platform successful? And changing a bit the topic, we saw the company's credit digitalization, I would like to understand if there is any project, in terms of fintechs, any P, something that will also help your seller. Thank you.

Frederico Trajano – CEO
Well, Joseph, the marketplace focus this year I would say, I will split it into two large groups: the first group refers to findability, we have been including several SKUs in the platform, approximately from 40,000 items to over 1 million SKUs. The Company's categories tree has been changing, also the search algorithms, this is an extremely sharp change, all this process to find a product for the consumer and for our team here, which makes this structure very complex. Then, in order to make such complexity easier, as we will not give up simplicity in our shopping process, the easiness of finding a product. Then, we count on lots of efforts from the business area led by Eduardo, the UX team, Fatala's area, also technology, all the algorithms, to make this online shopping experience very simple. And more than that, the client finds the seller's product and the best offer. If seller's offer is better than our 1P offer, it has to firstly appear for a client in the search. Then, I would say that the main effort from consumer's viewpoint is this, from the seller's viewpoint, we worked on this; with the acquisition of the tech startup Integra and the team integration, efforts endeavored, we significantly improved entire seller's onboarding process. We integrated with several platforms, A3, Vtex, the convenience seller has today to upload the catalogue at Magazine Luiza, if you consider our filter spectrum, since we are very demanding in terms of documentation, etc., most of the market is not so concerned as we are in relation to this onboarding process, if qualitative screens have been uploaded, but I see there is room to improve such process, we still have few integration errors, any type of difficulty with another platform which has specific integration. We have the final client and seller NPS. Seller for me is a client, then, we need to serve him very well, with good services, answer quickly, and solve any exchange and cancellation. We have been talking about Magalu Entregas, but we have some basic issues in our daily routine we need to improve, we have very high and specific targets for that. Would you like to add something or the marketplace focus?

André Fatala - Chief Technology Officer

I would like to point out an issue you mentioned, Joseph, we learned that the consumer service model adopted by the market to the level we want to deliver to our clients will make us to also innovate and not follow the same customer service model. This is one of the large platform investments to be made to improve this customer services for 3P purchases.

Eduardo Galenternick – Executive Director of E-commerce

From the scale viewpoint, as Fred mentioned, our greatest challenge is to scale maintaining the level of quality, which is our platform proposition. We launched a new onboarding process at the end of the year, this is a workflow platform which will facilitate and accelerate this process. As he mentioned, our screening process has several steps, but with this new process, the workflow will manage to reduce the entry term of a new seller. Second, is to increase the percentage of marketplace sales in all the company's sales channels. Then, in addition to all the challenges Fred mentioned on the sales platform, website to find the product, we sold these products at our brick-and-mortar stores in 2017, today 17 stores, we have been concluding our pilot phase, where we will close entire cycle, because you not only have to sell, you have the sale and the after-sales. Currently, we have 30 sellers, projecting this in an early moment, still without a great focus on this to be materialized at stores already would represent higher sales at the marketplace, a great opportunity in this regard. We also launched the sale of marketplace products at Magazine Você, then we already have few sellers selling there, our consultants may sell these items and they earn a commission on this sale. Then, we capture the maximum of all sales channels we have to our sellers. I think then we will manage to scale with quality at the company.

Frederico Trajano – CEO

Concerning fintech, Roberto, if you want to say something.

Roberto Bellíssimo - CFO and IRO

Joseph, good morning and thank you for your question. We are developing a new platform, the Magalu Pagamentos (Magalu Payments), soon we will start the pilot model, this is a platform which will allow sellers to cash their receivables very easily, quickly, a digital platform with highly competitive fees. Currently, we do not have this service of prepaid receivables, but the seller may do it via acquirer. Then, this will be a new source of service and revenue for the marketplace as a whole. We should launch it in the short, medium and long-term, this platform will evolve to a digital portfolio where we may, for instance, deposit the seller's cash in his account linked to Magazine Luiza, and not directly in his account. We also may have other gains, such as floating and financial services, such as payments, transfers, etc. The second step will be creating this digital portfolio and third, within a longer term to extend credit to sellers, i.e., finance their working capital or investments, and this should occur when we have a longer history of transactions and sellers base, and then, possibly with a partner from the financial sector. This is our roadmap in the fintech area.

Joseph Jordano – JP Morgan
Perfect, thank you very much.

Operator:
The next question comes from Thiago Macruz, Itaú.

Thiago Macruz – Itaú
Good afternoon, everyone, recently on Magazine Luiza Day you mentioned that the company would offer free shipping to the 10 largest Brazilian cities for clients using your app and you would deliver within D+2. At that time this called my attention, I would like to understand if it is reasonable to suppose that this initiative is one of the most important ones to explain the excellent performance the company had in e-commerce in 4Q17, and if on the contrary, if this is still a strong upside we should see over the next quarters in 2018. This is my question, thank you.

Frederico Trajano – CEO
Hi, Thiago, thank you for your question, this is Frederico speaking. Referring to express delivery, this is offered on the app where we already give free shipping, then I think the issue would be the D+2 rather than the free shipping. We have been testing it in these 10 cities, we have a good adhesion, but it is still early to predict the future. It effectively did not have much representativeness in 4Q17. The last quarter of the year reflected other initiatives we mentioned here, but we can see a high potential to offer this D+2 service, which is the Entrega Express (express delivery) for those buying on the app, free shipping for other cities and categories throughout the country.
It's still too early to affirm, we are covering only 10 cities, and it's too early to extrapolate these figures, but we remain confident that this can be a killer offer in the future.

Thiago Macruz – Itaú
Perfect Fred, thank you.

Frederico Trajano – CEO
You're welcome, thank you for your question.

Operator:
*Reminding that to make a question please press *1. The next question comes from Guilherme Assis, Brasil Plural.*

Guilherme Assis – Brasil Plural
Good morning, everyone, thank you for taking my question. For me, it is very clear that the major highlight here was the growth of e-commerce and marketplace and all the initiatives you have been implementing and the operational leverage. Now, shifting the focus a little bit, could you talk about your initiatives and plans for the brick-and-mortar stores? talk about the progress of digital transformation at the brick-and-mortar stores and what else is going to be implemented, the gains you expect from physical stores, if additional efficiency gains can be seen in 2018, also could you talk about the opening of new stores, the company opened 60 stores, if I'm not mistaken, in 2017. Is this the company's objective to keep this pace of growth for 2018 and for the foreseeable future? These are my questions, thank you.

Fabrício Bittar Garcia – Vice President of Operations
Hi Guilherme, good morning, this is Fabrício speaking. Referring to digital transformation, as we already mentioned on Magazine Luiza Day, 93% of our sales are made by our sales mobile, we mentioned this in our letter to shareholders, which reduces purchase from 40 to 4 minutes, improving our consumer experience. We also have lots of opportunities, especially in the credit area, we will make credit digitalization accessible to all at the stores, improving, even more, our consumer experience. We already digitalized part of our back-office team and we will conclude digitalization this year together with a project to convert the store into a mini distribution center. There is an information that Eduardo mentioned that selling the marketplace at stores will also help us improve frequency, by decreasing the ticket, we manage to offer other categories. Then, few initiatives are concerned with the company's digital status, which will also result in substantial gains for the brick-and-mortar stores. We are estimating this year we will continue gaining market share in all categories, as this occurred last year. We gained 1 p.p. share at the store, we gained market share in all categories. In the white goods, image and telephony sales, we also gained another 1 p.p. market share, highlighting IT category with 2.5 p.p. gain and this year we have the World Cup, then we are very optimistic with a high volume of TVs, even because we are on schedule, we will have a high availability of products and this makes the difference in terms of promotion. In addition, we significantly improved our management, we have a very intensive business activity, our promotions have been a great success. We are quite confident that we will grow again at store this year and we will continue expanding the number of stores, we will open other stores this year, we cannot give a guidance on the number of stores, but we have been working on this, we should open more stores than last year, this is the guidance we have been mentioning.

Guilherme Assis – Brasil Plural
That’s excellent, thank you Fabrício.

Operator:
Now, we close our question and answer session. And we would like to give the floor back to Mr. Frederico Trajano for his closing remarks.

Frederico Trajano - CEO
Once again, thank you very much for participating in our call and I would like to congratulate all our team for the excellent results delivered in 2017 and I reiterate our commitment to maintaining our efforts to transform traditional retail into a digital platform with points-of-sale and human warmth. Thank you very much and good afternoon.

Operator:
Magazine Luiza's conference call is closed. We thank your participation and we wish you a very good afternoon.