CONFERENCE CALL TRANSCRIPT

4Q19 RESULTS

FEBRUARY 17, 2019

Operator

*Good morning, ladies and gentlemen. Thank you for waiting. Welcome to Magazine Luiza's conference call, referring to the fourth quarter of 2019 results. 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. Thank you for participating in our results conference call for the last quarter and full year of 2019. I am joined today by our entire Board of Executive Officers, as always, to present these results. We have a very quick presentation. I will make a quick presentation of the main highlights of the year, once again emphasizing this new strategic cycle that Magalu is experiencing since 2018. This is the second year of this new strategic cycle, which focuses on digitalizing Brazil after having digitalized Magalu, starting with Brazilian retail. It was a year of many evolutions in this context.

So I will present the highlights of our strategic pillars and strategic achievements in this year 2019, and then I will turn the floor to Roberto Bellissimo, who will talk about financial results in the last quarter of 2019. So I will ask you to please go to slide number 2. Here we have all the amazing initiatives taken in 2019.

We tried to make one year in one slide to really represent everything we did this year. In January we were rolling out ship-from-store. Today we have over 200 stores delivering from store, not including 100% of the stores with store pickup. In February we had the cross-docking pilot for marketplace.

We firmly believe in evolution, and we will talk about the Magalu as a Service model later on, specifically Magalu Deliveries, under the cross-docking model - not necessarily storage, which we will also have available, but this is a major focus for us going forward. In March, without much fuss, we made a very important acquisition for us. We bought a boutique machine learning and AI advisory firm, ADVISIA, having incorporated its team and expanded it. Today we have a team of dozens of people working on sophisticated algorithms for different things, such as anti-fraud, product replacement, pricing... Most of the products on the website are already automatically priced, for both Netshoes and Magalu. This team has been growing more within the company, together with the Labs team and the marketplace teams as well. In April we organically entered the book category through another acquisition of a development boutique, a mini software manufacturer. It is not a factory, but a development agency focusing on applications. This team was fully integrated to our Labs team for the Superapp. After all, why not? And it really helped us develop the Netshoes world and the digital account we recently launched.

We have launched MagaMais, our virtual telephony operator. We will talk more about it later. In May we reached 100 stores with Logbee coverage, which started in São Paulo a little less than two years ago and is highly representative in our peer. Our Magbee is the uber-like transportation that has been helping us deliver products with a lower average ticket and smaller cubic volume as well.

This expansion has also been exponential and very significant, contributing to a reduced delivery time. In June we had the major acquisition of Netshoes. We will talk about it extensively during the presentation, Márcio is also here to answer questions after our presentation. We opened two stores in Carrefour, which is the storing lab we have in place with Carrefour, one of our partnerships besides Marisa, which we announced last year. A month after announcing the acquisition of Netshoes we launched the worlds on the Superapp. We have the Zattini and Netshoes worlds and incorporated products into the Magalu app catalog, with authorization from the brands. We also created Época's superworld. So, all in line with the Superapp pillar. In August we achieved a milestone of one thousand stores, which is groundbreaking for us, as I mentioned in the conference call for the third quarter.

We entered the Mato Grosso market in August and the Pará market in September. We had our first major B2B event in the market, ExpoMagalu, where we also launched another product for Magalu as a Service called iPDV, a management system for small retailers, integrating them to our ecosystem but also in isolation, functioning as an appealing system for friends and small retailers. We also had the store pickup pilot at some of the Magalu stores with Netshoes in October, and are rolling out 20 Netshoes stores. The idea is to have, by the end of the year, Magalu stores offering the store pickup service for Netshoes and other sellers, which we will talk about later on.

We launched Magalu Solutions, which offers product installation services, like air conditioning and TV sets. The service started out really well, with a lot of traction, complementing the offer of our most traditional categories with services that generate profitability and consumer loyalty. In November we had the follow-on and raised more than R$4.5 billion, representing a really strong cash generation in the last quarter. There is basically an extremely solid balance sheet situation for the continuity of our strategic execution.

We automated the Louveira DC, which was essential for us to have this fantastic growth we had in the last quarter of the year during Black Friday, very smoothly, with a good service level and virtually concluding all deliveries within five days in the São Paulo metropolitan area and many other cities in Brazil. It really was a very important investment. We will keep investing. We have two automated DCs for Netshoes and plan to roll out this automation to more DCs, increasing our shipping capacity without having to grow too much in area, thus improving efficiency.

Lastly, in December we launched the first kiosks of our other partnership with Marisa. In sum, this year was full of achievements, in line with our strategic drivers. On the next page we have an exponential 3P growth, new categories, Superapp, faster delivery, and Magalu as a Service. As you can see, we had concrete deliveries in virtually all our fronts. But, without question, now going to slide four, Magalu's main focus in 2019 was growth.

I think we've been talking about this, I recommend that you all read our message from management, in which we can position our strategy and explain our focus. But without question, if we want to digitalize Brazil, starting with Brazilian retail, we have to think of scale as another dimension. I joked earlier in the year that it was a China-paced growth, a Chinese dimension of scale.

On a digital platform, which is what we seek - and I detail this in the message using Ming Zeng, Alibaba's chief strategist, explaining what is a plane, line and point strategic positioning. Plane is a multi-category digital ecosystem with a platform concept, where you have a value chain but also manage third-party value chains. You can't be plane without scale. I think the most important aspect of a dominant digital platform is to be large, having the network effect of this scale.

We have long worked to be the best, now we are also working to be the biggest in most of the categories we sell in. So we made our growth radical. We did grow considerably in previous years, but what we saw this year, especially in the last two quarters, was an absolutely fantastic growth, with a much higher comparison base than the market.

Total sales grew 51%. This is a tech company kind of growth, for a company that still has half of its revenue coming from traditional channels. If we consider e-commerce alone, we grew 93%, with a significant contribution from Netshoes, which was also the case in the third quarter, with very high growth.

Marketplace growth has stood out since the first quarter at 216% when compared to the previous quarter. I like to talk about marketplace because it took us 43 years to reach R$1 billion in physical stores, ten years to reach R$1 billion in e-commerce 1P, and in the third year of marketplace we have already posted R$3 billion GMV. This is a fantastic exponential figure. This is not rhetorically exponential, it is actual, I think the very mathematical concept says that. But I would also like to point out our physical stores. The growth we had in the quarter compared to the previous quarter was extraordinary.

We posted 26% growth, 13% double-digit growth with a booming market and structured competition. Same-store sales grew 13%, and total sales grew 26%. I would like to highlight not only the 13% in same stores, which in itself is a fantastic number, but also this delta from 13% to 26%, which means that the stores we have launched in the last few years have been extremely accretive to our result. They are doing very well, we made the right decision in opening stores to achieve a very good scale and strong sales maturation at these stores very fast. So, really, from a GMV point of view, these figures were extraordinary. I would like to highlight that this figure was reached with very little profitability trade-off compared to what you see in the market.

We did have a profitability trade-off, which we will break down for the quarter. Margin percentage dropped compared to last year. We also point out Netshoes, which still has breakeven EBITDA. We invested more in shopping frequency and service level, more people, greater delivery frequency, more people in Customer Service to serve and improve service levels and expand NPS. A little bit of margin, really just a bit, was used to improve customer service level. If you take a look at the market, companies that have been growing less than us have been trading-off to virtually go from very high margins to losses of millions of reais, or a very high cash burn as well. And not only did we not have cash burn, in the last quarter alone we had cash generation of R$1.5 billion, not including the proceeds from the follow-on. This is a company that has been growing more than the market average with much lower trade-off than other digital operations. This is our secret.

We want to keep growing like this going forward. Beto will talk about it. Anyway, I think what we've done is highly acceptable in terms of investments, both CAPEX and OPEX, to achieve these levels of growth. The highlight is that we reached virtually 25 million active customers in our base, 46% more than last year, at the end of the year. 1,100 stores, 15,000 sellers in the base, and more than 3 million offers. Both the number of sellers and the number of offers include Netshoes's contribution. We will also have a significant contribution from the company we announced today, Estante Virtual, which adds another 18 million offers approximately. These are not single SKUs, they are offers, and more than 6 million sellers are second-hand bookstores and small libraries.

We will add more than 20,000 sellers with the Estante Virtual integration. This is covered on the next slide, about new categories. This year, as I mentioned in the message from management, our focus is #MagaluHasIt. We are either leaders or very close to becoming leaders in most of our traditional categories. We have a solid, profitable operation, now with significant scale in traditional categories. Starting this year our focus will be stronger, boosted by the acquisitions we announced and the new categories. We believe e-commerce growth going forward will not come from electronics, because if you look at this category's penetration compared to other countries in the world we already have a similar level, and it keeps growing. The majority of growth, however, comes from new categories. If we look at fashion and beauty alone, these are two categories where we have a very strong base with the acquisitions of Época, Netshoes and Zattini as well.

We are talking about almost R$50 billion in opportunity, just to capture e-commerce share in these categories from outside. We see a very big opportunity, we want to be the company that will help Brazil expand total e-commerce penetration. I talked about categories, now let's go to page 6, to talk about Netshoes and Estante Virtual. The focus for Netshoes this year is integration of the logistics chain. We integrated the catalog, but as I mentioned only 20 of our 1,100 stores currently have store pickup available. Even with the entire Luiza Network, our more than 2,000 carriers, there is little share in Netshoes sales.

We strongly believe that by integrating the logistics chain, we will both increase product conversion, because we will have lower delivery time, and especially reduce operating costs for Netshoes. Breakeven is not our target with Netshoes. We want it to be profitable, and for that we need to conclude the integration of both the back-office and, especially, logistics, so that it can work independently within the business unit. From a back-office point of view, we will use our scale at Magalu, a R$27 billion company, and share it with Netshoes. It is not trivial, there are many investments in place, a lot of work has to be done by both the Netshoes and the Magalu teams to capture synergies. We will focus strongly on that. We believe it will be positive on both the top and bottom line for Netshoes.

But this is really a year for investments. There is a lot of integration effort going on, and advisory we will receive this year to conclude the process. We will do the same for Estante Virtual, obviously with a smaller scale. This is a business with R$120 million GMV versus R$2.5 billion from Netshoes, but we will also need to make efforts and integrations of all catalogs of dozens of millions of books and the 6,000 sellers. As for the Superapp, we continue to experience full success. The next page is about the Superapp. 56% of sales, of Magalu's GMV, is from mobile, so this is a very important category, our flagship. It has been growing far more than desktop. This was a vision we had some time ago, to be the first big retailer to invest so much in the app, and we will continue to do so.

Our MAU, Monthly Active Users, is 19 million, having grown significantly from last year. Installed base is 26 million. Now, instead of total downloads, we are using installed base. We believe this is the most accurate number to disclose to the market. Last year we did disclose total downloads, but it does not consider uninstall, so we prefer installed base and MAU. I think it is more correct to address them, so from now on we will keep sharing these two concepts with you, so as not to cause confusion in the market. Other important aspects apart from Netshoes, Zattini and Época Cosméticos, and Estante Virtual soon, is one-stop shopping. This is about making the client buy from the app whenever they want to buy something.

We launched Magalupay in February, an account we will be able to provide more details later. We are rolling it out at the stores as we felt more confident about our economies of scale. The concept of Magalupay is primarily focused on integration with Banco do Brasil. We are the first native digital account integrated to a major bank via Banco do Brasil's API. No other digital account in the market, and there are many, has this level of integration with a major bank. We want to have this integration with other banks. Note that we do not wish to become a bank, we are within the context. Another important factor is that it is embedded into the app, it is not a different app. You do not have to download another app to activate your account, you just need a name and a token. But the same sign-on for the app can be used as key for our 20 million in the installed base, which already apply for the digital account, making the process frictionless and reducing the onboarding acquisition cost.

Another integration, of course, is with Magalu stores, both physical and online. Today you can make a deposit, a cash-in, via Magalu stores; you can pay for your purchases on the app and at physical stores through mobile sales in the digital account. So, I think this account is more well made to scale with reasonable investment. We will do our homework to scale this account, but since it is already integrated to the Superapp, Banco do Brasil and Magalu, I believe the level of investment we need is much lower than the stand-alone accounts. This account is born within a plane concept, a platform concept, as we mention in our message from management.

So we will roll it out and invest in it going forward. Faster delivery on the next slide. We currently deliver 66% of our orders within 48 hours, 50% of deliveries promised within 48 hours, which we strongly focused on and is lifting the logistics bar in Brazil. In 40% of the orders we sell, consumers pick up the products at the Magalu store. It is very popular, I am sure it will help Netshoes as well as we roll it out. We have 200 stores with ship from store and will roll it out to the other stores over the course of the year. This is one of Magalu's strategic goals.

Also with regards to logistics, we only have 350 sellers in the concept. Of the more than 10,000 sellers, only 350 are included in the Magalu Deliveries context, or cross-docking, the one we collect in the seller and then goes to Magazine Luiza. We obviously want to extend this service to the majority of sellers. We already have 75% of them in the Magalu Deliveries modality, which uses our agreements with market carriers, but we want to go into the second phase, a Magalu Deliveries model using cross-docking. This is one of the company's main focuses in the year, to roll out this service as well as another service in the context of Magalu as a Service, which is Magalu Payments. This was already rolled out to 2,000 sellers on the platform.

As for Magalu Payments, now we are basically advancing receivables from sellers using our own balance sheet. We used to depend on a partner, which was Stone, to make this advance, now we are advancing directly. I think one of the advantages at Magalu Payments is that we have additional monetization of our GMV. So, obviously, when you advance receivables, there is an interesting margin increase. Still, the cost per seller is lower than if the seller advances in the market, so it is good for the seller. I think another important benefit within the context of guaranteeing payment flow control is how we can control the service level of sellers, authorizing advances for those who have a good service level.

For us, Magalu Payments has a series of advantages for the seller as well. To conclude, before giving the floor to Beto, I would like to highlight that we had a year of China-paced growth without ceasing to be customer-centric, which was our motto in 2018. NPS stood at 75%, certainly one of the highest in Brazil and in the world, a high-end operation. We are the only store with the RA1000 Seal on the Reclame Aqui website.

Considering 1P and 3P, we do not separate one from the other. Usually our competitors separate 1P from 3P on Reclame Aqui. It is easier to have a higher score on 1P. We put them together because we have a commitment that 3P needs to be as good and formal as our 1P. We are careful about it. Our Customer Service is also fantastic, 93% of the calls are resolved on the first call with less than two minutes waiting in the queue. And we continue to be the most formal platform.

I like to say we are not a digital flea market, we want retailers who operate here to comply with the Brazilian regulations and laws. We seek to help the government in this regard, even before regulation. I would like to focus on that because I think this regulatory risk is not very much discussed in the market. But the discussion will certainly gain momentum, given the level of tax evasion you have in marketplaces, so the states will definitely claim their share. I think this is inevitable, inexorable, there could be many discussions, but anyway, if you owe taxes, you have to pay them. You can't sell a product without an invoice. This is 1970s Brazil, this is not for our currently formal Brazil, which saw a significant evolution in its tax system.

To conclude, we have our ecosystem, we made a slide now showing how all of these parts connect in the whole. We do not specifically focus on any of them, but rather on how they connect to the digital ecosystem. I think the beauty of the model is making these companies have a role in the system. Local excellence is the enemy of global excellence. As per our strategy, we are focusing on global excellence. All of the acquisitions we make and platforms we develop have a role, a meaning, a system for the ecosystem, a function for the ecosystem as a whole. This is what we managed to include in the slide on page 12. Anyway, I think that few companies have managed to pursue this vision of an ecosystem. We want to be the first Brazilian company to achieve that status. I would like to turn he floor to Roberto, who will share more details on results.

Roberto Bellissimo – CFO and IRO

Good morning, everyone, and thank you for joining our call. I will quickly go through some numbers. We talked a lot about growth already. On page 13, we highlight our revenue, with total sales of R$9 billion and growth of more than 51%, the highest growth since our IPO.

As for gross profit, in the quarter our gross margin rose half a percentage point, mainly with contribution from Netshoes. New categories and Netshoes work with a gross margin that is much higher than Magalu's gross margin before Netshoes. Also because of marketplace, which in the quarter already saw more than R$1 billion and significantly contributes to gross margin. With regards to operating expenses, we highlight that selling expenses grew in line with our expectations. Investments in service level, with acquisition of new customers and consolidation of Netshoes figures. Also note that, as a percentage of GMV, total sales remained stable at a very low level of 16% only.

EBITDA stood at nearly R$400 million, with 6.2% margin, increasing from last year with a lower margin. Then we diluted our financial expenses and got to net profit of R$185 million, virtually stable from last year with margin of almost 3 p.p. As mentioned, cash generation was one of the main highlights of the quarter, as in the quarter alone we generated R$1.7 billion, with return on invested capital at 24%. So, once again, we achieved high growth with high return and ended up with net cash of R$6.3 billion and total cash of more than R$7 billion, a very solid position. On the next page, we show the result for the year as a whole, but the trend is exactly the same. Let me just point out that we reached total EBITDA of R$1.3 billion and adjusted net income of R$550 million.

Net profit reported under IFRS and all non-recurring effects in the year stood at R$922 million. Cash flow in the year as a whole was R$1.5 billion, with return over 20%. Then we have the reproduction of the app's user base, which is very high. As for customer base, we gained eight million active customers in the year, including the four million single customers that came from Netshoes, which is very significant. On page 16 we have the evolution in number of stores. In total, we opened more than 150 stores organically this year, with virtually half in the last quarter, significantly contributing to total sales at physical stores. Including the five Marisa kiosks, which are already expanding, this month should end with another thirty kiosks at Marisa stores as well.

Expansion is at full speed. We invested more than R$500 million, in line with our plan, growing total investment by more than 40% as well. Then we have the quarterly evolution in sales, reaching R$27 billion. Marketplace reached R$3 billion in the first year, gaining a lot of market share. Specifically, real estate and electronics grew, according to IBGE, 6% to 7% in the year, and e-commerce grew 16%, so we outperformed the market.

Then we have the evolution of gross profit.

In the year, margin remained virtually stable. Operating expenses, as I mentioned, grew mainly in association to selling expenses, which naturally includes e-commerce and marketplace, Netshoes and all investments in logistics and customer acquisition we talked about. General and administrative expenses remained stable and were diluted in the quarter.

In equity accounting, we saw an improvement in Luizacred's results, which had an increase in profit. Despite the highly accelerated growth of the customer base, card base and the portfolio as a whole, Luizacred had a very positive result, more than in the previous year, with very low delinquency. Then we have EBITDA evolution, which grew 13% in the quarter to R$1.3 billion. Compared to last year we went from 7.6% to 6.2%, mainly an investment in expenses to support our trajectory.

With the IFRS effect, our EBITDA margin went to 7.8%, almost 8%. Then we have financial result. In the quarter, we saw a decrease of 0.3 p.p., already reflecting part of the follow-on proceeds. Cash generation was very strong in the quarter and CDI decreased considerably, with a downward trend in financial companies. In regards to working capital, once again we managed to generate another R$500 million in cash from working capital. We maintained inventory turnover at 75 days approximately, and the shopping timeline within 95 days. We have an extra 20 days in working capital, including Netshoes's, which also improved its working capital performance.

With that we increased our net cash position by more than R$4 billion, going from R$2.2 billion to R$6.3 billion. This increase in net cash coincides with the follow-on proceeds, meaning that the company's operating cash generation, which is on the next slide, standing at R$1.5 billion, was sufficient to cover all investments, namely R$500 million in investments by the company plus the acquisition of Netshoes, the payment of Netshoes's debts, dividends, etc. Even if we had not had the follow-on, we would have a net cash position of more than R$2 billion in one year of very high investments, but fortunately today we have this even bigger capital surplus.

Then we have net income evolution, which was very consistent throughout the year, reaching R$550 million as a whole. Margin was lower, but at a nominal level that is very similar due to the accelerated growth we achieved. Then we talk about Luizacred.

We expanded the card base again by one million cards, 90% active, reaching 5.2 million customers with the Luiza Card.

As you know, these are our most loyal customers, they are very important for our strategy, with higher reposition, frequency and ticket. Luizacred's billings in the quarter also stood out, growing 30% to R$8 billion in the year as a whole. Coincidentally, Luizacred also posted billings of R$27 billion, mostly outside of Magalu, supporting the activation of our card.

Our credit portfolio as a whole reached R$11.5 billion, one of the largest credit card portfolios in Brazil. On the next slide we also show the evolution of Luizacred's past due indicators. In the quarter we saw a considerable improvement in most days past due, from 8.8% to 8.2%. In least days past due we reached the lowest level ever at 2.4%. Despite having so many new customers, Luizacred has had very good default performance, leading to an increase in net profit, which is a very positive trend. To conclude we have slide 24, where we emphasize that in the last two years we made hefty investments and posted MAU at approximately 2 p.p. of EBITDA margin, favoring growth and customer service level. This generated a lot of value for everyone, customers and shareholders.

And we will continue to follow this trend. We have four main areas of investment in which we will continue to accelerate, the highlight being the integration with Netshoes, which will get much closer to Magalu this year in terms of logistics, back-office and so on, which is very important for our strategy. We will keep investing in the Luiza Card and the digital account we are rolling out, as well as logistics excellence, offering faster delivery, opening new DCs, entering new regions and increasing the frequency of store supply that allows us to deliver faster to end consumers. We will also invest significantly in Labs, as we continue to expand it.

That is also why we raised money, for a series of initiatives related to Magalu as a Service. With that we hope, as shown on the right side of the slide, to integrate logistics and bring a series of benefits for Netshoes, such as store pickup, faster delivery and Logbee. A higher shopping frequency by our most loyal Luiza Card and digital account customers, faster delivery, and supporting our ecosystem with Magalu Payments, iPDV and all initiatives related to Magalu as a Service. With that we conclude our presentation and are now available for questions. Thank you.

Operator:

*Excuse me, ladies and gentlemen. We will now start the questions and answers session. To ask a question, please press *1. To remove a question from the list, press *2. Our first question comes from Tiago Macruz, Itaú BBA.*

Emerson – Itaú BBA

Good morning, everyone. This is Emerson, actually. I have two questions. First, I would like to understand the origin of this strong growth in insources at physical stores. Could you share with us the most recurring breakdown? Whether it was new customers, or maybe higher conversion of omnichannel customers at the store. Secondly, could you give us some color on gross margin expansion, even though Black Friday was really strong. Was this due to better alignment with the suppliers or is there a mix effect because of Netshoes? Thank you. These are my questions.

Frederico Trajano - CEO

Good morning, Emerson, thank you for your question. We did have a fantastic quarter in physical stores, both in new stores, as we mentioned in terms of total growth, and in same store sales with 13% growth. We did not make a fuss about it throughout December, but we had an extraordinary Black Friday. We were waiting for the conference call to share these figures and celebrate our Black Friday results.

We had the Black of all Blacks, which was a very distinguished action, with live broadcast on the Multishow channel, a show with all of Magalu's categories. It was very similar to what you see in China, a pre-Black Friday concert. It had a strong impact on e-commerce, and you saw how much it grew, but surprisingly it had a fantastic impact on physical stores as well. We had an extraordinary and historical Black Friday. Everything went well in terms of store system.

We also have the checkouts through mobile sales, which is a mobile cashier to reduce lines at the stores on Friday, so productivity was incredible. In December there is usually a "hangover" from Black Friday, but in the last ten days of December, right before Christmas Eve and after Christmas, we had a very strong promotional campaign that helped us achieve a fantastic quarter. We basically grew in all categories, Fabrício can share more details on that. We gained a lot of share at physical stores this quarter in virtually all categories, and we had the highest share of the year in the last two months, November and December.

Fabrício Bittar Garcia - Commercial and Operations Vice-President

That's it, we had a very good quarter, with successful promotions. We reached our highest-ever share in physical stores, gained over three percentage points in share in the quarter, and grew two high digits in all categories. So, this was a very good quarter. Like Fred said, November was great, it was excellent, despite a very strong Black Friday.

Frederico Trajano - CEO

What about gross, Beto?

Roberto Bellissimo – CFO and IRO

Emerson, as for gross margin, at the moment our consolidated result is very tied to Netshoes, which works with gross margin of approximately 40%. Excluding Netshoes, gross margin remained stable, slightly lower than last year, and this figure was significantly helped by marketplace, with over R$1 billion in sales in the quarter. Excluding marketplace, you have the reflection of what we commented here, which is a Black Friday quarter.

Frederico Trajano - CEO

We had that last year as well.

Roberto Bellissimo – CFO and IRO

We always had that, and so on. It was all within normal, very well planned and well executed, both in terms of products and marketplace growth and consolidation of new categories.

Frederico Trajano – CEO

When we talk about investment in margin, and I mean real investment - because selling at a 50% discount or giving a 30% cashback is easy - our competitors have been very aggressive in pricing, but Magalu never liked to play this game. We prefer to be aggressive in investments to deliver fast, timely results and have investments in IOX.

We prefer investments that are more sustainable in the long run, so this whole investment in margin lies mostly on customer service level than subsidizing prices and selling. In some cases today, sellers are surprised to see the prices being practiced in the marketplace, thinking they won't receive the money because a product is priced at 50% of what they would charge. We do not practice this kind of subsidy, we pursue rational growth.

There is investment, yes, but it is mainly tied to expenses and EBITDA rather than gross gross margin per se. Sure, if we need to do that, we will. Our focus is on scale. I can't say we won't do that in the future, but whenever we can we try to make these investments in the context of sustainability, not simply selling below cost price or below the amount sellers need to receive. That does not make sense.

Emerson – Itaú BBA

Great, Fred, everyone. Thank you very much. That was very clear.

Operator:

The next question is from Irma Sgarz, Goldman Sachs.

Irma Sgarz – Goldman Sachs

Hello, good afternoon. Thank you for picking up my question. I have two questions. First, I would like to know more about the maturation of Netshoes, if you could talk a little bit about growth. Market trends had a few movements on the supplier level, now that Nike in Brazil is being acquired by Centauro. Could you tell us how these conversations are going, in terms of integrating Nike products to the Magalu superapp? The second question is about the Magalu network. You mentioned that you already have a few sellers in cross-docking. Could you give us some color on how you see this focus in the next 12, maybe 24 months, in terms of ramping up cross-docking? And also if you have already structured the fulfillment part of bringing sellers into the Magalu structure in the future, leaving inventories at the distribution centers? Thank you.

Frederico Trajano - CEO

Good morning, Irma. Thank you for your question. I will go first, and then Marcio and Edu will complement my answer. First of all, Netshoes, as we can see from the figures, is doing extremely well. I think we managed to balance the operation even before the integration we will carry out this year. We are close to breakeven, which is already a fantastic figure. This was mainly due to our team's management, capitalization and hard work.

Sales grew, you saw how accretive it was for e-commerce growth both in the third and fourth quarters, even though we did not disclose in the fourth quarter, but it is very similar to the third. The numbers are very similar, for both Magalu and Netshoes, in the third and fourth quarters. January came off strong, Márcio will give you some color on that, because now we are moving forward with a post-acquisition plan.

In the last conference call I mentioned that we need time to plan, to grow inventory. Now he is working with normalized inventories and supplier relationships. Just to give you an introduction before Márcio takes the floor, the focus of Netshoes... Magalu will enter into many product categories. We announced Estante Virtual, we acquired Época Cosméticos, Netshoes falls under exporting goods and also covers a hugely important category with Zattini, which is fashion, a R$140 billion market. In fact, Zattini's market is still the largest. There is still a lot of room for growth, but I think all of the acquisitions are within the ecosystem, from a global perspective. We will not be category killers in all verticals we enter.

Our focus is the ecosystem, the whole, not the part in itself. And within this whole, a specific movement made by a category killer competitor is not that relevant. If you look at Nike, within Magalu it accounts for 2% of our GMV. It is important for Netshoes, but it's 2% of Magalu's GMV, so the impact is not that big. But I will detail why it is important for Netshoes, and then Edu can talk about the integration efforts.

Márcio Kumruian – Netshoes Officer

Thank you, Irma, Fred. I will talk about Netshoes. When we were in Mexico and Argentina, we saw a little bit of this model where you have another partner managing Nike's inventory. On the other hand, Nike continues to control segmentation and distribution, so the strategy for the entire Latin America continues to be developed by Nike.

And Netshoes is the ultimate leader online, as you all know, and an extremely relevant and strategic client for Nike. Right now, we believe that for Nike to remain competitive and maintain its leadership position in the market, and for consumers not to struggle with changes, it is very important that the rules are made clear.

That is exactly what we are working on with Nike right now. There is no indication that anything will change for Netshoes, on the contrary, I think that by joining forces we gain Centauro and Nike, thus growing more. This is something Netshoes has been working on with the brands, and we will work under this globalization model, like Fred mentioned, adding more and more to Magalu's strategic drivers. So this is what we have been working on. Some data were shared, including that inventories have reached normal levels.

We also managed to improve this inventory situation, generating cash in the last quarter with a very strong Black Friday and a very successful campaign at Netshoes as well. We have also been working with Edu on systemic integration for logistics gains and, at the same time, for Magalu to soon be able to sell furniture and exporting goods on the platform as well. All of the brands are already in. You asked about Nike, so this is part of the conversation we are having with them, and we will soon share some news with you as well. Now Edu will give you an overview of the integration process.

Eduardo Galanternick – Chief E-commerce Officer

Hi, Irma, good morning. This is Eduardo. With regards to integration, it is important to mention that last year we focused on what was possible to do in terms of the business without having to develop anything. We achieved many gains last year, including in terms of negotiation power with some of our partners, even though we had a Black of all Blacks together, the NFL sponsorship, and the UEFA broadcast on Facebook. We created the "worlds," which already contribute to an increase in category sales as a whole. And especially from a logistics standpoint, Logbee has already began to serve Netshoes last year, and we also launched the pilot of store pickup at 20 stores in São Paulo delivering Netshoes products.

The experiences with both Logbee delivering Netshoes orders and store pickup allowed us to quantify the impact of that and how important it is to roll it out in 2020. In terms of the plans for this year, our main priority is expanding the use of Magazine Luiza's logistics network by Netshoes.

Like Fred mentioned in his presentation, we have already quantified how much we will gain in conversion, which leads to sales growth and cost reduction, which is the best possible scenario. We also have to integrate back-office operations and management. We identified 33 areas with possible management integration, of which 21 have already been integrated. Sometimes the system is not integrated yet and management is already integrated, and all of the plans are laid our for execution this year.

I think what we expect over the course of the year, in terms of joint efforts, is to be able to provide the necessary environment for Netshoes to grow, and help it evolve even more. In the second half of last year, it managed to grow above the online market's average. This year we want it to grow even more, without losing sight of financial balance, which we believe we will be able to provide through all of the synergies.

Irma Sgarz – Goldman Sachs

Perfect, thank you.

Operator

The next question comes from Eugenia Cavalheiro, JP Morgan.

Eugenia Cavalheiro - JP Morgan

Good morning, Fred and Beto, how are you? I have to question, actually, if you allow. The first one is about Magalu Payments. If you can share with us how the roll-out of this initiative is going, whether you are facing any challenges or friction points. Basically if the overall evolution is in line with your expectations. The second question is about the expansion plan for physical stores in 2020. Do you have a number of openings in mind? Could you also give us some sort of breakdown of by type of traditional stores, like Marisa, and the geographic distribution of these openings? I think anything you can share in terms of openings for 2020 will be good. That's it, thank you very much.

Roberto Bellissimo – CFO and IRO

Good morning, Eugenia. Thank you. As for Magalu Payments, we began rolling it out in January and should conclude in March, so everything is going as expected, no different from the expected results we shared with you. Starting April, virtually all the sellers will be on the new platform with the expected results in terms of advance volume, advance rate, results... Remember, Magalu Payments is a new company created from guidance, it is a payment institution and already covers a significant volume; our marketplace is growing a lot, and the volumes are already significant. We are very happy with the roll-out of this new service for sellers, and throughout the year we will share the results with you. By the end of March we should pretty much conclude the roll-out.

Frederico Trajano - CEO

Just to emphasize what Beto said, I celebrate the fact that, with a very low rate for the sellers, it is a no-brainer for them. We will not face any challenge in rolling out these two thousand somethings in a short time. We will reach the expected volume with ease. I think what makes me confident is that everyone wants to play bank, but when handling other people's money is a huge responsibility. I think we had the preoccupation of making sure reconciliation matches, that there are no issues with the flow, and that sellers will get paid exactly what they are owed.

So, the reconciliation and consolidation of these processes in the balance sheet of management controls are spot on. This is a very strong and solid product. It took us a while to launch it, but when we did it was with significant stability, which helps me sleep at night. Because when you are talking about billions in advances, you need to be very careful not to make mistakes in the process. This is another positive aspect we have with the sellers that are already integrated.

As for stores, we do not share guidance, but the trend is the same as in the last few years, with the same flow. We should complement the kiosks at Marisa stores by the end of the first half, totaling 300 kiosks. We also want to keep opening new stores. We will enter the Federal District. But the idea is to keep opening new stores. Also, Lu was in Rio for New Year's Eve, which could be emblematic. She posted that she was in Rio. So that's it.

Eugenia Cavalheiro - JP Morgan

Got it. Thank you very much, everyone.

Operator

Excuse me, we are now concluding the questions and answers session. I'd like to turn the floor over to Mr. Frederico Trajano for his final remarks. Mr. Trajano, you may proceed.

Frederico Trajano - CEO

Today we only had three questions, the analysts are very busy with the market IPOs. Everyone is doing the sales teach-in. It's great for Brazil that we have so many IPOs. But I would really like to thank our entire team, with more than 30,000 members, as well as those who recently joined it, the entire Netshoes team and all of the acquired companies for the results achieved in 2019. Once again we had very positive results.

I would also like to thank our customers, shareholders, directors, partners, suppliers... Thank you very much for another great year. I am very optimistic about Brazil from a macro point of view, but we will face some challenges in the very short term. January was a very rainy month, and so was February for some.

Coronavirus is not quantifiable yet, with a low predictability rate, but it is already impacting the USD in the short term. This makes our process a little difficult. But despite these contingencies, my macro view is still very positive. Again, like Beto said, our focus is still on economies of scale and growth, not only in GMV, but growth in the KPIs I mentioned - active customer and annual shopping frequency. In fact, our focus on active customer and annual shopping frequency is even stronger than on GMV, because we will grow in categories that generate less GMV as compared to last year. These are the categories that can grow.

The trend, as we said in our message, is that we will continue to make smart investments, including margin, to achieve this growth in these strategic and important KPIs, so that we can actually become a digital platform with network effect. We are also predicting that it will happen this year, as was the case in the beginning of the quarter, so this lower margin compared to last year was no surprise. The increase in sales was probably a surprise, but this trend will continue in 2020. I believe it is important to point this out before ending the call. Thank you all very much and good afternoon.

Operator

Magazine Luiza's conference call is closed. Thank you all for your participation, and have a nice day.