

CONFERENCE CALL TRANSCRIPT
2Q20 EARNINGS
AUGUST 18, 2020

Operator

Good morning, ladies and gentlemen. Thank you for waiting. Welcome to Magalu's 2Q20 earnings videoconference. This event is being recorded and simultaneously translated, and all participants will be in listen-only mode during the company's presentation. After that, we will open the Q&A session. Please ask your questions by phone. Questions received via webcast will be answered by the IR team after the conference. Now we would like to turn the floor over to Mr. Frederico Trajano, CEO of Magazine Luiza. Please, Mr. Trajano, you may proceed.

Frederico Trajano - CEO

Good morning, everyone. Thank you very much for participating in our results conference call for the results of the second quarter of 2020. This has certainly been one of the most challenging quarters, not only for me as CEO, but for the entire Magalu team. I am sure all CEOs have had the most challenging quarter of their careers. In light of the current scenario, I believe this quarter was epic. Life gave us lemons, and our team made lemonade. It did a fantastic job in a difficult period of uncertainty and insecurity. Bear in mind that we are discussing a quarter that was marked by not only an economic crisis, which is not new for the Company's executives, but also a social and sanitary crisis. I believe the weight we had on our shoulders was not just keeping jobs and the operational continuity of the business, but also keeping people alive, because our decisions could affect the health, and even cost the lives, of our teams and employees. So, this was a very challenging context that required a lot of hard work by our team, and we had to take great care of our teams and customers. I feel extremely proud of and grateful for the work of our team. I would like to share with you some of the things we did here. You can go to slide 2, please.

Slide 2. In a period of so much uncertainty and instability, the decision-making process becomes extremely difficult. The organic decision-making process, which involves having all the information available, for instance in a scenario of an unknown virus, could impact the business. As we are unsure of what will happen, the decision-making process does not follow the usual protocol. In such a scenario, it is important to have clear guiding principles to help you make decisions faster.

It is like driving on a muddy road. If you drive too fast, you could fall off the cliff, and if you drive too slow, you might get stuck. You need to make decisions every day, all the time, constantly. So, to avoid making mistakes, you need guiding principles. We had three principles. First, workplace health and safety, which we would not trade for anything. Early on in the pandemic, when we had to close 100% of the stores, close our

offices and cancel our event, we did not think about the company's economic conditions or what the impact would be on April's results. We simply focused on what we believed would be the best for our team, and even our customers.

The online business remained operational. We closed our stores making sure that when we reopened them we would have all the required protocols and safety infrastructure, all the precautions, in place. This was a very important principle that we did not take for granted. We took it very seriously throughout the month, we had a Health and Safety Committee... We had many initiatives. Today, I get to celebrate the fact that, fortunately... Well, unfortunately the pandemic is not under control in Brazil, but we have zero Magalu employees in the hospital, among 35,000 people. Our situation is fully under control and the safety of our teams is guaranteed. 91% of our stores are open, with a much greater sense of safety. But we are not letting our guard down.

We made investments, we learned, we established protocols and our team is implementing them with discipline. We are immensely thankful for the teams working in this Committee. At the beginning of the crisis, even before we had an idea of the impact on our results, we made a commitment to guarantee the jobs of our employees. When the pandemic started, the company had a lot of cash, we had a follow-on at the end of last year and decided to promise our team that we would not let anyone go during the pandemic. We did that in the very first week, but obviously we made decisions to preserve cash, renegotiated contracts, renegotiated with direct and indirect suppliers, and contracted debt, even though we did not need it, to increase cash in April. We had many initiatives to preserve cash and jobs, and our team worked very hard for it.

We were also concerned about the communities. Very early on, we also announced a donation, which we will talk about. Management was not only focused on the company and its employees, but also on customers and communities. Magalu sort of played the role of a government authority, because the moment required that from companies. It was a really sensitive time. And today I see investors, employees, and especially customers, recognizing our brand as the one that best responded to the pandemic. This makes me as proud as I am of our operating and financial results.

Lastly, our promise is always to accelerate our business digitalization strategy. Magalu became digital a while ago, and our strategic goal was to digitalize Brazil and become the operating system for Brazilian retail. This is exactly what we did. We accelerated it a lot. Now moving on to slide 3. We practically did 50 months in five, which is something I have been saying since the beginning of the pandemic, paraphrasing Juscelino Kubitschek. Indeed, the number of things our spectacular team did in such little time is unbelievable. Even for me, despite being there every day and trusting this team's capacity for delivery, I was surprised to see projects that were supposed to be delivered a few years from now come to fruition.

I would like to point out that we reduced our salaries. Mine was cut by 80%, our VP's by 80%, direct by 50%, executive board by 30%, and the entire Labs, which is an incredibly sought-after team, reduced its salary by 10%. All Magazine Luiza employees had reduced working hours and, therefore, reduced compensation. I have a former boss who says, "when you are truly committed, you are like a pig that gives its own bacon, not a chicken that only lays eggs." So, I think everyone gave their own bacon, sacrificing themselves for the collective good. Still, we delivered so many projects.

One week after the crisis broke, we launched Magalu Partner, Free Delivery and the Market category, implemented dark stores, and integrated the Virtual Cashier debit card to our check-out. We reopened stores with all the required protocols. The logistics guys were heroes, they never stopped working. We had to change the plane's engine in flight to make sure we had all the safety protocols in place. We increased the salary of this team, which worked so well.

We launched Magalu Partner, we closed a partnership with SEBRAE Nacional, we accelerated ship-from-store - I will talk about that. We reactivated Pickup from Store, enabled it for 3P, launched the cashback, and made acquisitions. Now we were pre-qualified by NPS/FIDC... The list of things we did in such little time goes on. And the fact that we had reduced working hours - to make sure we cut expenses, because we knew we would lose store revenue - turned this into a heroic delivery by a wonderful team, which is the Magalu team. I am very, very proud, and I will keep saying that.

I don't typically use superlative adjectives, but I think I owe this to the team, I owe them this recognition. I believe there are three or four figures that perfectly illustrate our performance. I think these were the three main highlights of the business. We reached GMV of R\$8.6 billion in the quarter. This is 49% higher than the same quarter last year. But let's bear in mind that we only had 35% of our stores open on average - very few stores in April, a little bit more in May, and a little bit more in June. So, making total GMV grow 49% in this scenario is extraordinary. I believe we grew more with 65% of our stores closed than we did before the pandemic. We accelerated growth in the first quarter, when we grew around 36%, reaching 50%, and that's with 65% of our stores closed in the first quarter.

This figure is a feat no one can take away from us. We must celebrate, we must understand that we did something incredibly significant in such a short period of time. Doing that while generating cash, the company's financial proposal, reminds me of a saying I like that goes like this: "sale is necessity, profit is opinion, cash is reality." So, you don't have non-recurring cash, non-cash and cash. We generated cash because we grew a lot. We have a positive cash cycle, our average supplier time is much higher than our average inventory time.

Since we sold a lot, we had a record-breaking inventory turnover, and growth generates cash. This is very similar to what Amazon does; it has always grown while generating strong cash and having positive current capital. Small margins and positive current capital. They always did that, that is one of Jeff Bezos's financial management secrets, which we obviously agree with. *Cash is king, everyone says that, and we agree.*

I would add to our cash generation the fact that we implemented Magalu Pagamentos. Our seller payments, which used to be processed by an external sub-acquirer, are now made within the Company, generating very high cash value for our assets. Beto will explain that better, but this helps a lot. This growth, this net positive current capital cycle, and now having marketplace in our assets, really helped our cash generation. But Roberto will discuss this later on.

Now, slide 5. I like to say this year's second quarter is a book with three different chapters. We had the first chapter, which was April, when we had only 8% of our stores open. They opened at the end of the month. We had an 84% decrease in revenue from physical stores, with growth of 138% in e-commerce, which made Magazine achieve the feat of selling more than last year, despite having almost all stores closed. In April this year compared to April last year, we grew 7%.

In May we had already opened a few stores, as you will see in the next slide. E-commerce accelerated, despite the reopening of stores, and the Company grew 46%. I included that in the Company's last earnings.

When it comes to June, "epic" is not a superlative, it is accurate. Because even though we had many stores closed, so physical stores were a zero-sum game, which is the purple bar, the decrease was only 6% in physical stores. E-commerce continued to accelerate by 206%, and the Company grew 85% compared to June of last year. So, our team did a fantastic job, we really managed to grow significantly despite having so many stores closed.

I would like to show the performance of physical stores. We talk about e-commerce a lot, and I think investors really like talking about e-commerce, but I would like to take some time to talk about physical stores and the extraordinary work carried out by our team. It was definitely one of the highlights, even if it doesn't seem like it. Like I said, we only worked with approximately 36% of the stores open. 8% in April, 35% in May. I am on slide 6, page 6. And 64% of the stores were open in June. Despite having only 64% of the stores open in June, we grew 80%. July was 70%, today it's 92%.

The figure I would like to highlight here for physical stores is the same-store growth to approximately 25%. It was 25% in the second quarter of this year compared to the second quarter of last year. I don't have 25% same-store sales even in World Cup June against non-World Cup June. This is an extraordinary figure. This was mainly driven by an economy boosted by the Corona Voucher, but it is also due to our team's

outstanding work. Bear in mind that all our remote mobile sales initiatives are recorded as physical stores, not e-commerce. Physical stores are absolutely important for the Company, guys, because not only did they contribute to the increase in revenue, as you saw, they are a cash call. Our physical stores have always been a cash call in this multichannel model. So, the reopening of physical stores helped us improve our result, which I will discuss in a couple of slides.

Now on to slide 7, e-commerce. E-commerce performance was 182%. It was also extraordinary, considering that we grew on top of a high base, since we had grown 66% in the second quarter of 2019 compared to 2018, and 61% in 2018 versus 2017. So, we grew 182% on 66% and on 61%. Marketplace was a huge highlight. It was one of the Company's main highlights, growing 214%. But 1P did very well, New Categories did very well, it was a fantastic job. We celebrate this growth, which was basically 2.6x according to Ebit.

With that, e-commerce accounted for 78% of our sales, but I always say this is never my goal. If you look at Magalu in the last ten years, physical stores have always grown substantially alongside e-commerce. One has never grown to the detriment of the other. I never want e-commerce to grow to the detriment of physical stores. You will see that's what happens in the third quarter, both channels growing healthily. This is not about taking from one pocket and putting in the other, it is about growing the business as a whole. What's really interesting for the Company is total GMV growth, not just one channel, which is 49%. That's what usually generates result and is positive for the Company.

Speaking of result, going to slide 8, we show a little bit of how this came to be. This is the first time we ever break down the results by month, April, May and June. Since the second quarter was a three-chapter book, April, May and June, it was important for me to show the dynamics of the result. With 100% of the stores closed we posted loss of R\$140 million, R\$148 million loss in April, with EBITDA margin of -10. This is obvious. Why? We maintained our entire expense infrastructure, we had no lay-offs, we did not close any store for good, we renegotiated rent but not to the point that it would offset this loss. The revenue of half our business at the time was zero, which was the physical store revenue. This has a very high impact on result, which we had already anticipated in a material fact notice published in April and our message from management in May, when we published the first quarter results. So, we had already anticipated to the market that this phenomenon would happen. It is impossible to generate result by keeping costs, and we did not want to let anyone go because it didn't make sense, we knew the stores would be closed only temporarily.

Having to close 100% of the stores is not expected to be recurring. Theoretically, a pandemic happens once every 100 years, so this was an atypical month. As we reopened the stores, in May we reached breakeven, which was a fantastic,

extraordinary feat. Gross margin grew from 22% to 24%, EBITDA went up to 3.2%, and in June we reached an even better level than before the pandemic, with net income of R\$93 million, 7.8% EBITDA margin, 28% gross margin. In fact, this would be a more normalized situation. I will talk about my expectations for the third quarter. Without question, from an EBITDA margin and net income point of view, the third quarter will be much better than the second. So, I think it makes more sense for us to look at June as a basis for the third quarter than, of course, April and May, which would not be an accurate forecast.

Still, since I'm on this slide, for July, August and September I expect a situation that is more or less similar to June, with the exception that we should go back to that EBITDA margin of 7.8% in order to hire people, because we grew 80% in June without growing personnel. I didn't let people go, but I didn't hire anyone either, which resulted in lower service level, especially in the call center channels. We also need to expand our logistics network for 3P. Because NPS remained stable in 1P, but had a slight decrease in 3P, so we wanted to use our own network to deliver in 3P. But since 1P grew significantly, we ended up using all our capacity for 1P, and now we are hiring 2,500 people for DCs, for stores that became distribution centers, and we are also investing in Labs, of course, as well as service channels. This work is very important. We grew 80% without hiring anyone, and I think this was good for our result, but not so much for our service level. We need to recover that.

We will also invest in cashback, and I think the customer acquisition cost will slightly increase in the third quarter, but I will discuss this later on. In sum, the third quarter should be significantly better than the second quarter in terms of margin. And growth as well, because most of our stores are open since July, the same in August, so it tends to be a positive quarter looking ahead.

Looking at what generated this result, what's behind this extraordinary growth, I would like to highlight our strategic pillars. Remember: our focus is to digitalize Brazilian retail, and we have five strategic pillars. One of them is New Categories. I would like to emphasize the work carried out by the Netshoes team, who did a fantastic job. This is a company we have always admired, even before it became part of the Magalu ecosystem. It had a fantastic quarter. Márcio's team, the entire Netshoes team, managed to grow outstandingly. We became leaders in the sports category, even though our physical stores were closed. The category posted net income in July. Not positive EBITDA, but rather positive net income for the first time ever. The result of this fantastic work was an increase in sales.

I would also like to highlight Mercado Magalu (Magalu Market) as a New Category. We sold 3 million items in a category that was not the focus of the quarter, but it became so because we realized we had an opportunity to grow there. A lot of people wanted to shop from home, and we have logistics, we have last mile, we had closed stores being

used as dark stores. We did a completely organic work and it became the highest-selling category in number of items within Magalu in a very short period.

And, of course, Época Cosméticos also did a fantastic job, with sales growing 167% and 1 million active customers in the month. Few people know Época, but it is one of the leaders in the personal care, cosmetics and perfumery market. The team did a fantastic job, as did the Estante Virtual people, the newest member of our team in the book category, which is strategic for us. We still haven't completed its integration, but it also performed very well in the quarter. Website 1P also did a great job.

The second pillar is fast delivery. In this case we had an interesting pivot. Our focus has always been on offering the fastest delivery in Brazil. We made a strategic change, because with the stores closing, customers could not pickup from store, an option that accounted for 40% of orders before the pandemic. One of the changes we made in the quarter was pivoting these stores to function as dark stores. This meant the stores would turn into DCs, and in 700 of the 1,100 stores we began to deliver inventory from the store to end consumers, which is ship-from-store.

So we added a lot of couriers and expanded Logbee, especially micro couriers and Logbee drivers, so now we have individual entrepreneurs and small companies providing courier services to Magalu. We achieved a relevant figure of 35% of deliveries completed within 24 hours. As a matter of fact, 24-hour delivery significantly contributed to the e-commerce growth. Our logistics service level is very good and is constantly improving. These numbers are even more significant for 1P, but you will see that we are also increasing the use of our own network for 3P. We will focus more on that in the next quarters. The logistics team was outstanding. They were working under pressure with very high volumes, and they were successful, so I am very pleased with the team's work.

We launched Cashback for the SuperApp, which is well-known in the digital world, but we wanted to make it accessible for physical store consumers as well. Because our digital account is embedded in the SuperApp, it is not a different app, it is multichannel. We launched this account at the end of last year, but I would say it was a pre-launch. The actual launch happened with a huge campaign featuring Zach King, one of the world's greatest influencers on TikTok. He's an editing magician that we hired to do a very bold campaign for us. We flew him to Brazil to launch Cashback. Because Cashback is like magic: you buy a product and get your money back on the app, with extraordinary OEX, without having to download another app, with no friction, fully integrated to the SuperApp.

The Company's SuperApp strategy is key, including Cashback and MagaluPay, because I do not know any major digital platform that has no daily use frequency. With purchases

alone we can improve this frequency, but we need payment as well to make customers add the App to their mobile scroll.

Just to give you an idea, after launching Cashback, in a few weeks we reached over 1 million account activations, and we believe this figure will continue to grow significantly. This is proof that the product was well-conceived and, as we expanded the portfolio, Cashback was successful. I will play a video now, I hope it works, of Zach King's campaign for the SuperApp. Just so you have an idea of how we are communicating with end consumers.

It is a very quick video, just so you have an idea of how we are doing it. I think it is fun to make this kind of editing as well, making the account more modern. Anyway, we had a lot of extraordinary campaigns launched during the crisis, we were very active in marketing and focused on #MagaluHasIt for New Categories, and now also for the SuperApp, with MagaluPay and cashback. We are very active, taking our brand to a new level. I believe that, for the Magalu brand, this is a before and after situation. If you had any doubt that we sell everything on our app, that we had a very strong technological approach, you are probably thinking again. We were one of the most recognized brands in the pandemic. Not only for our social initiatives, but also for our digital approach and innovation capacity. The entire marketing team did a great job, as did Labs by enabling this.

Moving on to slide 12, I will discuss marketplace, the e-commerce team as a whole, Edu's and Leandro's team. 1P was fantastic, they did a wonderful job in New Categories. They did very well in traditional categories as well. But marketplace has great highlights I would like to point out: the 115% increase in SKUs and the number of sellers, which went from 8,000 last year to 32,000 this year. The whole Labs team did a wonderful job, from Labs to the entire Company. But the marketplace team, the hunting and farming team, brought in many sellers. We did not give up on the quality of sellers joining the platform. I want to point out, as we mentioned, that we became leaders in formal retail and Brazilian e-commerce because our target market is the one with sellers that issue invoices. We know a lot of platforms have sellers that do not issue invoices. Anyway, we understand each competitor is entitled to their own decisions, but it has to be fair play, they have to do the right thing. I would never accept a seller that does not issue invoices on the platform. This is a huge regulatory risk. In Brazil we have a fiscal issue, an expense ceiling, states cannot afford to lose the taxes they can collect from companies that are evading payment. Evasion is evasion.

At Magalu, we say, what is right is right; what is wrong is wrong. Personally, I think this kind of situation should not be tolerated by authorities and fellow retailers as well. This is no longer a country that can accept evasion, we cannot digitalize tax evasion and contraband. We cannot accept this in Brazil. And it's important to show that we can

grow without cheating. Every company can do that, not just Magalu. There are many serious companies out there that demand invoices from sellers.

To support these sellers we are adding services to Magalu as a Service. It generated R\$3 billion in TPV financial transactions, so a good portion of that cash generation comes from Magalu Pagamentos. Everyone is saying that is only working capital, but it's not, there is a major cash generation component, which is adding the seller flow to the balance sheet. So, that is something we do. This also increases the marketplace take-rate, it tends to improve margins going forward. And it is a great option to advance receivables to the seller. Small sellers had their receivables advanced, so the online sellers did well in the crisis. Advances through Magalu Pagamentos have much lower fees compared to large banks and acquirers. We have been seeing great fees for us, because they generate good profit, and they are good for the seller as well because sellers pay less. It is the win-win situation we always strive for in Magalu.

I would also like to celebrate - not fully, yet... But we are finalists in the process to become eligible to transfer BNDES funds to small and medium companies through FIDC. BNDES would cover 80% of the risk, and we would cover 20%. There is a total of 12, it will be down to 10, and we are very confident that we will be able to give out loans to these sellers, not only advancing receivables, which we already do, but also granting what are technically known as non-performing loans, which is something beyond receivables. Our proposal was around half a billion reais and I hope we get to fulfill that in the third or fourth quarter. Because one of the things society is demanding is for credit to get to the tail, and we are definitely a good vehicle to make that happen. We are happy and hopeful, of course.

Moving on to slide 14, I would like to talk about Magalu Entregas. 85% of the sellers are already served by Magalu Entregas. We have 800 partners in the cross-docking model, where we collect the product at the seller and pass it on. 800 is still a small number out of more than 30,000. We will obviously focus more on Magalu Entregas from now on. We will invest in higher capacity to operate this and give sellers a cheap and fast option for 3P as well. There is a huge opportunity here. The only reason we will not capture it in the first half is because all the additional capacity I had expected to go to the seller went to 1P, which grew 180% as well. So, marketplace grew 100%, but seller grew, 1P grew 180%, so we had to allow that. I believe now you will see significant growth. Our logistics team is very focused on doing for others what we have always done for Magalu itself, in terms of delivery time and cost. We have 19 DCs and 1,100 stores to help these sellers deliver faster at lower cost. I am very confident in that.

Now, slide 15. I think we did a lot of great things during the pandemic, we had incredible milestones here. But nothing has made me feel more fulfilled than Magalu Partner. We had an initiative to raise awareness. Marketing did a fantastic job, as well as Labs, in launching something for e-commerce... The entire back-office team worked

to make it happen, so we can help retailers who had to close their stores to sell online for the first time. Today, when we say marketplace, we are talking about some 60,000, 50,000 sellers already selling online. Today's marketplaces target sellers who already sell online, they are not digitalizing the analog ones. In the pandemic, we launched a platform to help sellers with physical stores to become digital. And the system requirements for that are different from the requirements to sell products from exclusively online sellers. We launched that a few weeks after the social isolation measures, thousands and thousands of retailers joined us, we saved a lot of companies. We had many sellers tell us they only survived the pandemic and are working today because of the Magalu Partner platform.

Now I will show you a video of one of these sellers, I think it's great for you to see how important this was for him. I have many of these videos. Why do they make me emotional? Because it is our purpose to help many have access to what is a privilege of the few, to promote digital inclusion, to be the operating system of Brazilian retail, and Magalu Partner reflects this purpose very well. Let's watch the video.

Anyway, this kind of testimony makes us very happy. What I think is great about this new strategic phase for Magalu is that we will grow while helping others. Everything we did so far, all the technology we developed, all the know-how we acquired, was applied within the Company. And we want to share that with others through Magalu as a Service. I believe Magalu Partner is a great example of that.

I would also like to point out the autonomous professionals. We have Magalu Partner for legal entities, which you just saw, and we have it for individuals as well, the former Magalu e Você, a platform we already had and renamed as Magalu Partner. We did a fantastic job, more than 350,000 individuals started selling online through Magalu. It is similar to online direct selling, like Natura and Avon, but fully digital. This is one of the Company's fastest-growing channels. Not only did we help small businesses, but we also helped autonomous professionals to have extra income. These individuals start an online store, and for each sale they make to their friends on social media, WhatsApp, Facebook, Instagram, or even by e-mail, they get a commission from Magazine Luiza. Check-out is covered by us, as is delivery, but the store and the customer acquisition is theirs. So, in addition to our 10,000 sellers selling remotely now with Mobile Sales, I have over 350,000 individuals selling. This is a huge army of digital influencers selling Magalu and Magalu partner products. This is great, because the individual Magalu partner will sell Magalu's own product and the seller's product as well. This is the cycle, the ecosystem mindset we adopt at Magalu. Again, we want to digitalize Brazilian retail.

In this sense, we raised significant amounts to make acquisitions. Slide 16. We were highly capitalized when we raised 5 billion last year. We did not raise funds to pay debt, we did it to accelerate CAPEX and make acquisitions. I did not do it in the first half because I did not think it was appropriate, I had no visibility of the pandemic, but as

soon as June ended we realized the business was going very well, cash flow was strong, so we resumed negotiations to acquire strategic assets for the group and cover gaps in our ecosystem.

Any areas, New Categories, SuperApp, Faster Delivery, exponential 3P growth and Magalu as a Service are part of pillars, and I can acquire companies to contribute to these pillars. So, we bought, for instance, Estante Virtual for books a while ago, Netshoes for sports goods, Zattini for fashion and Época Cosméticos, for the #MagaluHasIt pillar. More recently, we acquired Hubsales, a company from Franca, Magalu's native city. It provides a very interesting service to help producers reach end consumers directly. The company has revenue of R\$100 million in the Franca industrial hub alone, which includes footwear and clothing producers in Franca. 700,000 orders are processed every year in the platform. These are fantastic people helping the factory sell directly online, avoiding intermediaries. With that, consumers pay less and the factory sells with better margin. Another interesting win-win situation is the idea of taking Hubsales to other industrial hubs, initially focusing on fashion and footwear, but exploring other industrial hubs and categories in the future. We are very excited about the prospects for Hubsales. All of the small businesses we acquired, like Logbee, Integracommerce, and even Softbox, which resulted in Magalu Partner, gained significant scale within the ecosystem. So, the numbers end up growing a lot. You see, Logbee is almost half our entire courier, and it is going to be almost half of Magalu soon, and we bought it just a while ago in São Paulo. When a good seed is planted in the fertile soil of the Magalu ecosystem, it grows into a beautiful tree bearing fruit for the Company.

This will definitely happen with Hubsales, as well as two other incredible acquisitions we announced last week. One is Canaltech. It was not the company, we bought Inloco's media platform Inloco Mídia. The idea here is to explore the amazing opportunity of Magalu Ads. Almost all of Alibaba's revenue in China comes from ads. The forecast is that US\$13 billion of Amazon's revenue in the US will come from ads. US\$13 billion. We believe there is huge monetizing potential. Because now it already has 24 million visitors, plus our 55 million, so we have 80 million potential visitors today on the platforms. This is not deduplicated yet, we saw no overlap. It may be less, but if it's not 80 million it's 70 million, I mean, a significant audience. Major brands will definitely want to place ads on our digital platforms. I think this is a fantastic opportunity, together with Magalu Pagamentos, two of the main opportunities to monetize our audience and our investments. These are elements that can contribute to the Company's margin in the next few years. Not only are we looking to grow, but we will obviously want to monetize this in the future. And we already bought an embryo for that.

Canaltech is not just an advertising opportunity. I really believe in content commerce. Today, good content to sell online is key. Just like you need a good, talented salesperson who really knows your product, in the online world you need good content, cool videos, good product reviews, blogs. I think Canaltech is one of the best channels specializing in content. I have always wanted to do this, I was very happy that the company's wonderful founders accepted to join our team. We are very happy to have them here, they are 60 incredible people who will really help us improve content while expanding their channel. Podcast channel, blogs... They are very strong in WhatsApp groups. Anyway, they are an amazing company, I am very happy.

To conclude our achievements, everyone has been talking about ESG now, and I think we did something very nice here from a social responsibility standpoint during the pandemic. The Trajano Garcia family was one of the first to announce a donation. It ended up donating R\$10 million early on, now having increased to R\$30 million, plus the R\$20 million from Magalu, donations of R\$50 million, especially to causes like violence against women, and we also acquired respirators, we helped hospitals in small towns with respirators. We also donated to the underprivileged population - food baskets, mattresses for care homes, and even radio players and TVs. We did a lot of donations like that. We spent R\$10 million early on and announced another R\$40 million now - R\$20 million from the family, R\$20 million from the company. The pandemic is not over yet, Brazil's National Health System still needs our help, we can contribute significantly to the fight against social inequality by doing our part. We support small suppliers, we did not fire personnel, and we will hire 2,500 people this quarter. We announced that 214 stores will operate with solar energy by the end of the year. We rebuilt our whistleblowing feature for violence against women, which was a good trending topic at the time... We had a series of actions, the list goes on, I think the company has shown that it was not just worried about results, growth or cash generation, it also wanted to show its concern for the social scenario. As a result, the Company has been more and more valued by suppliers, investors, and especially our customers and consumers, who come to our stores today saying, "I bought at Magalu because it did a great job during the pandemic, it did the right thing, it took the right stance". We see it all the time on social media. I am very proud of our work and the entire Magalu team, which contributed significantly to that result.

Now, speaking of outlooks going forward, before turning the floor to Beto, we made it a point to include July as well. I am not supposed to do this, but in the quarters of the pandemic we wanted to give more information to the market for a better evaluation. July performed just as well as June, with 82% growth in total GMV. Stores are already performing very well at 110%; e-commerce is still very strong with 162% growth. Even including Netshoes in the July base, full. Netshoes in July is already full against full, and we grew 162%. This is a wonderful performance, I link this to... E-commerce came to stay, the entire country has become more digital during the pandemic. I do not think

this is a one-off. China became even more digital, so did Europe, so I think people who shopped online had a good experience and will continue to do so. After reopening, physical stores will also perform better. Bear in mind that physical stores also contribute to the Company's profitability, so the outlook is better for the third quarter than the second not only in sales, because we will have strong months, but also in profitability - not exactly like June, like I said; we should deliver at least the same margin in order to hire 2,500 people and invest in cashback. I believe marketing costs will slightly increase now, because more people will recover. Customer acquisition cost will increase in the third quarter, and it was very low in the second quarter, because everyone was shopping online without much of an effort. Now, we need to make a little effort for people to shop online, but they will keep buying.

I am optimistic. I think the explanation for this strong performance, especially in physical stores, is the Corona Voucher, the emergency aid. I think the government should keep it, or do a soft landing until the end of the year.

We will also have the 13th installment of Bolsa Família this year. I believe this is an extremely efficient program, one of the best anticyclical measures in the world, with a platform that was already good in Brazil. In the United States, you get a Corona Voucher check on your door. Here in Brazil, everything is digital, electronic, we have platforms and public banks functioning really well. This is probably one of the best and most effective income distribution measures, which really helps the economy. I hope that while saving up to meet the expense ceiling, the government will cut back on other issues, make an administrative reform, privatize companies, but this is a very good measure for the economy and we need to try to hold on to it as much as possible. Obviously there is an impact on public debt, but other less efficient expenses can be reduced to keep that, as it helps retail as a whole.

I am not talking about people who used the Corona Voucher to buy electronics; 80% of consumers, according to a Data Poder survey by Datafolha, used it to buy food. But if they buy food at the supermarket, the supermarket's owner will buy a TV. So, indirectly, it helps a lot, it boosts the economy and creates a virtuous cycle. The money goes straight to the consumer, there is no waste. So, if the government does a hard stop, the fourth quarter will be more uncertain from a physical store point of view, not in the online. But I believe there will be a soft landing, which makes me optimistic for the third and fourth quarters of the Company.

I will conclude with our ecosystem. Today we are a digital ecosystem with these recent acquisitions. We have services, logistics, payments, customers and sellers here in the middle. The seller is also my client. And then we have all our brands, of course spearheaded by the Magalu SuperApp.

I would like to thank everyone, especially our suppliers, teams, customers, shareholders, all partners, for helping us get through this time. Anyway, it was an epic quarter. I am very happy, very pleased, very content with what we have achieved, and I am excited for the third and fourth quarters. Thank you very much, sorry for taking so much time, but this was a very complex quarter to explain, given everything we did.

I will now turn the floor to Roberto Bellissimo, who will quickly go through everything, and then we can open for questions. Thank you very much.

Roberto Bellissimo – CFO and IRO

Thank you, Fred. Good afternoon, everyone. Thank you for joining our videoconference. I will go quickly through the financial results. We talked a lot about sales growth, e-commerce growth in June and the sales highlights, cash generation and total net cash position.

On page 23, we have our working capital. Last quarter we mentioned we had invested in working capital in the first quarter, and that we were returning to previous levels after an improvement in sales. The inventory turnaround this quarter was spectacular, we went from around 90 days in March and April to 60 days between June and July. So, our inventory position remained practically stable between March and June, around R\$4 billion. And we are selling much more. I believe this also emphasizes the fact that our DCs are all integrated and multichannel, which made things a lot easier as e-commerce grew significantly.

In addition to the much better inventory turnover, as we mentioned, in the first quarter we had significantly advanced the purchases, so our supplier line was impacted. This went back to normal in the second quarter, we had a very high turnover because we sold a lot, so naturally the average purchase time and the balance of suppliers increased. In June we had a higher supplier position compared to inventory, since we usually have a positive cycle in terms of cash generation, as Fred mentioned. This is expected to continue going forward.

Magalu Pagamentos is another very important highlight for working capital - which not only helped us improve working capital by approximately R\$2 billion from March to June, and R\$1 billion from June last year to June this year. Now we have another source of financing for sellers. In Magalu Pagamentos, we transfer amounts to sellers who have yet to advance their receivables and occasionally get paid at the time of the sale. We also have deposits for sellers and MagaluPay customers, which is a source of funding for Magalu Pagamentos that has also been growing considerably. This quarter alone we have over R\$600 million from sellers within Magalu Pagamentos. As a result, working capital improved significantly.

The chart shows that our net cash position improved from R\$3.8 billion to R\$5.8 billion in one quarter. Our net cash position is virtually the same as in the end of last year, which in retail is usually the best cash position due to seasonality. For a second quarter, this is a record-breaking position, which helped us significantly reduce financial expenses as well by approximately 50% - from 3.4% of net revenue to 1.7% of net revenue, including interest from leasing under the IFRS.

The following chart shows the breakdown of cash flow in the last 12 months. The Company's total cash increased from R\$2 billion to R\$7.5 billion, growing by R\$5.5 billion. R\$1 billion came from working capital, another R\$1 billion from depreciation profit, and R\$2 billion from operating cash flow. Then we had investments, funding, interest investments and net stock options in the period as well. So, total cash was R\$7.5 billion, our highest cash position ever. Therefore, our balance sheet is very strong.

The next slide shows that cash generation was not a one-off for the quarter or the last 12 months. We have been generating more and more cash, consistently, for over 3 years, while also growing sales at a fast pace. We really believe our model is the only one capable of combining these two things: very high growth and strong cash generation.

To conclude the highlights, I will say a few words about LuizaCred, which was another positive highlight in our result. The card base saw a slight reduction to 5 million cards, because the physical stores were closed, so we had a decrease in the number of new cards. Card base should gradually grow again as stores reopen and the economy recovers. On the other hand, card revenue increased considerably, and we gained a lot of market share. The entire card market shrunk because of isolation measures. Customer spending within Magalu decreased, mainly because the stores were closed, but outside of Magalu there was a general increase in spending, which led to market share gains and helped mitigate the impacts of the crisis on LuizaCred's revenue.

But the main highlight for LuizaCred was receivables, which were lower than expected in April, mainly due to the closure of stores. It was better in May after stores reopened, and this process continues. In June, we reached the same level as before the crisis, slightly higher, and July was much higher than before the crisis. Our receivables have been spectacular, accelerating as stores reopen and with the efforts of our entire store and call center teams, who did a fantastic job in taking care of our customers. We managed to significantly improve this receivable in the portfolio. The short-term overdue portfolio decreased, and that is what usually requires a lot of provisions. So, with this improvement in the short-term portfolio, we managed to have lower provisions compared to last year.

NPL over 90 days increased slightly, because of the pandemic and temporary store closures. Short-term NPL, however, more than offset long-term NPL. In total, we

maintained LuizaCred's level of total provisions between R\$1.6 billion and R\$1.7 billion, with coverage of over 160%.

We had been saying that LuizaCred's results were improving since the second half of last year, which was better than the first half of that year, and this was the trend for this quarter. Last year, as you may remember, we were growing strongly, with many new customers, so we were building a lot of provisions under the IFRS, much higher than the BR-GAAP needs. Now this trend is reverted. LuizaCred started to post profit, reaching profit of R\$25 million in the second quarter and R\$35 million in the first half, much better than last year as well. This was another highlight of our result. It had a similar behavior to Magalu, improving during the quarter and continuing to improve in June and July. So, LuizaCred is on a very good path as well.

With this, we conclude our financial highlights and presentation. We are now available for the Q&A session. Thank you very much.

Frederico Trajano – CEO

I would like to emphasize that the entire executive board is here. I would also like to thank the Company's Board of Directors, since we worked very closely with them, both the Board itself and its Committees. I believe our governance worked very well during the pandemic, including the decisions made, funding, investment, people... All with the support of our directors. I just wanted to make this comment, and now we can open for questions.

Operator

*Ladies and gentlemen, now we will initiate the question and answer session. To make a question via telephone, please, press *1. Our first question comes from Mr. Thiago Macruz, Itaú.*

Thiago Macruz - Itaú

Hello everyone, good afternoon. First, congratulations on an exceptional quarter. My first question refers to MagaluPay, I would like to understand your stance, does it make sense to consider that part of the strategy is focused not only on the end customer but also on the merchant? And if this is correct, which will be the friction to be addressed in this case? Also concerning this issue, which is your opinion about the Pix impact on the development of wallets in Brazil, the MagaluPay, does it make sense to think that Pix can become a turning point in the digital platforms friction? These are my questions, thank you.

Frederico Trajano – CEO

Thiago, thank you very much for your question. I will try to explain, but not giving you details on our strategy. The ecosystem represents our vision, like that drawing I've

made at the end of the conference call, we try to have everything here, in terms of product, that is to say, the app, software, a vision to connect the ecosystem. Then, I think, obviously we would like to extend the MagaluPay to all sellers who are already using the *Magalu Pagamentos*. Today, this is an individual account, not a corporate account, but considering a systemic vision, an integrated ecosystem, we just cannot keep secret, obviously, we intend to achieve this goal, this is part of our strategy. I would like to reinforce that we hired Robson Dantas who joined our team, he's on Fatala's team, and he is one of the experts in Brazil's digital payment products, if not the best guy who knows this topic. It took three years to hire Robson, I am very happy he joined our team and other good people are coming. Robson is an expert in IT products, financial systems, each byte, anyway, we are very interested. Concerning Pix, I think it came to even up the "game". In terms of the digital account, Pix came a bit later, even lagging behind the large banks, but I think Pix will equally balance payments to everyone, a breakthrough payment, especially, concerning cash, bank slip, debit, and even credit, in the future. I can see this is an enormous opportunity, as Pix balances the "game", it offers an enormous chance for MagaluPay achieve equal conditions with current wallets, even more, traditional payment systems effective in the market. Then, it will even up the "game"; anyway, we will be ready for the momentum, and we are enthusiastic about Pix. André Fatala, our CTO is here, if you want to add any comment, please, feel free.

André Fatala – CTO

Well, Fred, I agree with you. We can see Pix facilitating the payment system, especially because perhaps we will see the end of bank slip, which has a great impact on the e-commerce sales process. The convenience you mentioned about the cash in the account, with Pix, the cash-in process will represent a great efficiency for us. However, we cannot disregard our actions concerning an active integration with banks, perhaps, we can also explore this issue in the future.

Thiago Macruz - Itaú

Ok, thank you for your answer. Fatala, could you comment on your plans for the platform launch? This was a topic discussed at the time of follow-on, I know you have been consistently working on this issue. Could you give us an update on it? I am not sure, is this still a strategy to be adopted? That would be nice, this is my last question, thank you.

André Fatala – CTO

Thank you for your question, Thiago. Yes, since the follow-on, we have been discussing on becoming an open platform. This year, we have been working on it, we set everything we have been building in Magalu to operate as a multi-organization, as we mentioned last year. We already have few in-house initiatives evidencing that this is

working for engineering teams at Magalu, and with this internal experience, we can open to the world, and have an open platform.

Thiago Macruz - Itaú

Ok, thank you for your answers.

Operator

Our next question will be in English, made by Mr. Andrew, Morgan Stanley.

Andrew Ruben – Morgan Stanley

Hi, thanks very much for the question and congratulations on the quarter. My question here is on categories and expansion, any updates on how important acquisitions are to growth here, you had success with Netshoes and Época, so how do you think about extending the category base and the next categories that could be in focus here for acquisition and integration? Thank you.

Frederico Trajano - CEO

Andrew, thank you for your question. I think acquisitions are very relevant, we have made three acquisitions in categories development, Época for health and beauty, Netshoes, for sports items, and Zattini for fashion, which performed well during the pandemic. Zattini already has a run rate of approximately R\$1 billion/year and is one of the largest fashion players, and more recently, the *Estante Virtual*, which is one of Brazil's largest book marketplaces. Then, we can identify a few relevant categories that compose the DPC, food, grocery, we have not made any acquisition in this segment, yet then, this is a relevant category. Now, we are also entering in the agribusiness sector, selling agricultural supplements for small farmers. We have made such a launch via the marketplace. Zattini in fashion, I think R\$1 bi is still low compared to R\$50 bi/year. In my opinion, we will grow organically in all these categories, and if good assets arise, like *Estante Virtual*, *Época*, or even an omnichannel asset, we will be looking at these assets, because, I think, a manager, he is also a portfolio manager, he must be able to allocate assets and know where to invest. We attempt to do this with caution, but also without losing good opportunities. Even traditional categories, we also will be looking at.

Operator

Our next question comes from Mr. Tiago, Goldman Sachs.

Tiago – Goldman Sachs

Hi Fred, thank you, and congratulations on the results. Thank you for taking my questions. I have two questions, my first question refers to frequency. Could you provide further information on the average shopping frequency of your base? And if

possible, how many categories, on average, are acquired by consumers and which categories resulted in a greater number of new clients this quarter. My second question is a follow-up in relation to prices in the grocery category. Fred just mentioned the M&A as a potential line of growth for such a category. How do you see growth? Do you think key strategic focus to be adopted would be via 1P, 3P, how do you see opportunities for this category? These are my questions, thank you.

Frederico Trajano - CEO

Tiago, thank you for your question. Well, concerning M&A, I want to leave the agenda wide open. We have 5 pillars in categories, as we want to become a one-stop-shop, we can include all of them, including grocery, but not only this. We operate physical stores, also online, we are an omnichannel, we do marketplace. Thus, I think we perform well on these three channels. I do not have a preference when I have to decide on an asset. I think it has to make sense, it has to have a rationale. Anyway, we believe if we are able to get that base and evolve from such a category, we will get it, whatever it is. We can operate the three channels: 1P, 3P and physical store. We have expertise. Obviously not so much with a new category, so, when we acquire that asset, we bring that team that is familiar with such a new category. We also recognize when we do not understand much about a specific sector, we bring Márcio and his team to teach us about this new category. We did it, and we succeeded. The same applies to Época, the same with Estante Virtual, and so on with other moves in these categories. I would like to clarify, when we make an acquisition, we consider three issues: we make financial due diligence, which is extremely important, we make technical due diligence, thus labs undergo this due diligence. Then, if the technology is very bad, we are not going to acquire that asset, we do not want to lose time here with a bad, heavy legacy. Technology is important to us. We also carry out cultural due diligence of that team which will compose our team, we are not going to dismiss them but complement our team. Then, it is like hiring, you need to know those people, whether they have the same values, the same culture. All the companies we acquired, their teams fitted like a glove, they were integrated into our culture. I am very proud of it, also of our team, who is working with us since our foundation. Concerning frequency, it slightly increased, but far from what we needed. I think we have low-frequency retail, and our challenge is enormous here. Looking ahead, the categories gave their contribution, grocery segment entered and already is the best-selling category, also Netshoes. However, lots of work still have to be done, a big challenge for our team. I am far from satisfied with the increase we recorded now, far from what I want. If you look at Alibaba, it records 90 purchases/year, Amazon, 50 purchases/year, Brazil is below 10, including us, this is very little. We need to significantly evolve, this is a tough job, a great challenge, but I trust this team here to address this issue.

Tiago – Goldman Sachs

Perfect Fred, thank you. If you could just answer one more question. You mentioned the formalization in the issue of the invoice. Concerning taxes, how do you see discussions about potential new taxation for digital transactions?

Frederico Trajano - CEO

I think we have two issues: concerning tax for digital transactions, we will have as consideration, the payroll cost reduction, which means a great change for us. We pay everything with online tax, our sellers, as well. The Brazilian government affirms it will not increase the tax burden, so, I do not have any restrictions concerning this issue. We have approximately 35,000 employees, then, the tax for digital transactions, if it means a reduction in payroll costs, this can be positive for us, or not so bad. We also have another measure in progress at the Brazilian Congress, which is PIS and COFINS (federal taxes on revenue), to require that the marketplace enforces the seller to collect these taxes and be co-accountable for it. This is not the digital tax, but a requirement foresaw in such a Measure the federal government sent to the Congress. I fully agree with this Measure, because I think certain marketplaces have unfair disadvantages, and most of their base generating sales take-rate that do not collect taxes. As I do not act like that, I think this is unfair. This is not illegal, nobody is doing... I am not accusing any competitor of being illegal, but the competitor's seller is. Anyway, we have several marketplaces, I am not speaking of one, specifically, but we have to avoid this to happen. Any marketplace which does not require the seller to issue an invoice, in my opinion, is contributing to increasing tax evasion in Brazil.

Tiago – Goldman Sachs

Fred, thank you.

Operator

Our next question comes from Mrs. Eugênia, JP Morgan.

Eugênia – JP Morgan

Hi Fred, Beto, thank you very much for the conference call, it was very helpful. I have two questions here. My first question refers to your expansion plan, I would like to understand if with the acceleration we have been observing in e-commerce, should the physical store's expansion plan be altered? How could we expect the opening of stores from now on? My second question refers to the next steps in relation to the Magalu platform. Looking at the organic side, re-organic side, which would be your focus: logistics, fintech? You mentioned improving the service level, which was an issue discussed in the second quarter, with few acquisitions made in the platform. Then, I would like to understand your focus from now on.

Frederico Trajano - CEO

Thank you Eugênia for your question. Well, referring to stores, due to the pandemic, we decided to postpone our store opening plan this year. Before the pandemic, we were opening 150 stores/year, but unfortunately, in the first quarter, we opened very few stores, work has been tough, but, from June, we resumed operations, we have been conducting selection process and training 100% online. We have a few images on LinkedIn, everyone can see how we have been doing with big screens and give a human touch. Our officers, including Fabrício Garcia, I will ask him to discuss this, anyway, we have been conducting online training with this new team, giving a human touch in this digital world. Brasília store will be inaugurated on Thursday, we will strongly resume the stores' expansion, we are very excited. Obviously, we won't be able to adopt the same actions of years ago, on account of the pandemic, but now in the second half, Brasília store on Thursday, we will reopen kiosks at Marisa stores in Rio de Janeiro, we are very excited to reopen the store. We are very confident about our omnichannel model. Fabrício, please, would you like to add something?

Fabrício Bittar Garcia – VP Commercial & Operations

Good morning everyone, good morning Fred. No, I think you mentioned everything, six months of the year have gone, we would enter into new markets, but we managed to put on hold our entry into Brasília, but on Thursday we will be entering into a very strong market in Brazil. By the year-end, we should have over 200 kiosks at Marisa stores operating. Reminding that this operation has been succeeded, we entered in Rio de Janeiro market, now in the South region of Bahia, we had a national agreement in Brasília including kiosks, now we will include stores. Next year, we should accelerate and enter into new markets, isn't Fred? Then, we should keep the pace of stores opening next year.

Frederico Trajano - CEO

Thank you, Fabrício.

Eugênia – JP Morgan

Thank you, guys.

Operator

Our next question comes from Mr. Gabriel, Santander.

Gabriel - Santander

Hi everyone, first, congratulations on amazing quarterly results. I would like to make a more technical question concerning the speed of delivery, you have reached that same-day 35%, a positive highlight of results. It seems part of this derived from a transformation of stores into dark stores and the placement of quicker categories inside

the store. To the extent you have been growing, I mean, in the speed you have been growing, you can't be out of stock. How do you see the ship-from-store, with e-commerce rapidly growing? Are you going to open pure dark stores, without retail, or have more mini hubs? How would explain logistics expansion?

Frederico Trajano - CEO

Well, undoubtedly the more stores are opened, more capacity is necessary, higher frequency, supply, you do not need everything stocked up, frequency, flow, and no inventory, but a slim operation. I feel very comfortable that we will manage to increment this figure ahead, with an increased number of assets, more technology, more frequency of supply, intelligence. We are not worried about hitting the capacity ceiling.

Gabriel - Santander

That's ok, thank you very much.

Frederico Trajano - CEO

Thank you for your question.

Operator

Our next question comes from Mr. Richard, Bradesco.

Richard Cathcart - Bradesco

Good afternoon everyone, and congratulations on results. Fred, I have two questions. My first question is about the role played by stores, we could see before and during the pandemic that store played a relevant role. You started using these stores as dark stores when stores were closed. My question is, how you will deal with this post-pandemic, if you have room to modify the store, and use it as a dark store, and start doing click-and-collect for Netshoes products and sellers in 3P. My second question is about Netshoes, I think Netshoes and Zattini had a robust quarter. I would like to understand whether this was natural on account of the pandemic, or if you started being a bit more aggressive in terms of marketing and advertising concerning Netshoes and Zattini. Thank you.

Frederico Trajano - CEO

I think Richard your first question is similar to our previous answer. Then, I cannot give you further details because this is very strategic, so allowed me not to be very clear in the answer, but I can say, we feel comfortable, we have a vision concerning the stores, without hitting the capacity ceiling, or a significant physical issue and manage the use of these stores. I do not refer as a mini-hub, but a mini distribution center, from now on. Anyway, we have a vision of the future, but we cannot give you further details.

Concerning your question about Netshoes, I will ask Eduardo first and then Márcio to answer your question.

Eduardo Galanternick – E-Commerce Executive Officer

Hi Richard, thank you for your question. Concerning Netshoes, in the early pandemic, overall this category was a concern for us since several countries saw a steep decline from the viewpoint of footwear and clothing categories. Here, especially from the end of April, early May, we could see stronger sales growth in Netshoes. Netshoes specifically struggled in the soccer category, as soccer games halted and significantly impacted this category. However, other categories, such as equipment for physical exercises at home, and running training were performing well. At Zattini, we also could see a significant growth compared to pre-pandemic, but overall was sustained. Netshoes is still in the process of recovering growth and reaching its breakeven, therefore, not giving room for substantial investments. We did not have any type of higher investment, neither in the margin, nor in marketing, but we also not decreased investment, margins even slightly increased within our expectations. The breakeven occurred due to operational leverage resulting from sales growth and the capture of an early synergy process since most of the back office is already consolidated. We also had the customer service (SAC), which migrated to Magazine Luiza, and the back office is already consolidated. Then, from now on, we have a more structured base, more solid results, we can pursue higher investments and reach even higher growth, ramping up even more Netshoes. Márcio, if you want to add any comment.

Márcio Kumruian – Netshoes Officer

Hello, good afternoon everyone, just adding a comment to what Edu mentioned. Also reminding that Netshoes specifically was in an upward move to recover several brands and franchises. Then, Netshoes positioning with Fred participating in meetings, top to top, bringing important brands, recovering products that Netshoes was no longer selling. And the reinforcement of the marketplace. The marketplace as a tool, reached nearly 30% of sales in this period, strengthening our brands, products we did not have, products of top of the pyramid. At Zattini, the diversification of brands, offering other products, using the entire Magalu's capacity to reinforce this. These are brands that have been growing naturally, increasing their conversion, penetration, and frequency. Obviously, the synergies mentioned by Edu, the Click & Collect, and speaking of customer bases. Thus, I think we can see sustainable growth, and as Fred mentioned, reaching its net income, first in the Netshoes' history, particularly in July. Our team also has been working hard, concerned with this sustainable growth, so that we can continue our journey. It is worth noting that Magalu products have been sold at Netshoes, those products with grip and Netshoes products are also sold at Magalu, both Zattini, and Nets. Thus, all this energy was captured during the first year of works. We are very satisfied, with a strong team, we will move forward.

Frederico Trajano - CEO

Thank you.

Richard Cathcart- Bradesco

Excellent. That's ok, thank you Márcio, Eduardo and Fred.

Operator

Our next question will be in English from Mr. Ravi, HSBC.

Ravi Jain - HSBC

Hi Fred, Beto, and team. I have a question on Magalu as a Service. You did some very interesting acquisitions in the last few weeks. The question I have is, when you work with the smaller merchants on adding different services, is the idea ultimately to sell directly to the consumer or through Magalu's marketplace or both? I just wanted to check your long-term vision for helping the smaller merchants. And the second one is on payment. Does it now make sense for you to start looking at acquiring business or sub acquiring business given the size you are going to be doing in processing payments and factoring, etc.? Thank you.

Frederico Trajano - CEO

I will answer your question in Portuguese, Ravi, thank you for your question. Concerning the *Parceiro Magalu* (Magalu Partner), a platform we launched for the smaller merchant, he has two options. This platform was created fully connected to Magalu, then, it is valuable for merchants, it has over 30 million users in the app and 55 million in digital platforms. Then, offering his product to 55 million clients is a way of bringing new clients to his platform. Merchant also has the option of using the platform to reach his clients, we have few functionalities in *Parceiro Magalu*, he can also sell directly, these are functionalities we will improve over time. I also think that the merchant's gross sales derive from our millions and millions of clients, but he has the option of selling directly to his clients, probably with different take-rates, but we can see these two options. We do not want to retain him here, but also give him the option of selling directly, and reminding that everyone selling through this platform, is already a sub-acquirer, thus, *Magalu Pagamentos* is built into it. He is not an acquirer, but a sub-acquirer, we can see thousands of them who entered into our platform, this is happening, and they are already part of *Magalu Pagamentos*. Yes, we want him as a sub-acquirer.

Ravi Jain - HSBC

Thank you, very helpful.

Operator

Our next question comes from Mr. Victor, Credit Suisse.

Victor Saragiotto – Credit Suisse

Good morning everyone, thank you for taking my question. I had a communication flaw here. In fact, I have a few quick questions. My first question, I have the impression looking from outside that the dedicated retailer, especially the physical commerce, struggled during this pandemic. I would like to understand how do you see this physical retailer competing with you, and how this can eventually ramp up the same-store-sales or even consolidate this physical retail? A second point is, concerning the discussion about M&A. We saw a company very focused on online M&A, building the platform, successfully executing the latest M&As, but at the same time, Fred commented that you are looking at everything that you do not neglect physical retail. If you are looking at new categories, does it make sense to see Magazine making acquisitions in the physical retail in other market segments, or not? And my last and quick point is the discussion on Netshoes physical store project, are you still planning this or not? Thank you, and again, congratulations on the results.

Frederico Trajano - CEO

Thank you for your questions. We have so many questions... I cannot recall all of them. Beto, if you could give me some help.

Roberto Bellissimo – Chief Financial and Investor Relations Officer

Let's start with competitors physical retailers.

Frederico Trajano - CEO

Ah ok. Undoubtedly, I think every crisis has a natural selection, you have weaker companies, less capitalized companies that may or not overcome the crisis. For instance, one of the largest players in the electronics segment, Ricardo Eletro, pleaded court-supervised reorganization, we also had small retailers shutting down their stores. We can see a great opportunity. Other merchants did not plead court-supervised reorganization, but now are facing the after-effects of crisis. Then, this an opportunity for that retailer with a capitalized operation, with products that gain market share. I can see there an opportunity, in fact, Fabrício's team will take advantage of this during the post-pandemic, a normal situation post-crisis. Referring to acquisitions, we will not give further details, but when you are an ecosystem, the magnitude of asset acquisitions is very high. For instance, talking about Amazon, it acquired a warehouse robotics startup, it acquired Diapers.Com, Whole Foods, which is physical, then... perhaps Amazon made approximately 50, 60 acquisitions, or much more than that. The same applies to Alibaba that made several acquisitions. The spectrum is wide when you have as much comprehensive vision as ours. It's not any piece that fits into the jigsaw

puzzle, it can be pieces of all sectors, all formats, but not of all them fit into the jigsaw puzzle. If we see that it fits into the puzzle, we will bring it inside. Thus, we can buy any type of company, and what I can say is don't be surprised. Concerning Netshoes physical store, I will not ask Márcio to comment, because this is an issue we are still analyzing.

Victor Saragiotto – Credit Suisse

Perfect Fred, thank you.

Operator

Our next question comes from Mrs. Daniela, Eleven Financial.

Daniela Bretthauer – Eleven Financial

Goof afternoon everyone. I would like to congratulate you on your decision to disclose a summarized PNL of the second quarter. I would like to mention that we cover several retailers, approximately 150 companies, the single company which gave such quarterly visibility was Magalu. So, congratulations, it was very helpful your explanations about the quarter. My first question, I was very impressed with the higher efficiency of the logistics network. I think this was very important to sustain the quarterly performance, and undoubtedly from now on, it will be essential. Looking at the map you included on slide 10, about Logbee expansion, could you explain this? If in fact, Logbee accounted for everything, or if you had last-mile delivery outsourcing for few players. And moving forward, do you intend to continue outsourcing, or do you really prefer doing everything in house? And what do you need to improve efficiency? This is my first question, and then, I have a second question for Beto.

Frederico Trajano - CEO

Hello Dani, thank you for your question and comments about the publication of our results. We considered relevant to facilitate your work and investors, as well. The understanding of such complex quarter, anyway, we prefer not giving further details, but I think it was necessary, as we only had online sales, the impact on our stores, usually, we do provide much information, but we considered it was important, and we made this decision to facilitate your work. Concerning expansion, Logbee accounted for most of it, we had a strong expansion of Logbee. I've mentioned, soon Logbee will account for 50% of our courier, which is meaningful. Previously, we had Luiza Network, which was not a courier. Then, Logbee entered and performed very well this year, growing and gaining a substantial share, we focused on this expansion, it was necessary. Because without the Click & Collect, we needed such last-mile delivery, picking the product at the store, and delivering it to the end client. This was a work well done by Logbee's team, logistics, also labs that developed systems to make this happen. Logbee was a TP, then we started using the store as a TP, this meant a few relevant changes in-

store systems integration, made during such process. Magalu's volume growth is huge, I mean... we need to be a bit skeptic about this. Obviously, we want to have our own network, we can see opportunities in Brazil of owning our network, but we will still need the services of the Brazilian Postal Company, also partner carriers. We need to have a mix of both, have our presence, but also work with partners, we cannot neglect our partners, he is important, in few locations, he is our best option. Thus, it is necessary for a skeptic vision of this issue. We will continue investing in expanding our own network, as this is a competitive advantage, but not forgetting that we can also use third parties, this is not an ideological business.

Daniela Bretthauer – Eleven Financial

Ok, it is clear to me, thank you. And Beto, I would like to discuss LuizaCred provision, I mean, we saw several banks in the quarter reinforcing "Over 90" provisions, especially. I realized I am not sure, I think a bit more conservative, you commented it was appropriate, but in fact called my attention, because not only banks, you also have Banco Carrefour, everyone was more aggressive or more conservative. My question, Beto, you commented that receivables significantly improved in July. What about the "Over 90", does it give you comfort and you do not have to reinforce LuizaCred provision in the third quarter? Did you understand? Referring to LuizaCred and LuizaSeg. Then, I am anticipating this, to not make the same mistake in the third quarter. Thank you.

Roberto Bellissimo – Chief Financial and Investor Relations Officer

Thank you Dani for your question. I will explain both, I will also explain a bit about LuizaSeg. First, concerning LuizaCred. In fact, Itaú processes LuizaCred's accounting, treasury, then, the bad debt model is Itaú's model. To calculate the need for monthly provisions, the Itaú model is adopted. Thus, we do not manage these calculations, obviously, we monitor the rate of approval, concession, all relevant LuizaCred's operational indicators are daily, weekly monitored. I commented that receivables were a surprise in the early pandemic. In March, we saw increased provisions, the first half result came slightly lower, due to slightly higher provisions, but stores were closed at the end of April, receivables dropped, but when stores gradually reopened, we made a very important receivables effort, in my opinion, different from the market. In June, we managed to receivables return equal to or slightly above pre-pandemic, and in July, better than before the pandemic. You can see the total balance of provisions portfolio, it came in line at R\$1.6 bi, R\$1.7 bi, total portfolio in arrears also came in line and the over 90 portfolio slightly increased, but it is already provisioned, thus, the coverage ratio is 160%. Then, besides the over 90-day portfolio, you have R\$600, R\$700 million provisions besides the Over 90-day portfolio, it covers the loss of portfolio in the short term or performing portfolio, both have a better level than before the crisis. The trend is very positive, July keeps the same pace, higher receivables, lower provisions

compared to the previous year. Efficiency ratio at LuizaCred also was very positive, we significantly reduced expenses, with an efficiency ratio of nearly 40%, which is one of the benchmarks, now it is time to resume growth, sales of new cards, and gradually recover LuizaCred's share in our business, to the extent sales increase and stores reopen. We feel very safe, delinquency is under control, and confident with LuizaCred's results and short, medium, and long-term projections. Concerning LuizaSeg, we appropriate LuizaSeg's revenue on a *pro-rata* basis. Since stores were closed, we sold less insurance, we recorded fewer insurance selling expenses. Then, we saw this temporary effect, to the extent sales resume, insurance commissions expenses also return, but this quarter recorded this benefit of revenue and a lower level of expenses.

Daniela Bretthauer – Eleven Financial

Ok, if you allow me a third question, which is a follow-up of your second comment on LuizaCred. This also called my attention, the fact you managed to sustain a 25% growth in services revenue due to revenue from MagaluPay and the marketplace. Since stores reopened, do you think LuizaCred can perform even better? It accounted for nearly 5% of sales, that is to say, even with stores closed you managed to uphold such contribution to total sales. This also called my attention, we are aware that services have a positive margin.

Roberto Bellissimo – Chief Financial and Investor Relations Officer

Yes, this is very positive, Dani. At retail, in fact, we always recorded higher services revenue from physical stores and less from e-commerce. This quarter, services revenue from physical stores declined, but this was offset by services revenue growth of e-commerce, marketplace, especially, Magalu Pagamentos. Moving forward, the trend is positive with physical stores reopening, the marketplace growing and Magalu Pagamentos growing, even more, sellers automatically anticipating receivables. Thus, services revenue trend is also positive, Dani.

Daniela Bretthauer – Eleven Financial

Thank you and again, congratulations on results.

Roberto Bellissimo – Chief Financial and Investor Relations Officer

Thank you.

Operator

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

Robert Ford – Bank of America

Good afternoon everyone, congratulations on quarterly results. Fred, could you explain improvements in delivery terms, please? Your objectives, and how would you consider

bolstering the Luiza network for 3P sellers? And which type of increase or conversion, a quicker delivery would you bring to the marketplace, your opinion, please. Thank you.

Frederico Trajano - CEO

Bob, thank you for your question. In my opinion, every logistics has to deliver quickly and increase the number of deliveries made to third parties. I think these are two great issues. I think Décio and his team have both, Leandro's team as well, they work with infrastructure, and Labs, which gives support with technology, they have to deliver, reduce this delivery term or increment the proportion of products delivered within a shorter period. They will have to find ways of providing a higher volume for 3P. Thus, this is our focus, Bob, this is a strategic question for us, so what I can tell you is you can monitor this figure, because this is our goal: a quicker delivery and deliver more to third parties.

Operator

Our next question comes from Mrs. Gabriela, BLK.

Gabriela – BLK

Good morning everyone and thank you for taking my question. The quarterly breakdown you gave was very good, in fact, in the first quarter you had anticipated April and May, but this quarter, you did not. I would like to understand dynamics in July and August, with stores reopening, do you see the traffic returning to physical stores, how is planning, the Click & Collect? the delivery formats which were more relevant before the pandemic, slightly decreased during the lockdown and now are returning, if you could give any update, that would be great, thank you.

Frederico Trajano - CEO

Ok, Beto, could you answer this question?

Roberto Bellissimo – Chief Financial and Investor Relations Officer

Thank you for your question, Gabriela. Unfortunately, we did not release August figures, specifically concerning growth, but we decided to release July figures, which were relevant, it kept a very high pace of growth and the trend is the same for the year-end. Now, in August, we have more stores reopened, more than 95% of stores opened, and the e-commerce trend is of accelerated growth, as well as we stepped up and changed our level, consumers now shop much more online, and we are taking advantage of it. The trend is very positive, I think we also contributed to such trend, without specifically giving a number. We are very confident with all initiatives, and actions implemented in August. And your second question about August... In fact, during the second quarter, we did not have the Click & Collect mode which always was relevant for us, from the viewpoint of a quicker delivery, and freight cost. Certainly, it impacted our level of

expenses in the second quarter. To the extent stores were gradually reopening, and convinced that store would not be closed again and impact our client, we were reactivating the Click & Collect, which has been increasingly growing, and soon will return to its level pre-pandemic, or 35%, 40% of our online sales. Now, with the addition of ship-from-store, which is also quick and cheap, like Click & Collect, in this case, the client can receive the product at home. Thus, with the return of Click & Collect, plus the ship-from-store, together, they significantly improve our logistics, our delivery term, our freight cost, and will be a great differential again in the second half.

Gabriela – BLK

Excellent, thank you.

Roberto Bellissimo – Chief Financial and Investor Relations Officer

Thank you, Gabriela.

Operator

We now end the question and answer session. I would like to offer the floor to Mr. Frederico Trajano, for this final considerations. Please, Mr. Frederico, you may proceed.

Frederico Trajano - CEO

Again, I would like to thank your participation in our conference call. A special thanks to the entire Magalu's team, including our Board of Directors. Thank you very much.

Operator

Magalu's conference call is closed. We thank your participation and have a nice afternoon.