Local Conference Call
Magazine Luiza (MGLU3)
1Q22 Earnings
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Vanessa Papini: Good morning, everyone. Thank you for waiting and welcome to Magalu's conference call regarding the quarterly earnings.

For those who need simultaneous translation, just click on the "interpretation" button using the globe icon at the bottom of the screen and choose your preferred language, English or Portuguese.

We would like to let you know that this event is being recorded and will be available on the company's IR website, at **ri.magazineluiza.com.br**, where the earnings release and presentation, in both Portuguese and English, can be found. The link to the presentation in English is also available in the chat.

During the presentation, all participants will have their microphones disabled. Afterward, we will start the Q&A session. To ask questions, click on the Q&A icon at the bottom of your screen and enter your name, company, and question language. Upon being announced, a prompt to activate your microphone will appear on the screen. You can then activate your microphone and ask your question. Questions received in writing will be answered later by the Investor Relations team.

I would now like to give the floor to Frederico Trajano, Magalu CEO. Please, Fred, you can get started.

Frederico Trajano: Good morning, everyone. Thank you very much for participating in the earnings call referring to Magalu's 2022 first quarter.

I think it is a quarter marked by certain highlights that are in line with what we have been showing the market since the earnings of the third quarter of last year, the first quarter marked mainly by the recovery of expressive operating margins compared to the fourth quarter of last year, the significant increase in marketplace growth - we will talk about this throughout the presentation - the drop and normalization of inventories around R$1 billion, which we had also reported and promised to the market, and also the normalization of physical store sales, despite the comparison base affected last year by store closure because of COVID. There is already a positive perspective for physical stores - Fabrício, our COO, will talk about this later.

I'm here with the entire executive board of the company, who will be available for Q&A in the post-presentation Roberto Bellíssimo and I are going to do.

Well, talking about sales first, we grew 13% in the quarter based on 63% growth last year. So, if we look at a base of 2 years, 84% growth online, representing practically 75% of the company's total sales. E-commerce, especially the marketplace, continues to be the highlight. Although we are in a process of expressive recovery of operating margins, we continued to grow our e-commerce above the market. E-commerce growth of 150% compared to 2020, 16% compared to 2021, 50% quarterly growth of the marketplace based on an absolutely high base also in the first quarter of last year. We have the 3P share already around 40% in the most recent months of Magalu online. In short, very expressive growth, even considering that we have already priced the take rates in the 3P from the beginning of February. So, take rate expansion, in 2 of the 3 months these rates were higher, which represents greater profitability for the marketplace, even so, we managed to grow well above the market, 50% in the quarter, ultimately, based on high growth.

Online as a whole, as I said, 150% growth last year. I think it's always important to look at the 2 years because the first quarter of last year was the best quarter in the market too, so we experienced growth on top of growth despite a significant recovery in margins.

Now I would like to talk a little bit about the growth of physical stores. I think a highlight of the quarter is that we grew 6% compared to last year, 10% compared to 2020, obviously keeping in mind that in both 2020 and in 2021 our stores were closed because of COVID. But this number is positive in the sense that April and May continue a positive trend and last year the stores were already open, so we have a more positive scenario after a very difficult fourth quarter for physical stores. Despite the whole economic scenario, I consider this to be good news for the quarter. Obviously, the highlight was the marketplace because the base was comparable. For the physical stores, as I said, these stores were closed due to the pandemic last year, but we are seeing a positive trend, especially from April and May as well, which actually exceeds market expectations for this period after a very difficult fourth quarter, and we continue to gain share in physical stores too, which is important.

Regarding margins, as I said at the beginning of the presentation, this was a highlight, we have informed the market that, especially in the 1P of durable goods, we were going to carry out a project to recover margins - when I say 1P, it also includes physical stores. 1P - physical and online stores, we increased the margin of 2.6%, adjusted to 5 in the quarter, 2.6 being the fourth quarter of last year, 5 being the first quarter of this year, a series of actions that we took to increase profitability, transfer to price. I said a little about increase in the take rate too, optimization of expenses, resizing of the company as a whole, increase in logistics efficiency, a lot of investment in marketing intelligence, we have optimized marketing historical ROEs as well. Well, a very large amount of work that we managed to recover, and, if we look at the month of March separately, which we published in our release, the margin was already 6 points. Please keep in mind that, historically, Magalu has always worked with operating margins above 8, we only reduced this number in the 2 years of the pandemic, largely due to the store closures in these 2 years of the pandemic and a little trade-off that we made for growth while interest was 2% per year. I think it is worth making this trade-off now that interest has gone to 13% per year, future interest, we think that the historical margins are more appropriate for this moment of high interest and this process of margin recovery that started this quarter will certainly continue in the next quarters, with a very large effect on gross margins. As you can see, we are actually working with margins compatible with what the market is doing too.

Despite this increase in margin, I repeat, if we compare it to the main market players that publish earnings, our growth in 2 years was above the market average, so we are managing to recover margins, maintaining the growth that we achieved in these years of pandemic. I said in the first quarter that, in the pandemic years, we doubled in size, the company as a whole E-commerce tripled, and the marketplace quadrupled, so we still have a higher growth base in the market even with the recovery of margins, as we said.

So, I think it's good to record this, and we always have to look at a longer historical period because for each company the previous quarter was on a different basis, so this has to be considered in your analyses, but I consider it positive in that sense.

Looking ahead a little bit, our bet continues to be growth of the marketplace. We are very confident with our strategy, I believe that post-pandemic, here in Brazilian, with e-commerce we achieved a 15% share in relation to total retail and the next growth will necessarily occur through a very important process, which is to digitize Brazilian analogue retail. If we don't take analog retailers and make them sell online, we won't be able to significantly exceed 15-20% online retail, so the next growth cycle of Brazilian online will necessarily go through marketplaces helping physical retail to become digital. That's what we started in the pandemic with the launch of Parceiro Magalu, we added 154,000 sellers to our base, that's 180,000 in total. It is worth mentioning that our sellers are formal, their National Corporate Taxpayer's Register - CNPJ registrations are active, so it is not possible to compare with a marketplace which treats individuals as Legal Entities. So, it's a big difference for us, we added 50 million offers to our process. Therefore, we were the marketplace with this formal seller feature which added the most sellers in recent years, a diversified base, geographically deconcentrated, and very strong long tail.

We continue with a very strong process of walking the talk in this sense. This week, we are going to the first big action of the *caravana*, there was a pilot in São José dos Campos, we will be traveling all over Brazil looking for these sellers. I think analogue sellers need a convincing process, they need proximity, human warmth, so Luiza Trajano, the chairperson of our Board, will travel all over Brazil together with the Magalu executive board. All the companies in the ecosystem, the Fintech, the logistics company, the partner companies, will all be there demonstrating their services to Brazilian sellers. We will give free courses from ComSchool, which is the company we bought. So, we will be traveling all over Brazil, first stop Maceió. We did a pilot in São José dos Campos and after the *caravana*, without her presence, Luiza's presence, we have already reached 5% of retailers in the region and we published 6 times more sellers than we did before the *caravana*. So, it's a strong action, which has everything to do with Magalu multichannel and characteristics. We are super excited about this action, it has everything to do with Magalu, I'm sure it will be a very big success, especially to attract sellers with a different profile, which is a great bet on our part for the sustainable and long-term growth of our marketplace.

The importance of the *caravana* is precisely to attract different regional profiles. Magalu is the company that has brought the most diversified sellers to its base. So, when you look at our earnings, you see that our characteristic is that more than 60-70% of new sellers are in the long tail categories. Long tail grows twice as much as traditional categories compared to previous years, so if we grow 50%, of that 50% we grow twice as much in long tail as in core categories, generating this 50% average. This way, we continued to grow quite expressively in long tail.

And it's extremely important, because we bet heavily on geolocation, on local delivery. We are developing a logistics network using physical stores. We are growing a lot in local delivery, it is no wonder that our first stop with the *caravana* will be in Maceió and the second in Aracajú, we are bringing sellers there from new regions.

And I would like to reinforce what we have, which no other marketplace has, which is the physical store. I want to reinforce that our physical store, in addition to being an important sales channel, is a local support point for the marketplace. It is a post office for them, 400 stores are already functioning as Magalu post offices, more than 15,000 sellers are already using our stores as post offices, dropping products and a very significant amount of the total sales. Of the total we sell on 3P online, 3% is picked up in stores, so we have actually been using the stores and they are largely responsible for the hunting too, all the pre-registration we did for Maceió, the team from the 18 stores in Maceió that pre-registered there for our Magalu *caravana* event, and the stores, in their entirety, brought more than 50,000 sellers to Magalu in the last year. Therefore, the stores work very much as a hunting point for Magalu, and also increasingly as a point of support for sellers, especially with regard to logistics.

And, in this sense, we are significantly improving our 3P logistics – remembering that our 1P logistics are the best in the market –, 75% of 1P deliveries within 2 days, growing very significantly, including delivery. We also launched ultra-fast delivery in the quarter, but 3P delivery has already gone from 22 to 31%, and, with this expansion of regionality we are achieving with Parceiro Magalu and with the launch of our complementary fulfillment service, we intend to significantly increase the share of fast deliveries in 3P, which, as I mentioned, went to 30%. The idea is to grow this number significantly in the coming years, but with the difference that our fulfillment continues within our rationale, it is being developed in the same Distribution Centers as 1P. We don't have exclusive 3P Distribution Centers for fulfillment, that was always the strategy that we didn't believe in, because its cost is very high. In fact, the development which the labs made and which our logistics team made uses the same docks, the same network as 1P, the Distribution Center operator links 1P and

3P seamlessly. It is fully scalable; the way things are done in one Distribution Center can be done in all Distribution Centers in the network. We will also extract all the benefits of being multichannel, so that the 3% store pick-up for 3P will also significantly increase like delivery within 2 days, so we do a fulfillment today that is there now with additional space with 1P inventory reduction, which Beto will talk about. We generated a lot of space in our Distribution Centers and we also have space in our trucks for 3P deliveries with only a marginal cost to Magalu.

Then, again, it is a strategy that is also integrated into a multichannel context and complementary to our ultra-fast and ultra-local delivery, which is our big bet for logistics too. So, we have a complete suite here and we are quite confident that, just as we have a super efficient 1P with very low expenses, we will also have 3P growing with faster delivery, but with only a marginal cost of delivery, which is the big issue for Brazilian marketplaces - the very high cost of delivery, especially when you go to smaller chains.

Please bear in mind that our fulfillment has a differential that, in addition to the courier, we will also have round-the-clock delivery, so larger ticket products will also benefit today. The round-the-clock delivery offer is very limited in the market, we will certainly have very great success, doing round-the-clock delivery for our sellers too and doing the entire fulfillment process for them.

I would like to reinforce that, although we are the leader in durable goods, we believe that this is an important category that is in a down cycle, but that, as I said, when it comes back, comes back very strongly. We want to keep our leadership here, keep gaining share in durable goods. We are doing exceptional work with new categories, we already have 46% of GMV coming from new specific online categories, in which I haven't considered physical stores. KaBuM has already started the 3 months of this year super positively too, games category, computer peripherals for gamers totally complementary to the core of our electronics categories, we have 20 billion in annualized sales, so growth also well above the average of durables, which, in the end, is actually falling a little, so today what is really holding back the company's growth are the new categories.

Anyway, we are very excited about some news. This year we launched perishables, this month, in the Magalu super app, we are integrating all clients of the VipCommerce, which is the e-commerce platform we bought in March last year. In our super app with the EOX already fully developed for the market, which is a totally different EOX for the purchase of other products, electronics, fashion; the market EOX is based on a basket. You have to choose a seller to buy a product, so we made all these investments in improving the EOX. We are integrating all those clients from the Vip, which is the largest e-commerce service provider for supermarkets in Brazil, we even have a beautiful stand at APAS this week, we are super excited there promoting our brand. And we have also evolved a lot in the integration of AiQFome into the super app. AiQFome is also doing very positive work there with 1.4 billion annualized GMV, 3 million orders and, perhaps, the only food delivery operator in Brazil that is profitable.

So, I think it's very positive that we're managing to do this, also with the strategy of growing in medium and small cities in the interior of the states, but thinking about reaching the big cities as well. In both supermarket products and food delivery, integrating the super app and expanding the possibilities of growth in new categories.

I would like to highlight the first quarter for KaBuM. A lot of people are asking about it, so, we already established 1 billion GMV in the first quarter, a fantastic job. KaBuM gives more than 10% of EBITDA margin, a super efficient company, 50 million net profit, already part of our earnings, showing here that it was the right decision by the company. It is already integrated in the Magalu super app as well, in addition to its products, we are selling internally within Magalu and we are also integrating Magalu 1P into KaBuM, which has a very high organic client base and a super loyal audience. Please keep in mind that it is a category that has a very high growth projection, which is one of the fastest growing categories in the super niches in the world, OK.

And, finally, we had a super cool launch on our super app; Compra Junto. I plan to give a taste here of something we're talking about a lot: Magalu, which is one of the main social companies in Brazil through Lu, well, through its 30 million followers on social media, is trying to bring a little bit of the social to our super app, and, finally, we launched Compra Junto, which is basically a process to get clients to invite friends to make a purchase and unlock offers if all friends come and make the purchase. It is the first actual social commerce initiative in Brazil, very common in China, and 76% of Compra Juntos orders are in the market, home, and decor categories, complementary to our core. We are sure that Compra Junto will bring many clients to new categories, categories in which there will be a great deal to discover, mainly driven by the social process. So, I think it is very much in the sense of diversifying categories and growing without investments in media, with a lot... these are categories that have a lower ticket, the marketing cost is very high, I think the smartest way to grow in these categories is through social commerce.

I would like to highlight Ads as well. We have 100 million in annualized revenue, growing in the first quarter in relation to the first quarter of last year of 78% with a great differential that we are launching Ads in the search, which is a game changer for Ads. Then, you can see that we have a little gif there in our presentation, for those following it online, you see that they are sponsored links after a specific search. I think this will give rise to a significant moment of return to sellers and Ads in search, in fact, is what makes the big difference in terms of Ads growth.

I will now hand over to Roberto Bellíssimo, who will talk a little about the Fintech and the earnings in the quarter in more detail and then I will be back for the Q&A with you. Thank you very much.

Roberto Bellíssimo: Thank you, Fred. Good morning, everyone. I will first talk a little about the Fintech here. We continue with the objective of increasing engagement, increasing frequency of clients, and monetizing the ecosystem as a whole as well. Last week we made 2 big announcements in our Fintech initiative. First, aimed at individuals, we launched the personal loan in the Digital Account, so, in March, we reached 5 million digital accounts (MagaluPay) within our super app, very fast growth. We almost doubled the number of MagaluPay accounts in the last 12 months, we also issued more than 3 million cards in the last 12 months, especially Luiza card; concerning Magalu cards sold 100% online, we reached a credit portfolio of R$ 18.6 billion, and, within this credit portfolio, we already have a portfolio, a portfolio of practically 2 billion personal loans for cardholders, for those who already have our cards. And now we are launching... the novelty is the personal loan for those who do not have the card, for those who have the account and for any user of our super who registers quickly, creates their account, and can apply for the loan, which appears directly, in seconds, in our Digital Account.

You can see the experience to the side, it’s a super fast, easy, intuitive experience and of all users of our apps, there are more than 40 million, we already have 10 million pre-approved clients to take out our personal loan.

So, a super novelty to further monetize our client-focused side. And speaking of sellers, we also announced a super novelty, which is the corporate credit card for our sellers. We conducted research and 97% of companies in Brazil do not have a credit card, have super demand, as well as great demand for a free digital account. So today we offer a free digital account to all our sellers, we offer a card machine, we offer loans and now prepayment of receivables, as well as another product for our sellers, which is the corporate credit card, and with a differential, which, in this case, is fully proprietary technology. It is a card issued and processed by Magalu using the technology of the Fintechs we bought last year, Hub Fintech and Bit55. Therefore, another very important step in our Fintech strategy.

And, continuing, we show the growth in the total volume of payments, growing 89% compared to last year, reaching almost R$ 21 billion, with the emphasis on all our fields of operation.

Moving forward, talking a little more about the earnings, Fred has already talked a lot about growth, just to reinforce here, the marketplace grew 50%, our e-commerce in total grew 16%, our physical stores 6%, and, overall, our sales grew 13% on top of a very high base and reached R$ 14.1 billion. A super highlight was the increase in our gross margin, which reached 27.8%, our EBITDA margin returning to the level of 5% in the quarter as a whole, but evolving significantly throughout the quarter and exceeding 6% in the month of March, and the negative adjusted net income in the amount of 99 million, more or less 1% of our net revenue, influenced by financial expenses, mainly by higher interest rates.

Next, we show a little of the evolution of our adjusted EBITDA margin. We went from 2.6% in the last quarter, the fourth quarter of last year, to 5% this year, highlighting the increase in gross margin. Fred has already talked about several initiatives that brought the gross margin to a much higher level. We highlighted the gradual transfer of inflation and interest rates to our clients, we reduced interest-free sales, we somewhat increased the interest rate and interest-bearing sales as well, we made adjustments to the sellers' commission, and also the growth of the marketplace itself was very strong and helps a lot in service revenue, which is 100% gross profit. So, the highlight was the increase in gross margin.

And concerning selling expenses, we already saw a dilution in this quarter compared to the last quarter of last year due to the initiatives that Fred mentioned, which were implemented throughout the quarter and, in March, expenses were already diluted even more and, considering that they were implemented throughout the month, the consequence tends to be more normalized from now on. Concerning non-recurring expenses as well, this quarter they were already much lower than in the last quarter of last year and also practically ended during January and February, so, from now on, we have an important evolution in our operating profitability, important for dealing with the higher interest rate at this time in the economy.

On the next slide we talk a little about working capital. You saw that in the quarter we reduced 1 billion in inventories, as we had promised, we ended up in a position of suppliers much lower than in December last year, so there was a variation in working capital in relation to December of almost R$ 3 billion, compared to March last year, almost R$ 2 billion, and I think the important thing to highlight here is that this is very seasonal, so the first quarter usually has this seasonal effect. The good side of the story is that we paid all suppliers for purchases made at the end of last year, we now have a very low balance of suppliers, I think it is one of the lowest in recent times, which means that, in the coming quarters, our payments will be much lower and, consequently, a very positive impact on the operating cash generation going forward.

Therefore, working capital is very seasonal. We have the opportunity to improve inventory turnover, in all quarters. We have a very healthy average term for purchases, and, certainly, in the last quarter, the trend is for a reversal of this variation in the first quarter and generation of very strong cash. As we have always done in the last 5 years, we have always grown generating cash from the working capital as well, so this is our objective and it was necessary to make this adjustment, this reduction in inventories of 1 billion. In the short term, it has this effect because they are purchases that were made last year, now they are purchases that have already been paid for. Now, from now on, a positive trend, that's why the variation in net cash adjusted there on the side is not a loss, it is a variation associated with working capital, that when working capital returns to normal in the seasonality of the next quarters, the cash variation tends to follow and be positive and highly associated. And we continue with a net cash position that is one of the best structures of retail capital, net cash of 1.6 billion, and, on the next slide, we show a little more about our cash flow.

So, in the quarter, it is clear that the variation from 12.3 billion to 8.5 billion is very much concentrated in the variation of working capital, which I have already explained, investments, mainly in logistics and technology, of around 200 million, the payment for the acquisition of KaBuM in the amount of 500 million, and leasing and interest in the amount of 200 million. Hence, this variation in the cash flow for the quarter, again, very seasonal, very much associated with the working capital.

And, on the next slide, we show that in 12 months we increased our cash position from 6 billion to 8.5 billion, also with the effect of the variation in the working capital, but we will improve inventory turnover and will return to normality, and also with the capital that we raised last year, both equity and long-term debt, we have a very strong cash position, it is one of the largest cash positions, certainly, for a first quarter, one of the largest cash positions in our history divided between 2 billion cash and 6.5 billion receivables available.

On the next slide we talk a little about Luiza Cred, also a super highlight. We reached 7.3 million Luiza and Magalu cards, more than 1 million Magalu cards, we grew the base by more than 30% in the last 12 months and, importantly, we grew income by more than 50%, which shows that our clients are using more, more often, spending more with our cards. We grew Luiza Cred income from 8 billion to 12 billion, highlighting the growth both within Magalu, more than 20%, and outside Magalu, more than 50%, super important for the activation of the card and monetization of Luiza Cred as a whole.

Finally, talking a little about the quality of Luiza Cred's portfolio, we show that we have one of the lowest 90-day NPL levels in the market. It increased a little in relation to December and a little in relation to March last year, but it is at a level of 6.6%, which is a level far below the pre-pandemic level, which is why we show here March 20, which shows the quality of Luiza Cred's portfolio even in a scenario of increased default in the market as a whole due to inflation, interest rates, and everything else, and even in a scenario in which we are growing a lot, adding many new clients, even so we continue with a very good quality portfolio, a coverage index which is also very high, 173%, and, when we show the net income on the side, Luiza Cred had 34 million net income in BRGAAP and a net loss of 27 million in IFRS, and, here again, these are growing pains due to a very conservative provisioning policy.

The difference here of 60 million in net income is the result of a difference of around 100 million more provisions in the quarter made under IFRS versus provisions under BRGAAP. So, again, a very conservative quality and level of provisioning. We are sure we are building a very healthy, very profitable portfolio, and one of the largest credit card operations in Brazil.

And that's it. Thank you and we will now start the Q&A session.

Q&A Session

Vanessa Papini: We will now start the question-and-answer session. To ask questions, click on the Q&A icon at the bottom of your screen, enter your name, company and question language to join the queue. Upon being announced, a prompt to activate your microphone will appear on the screen. You can then activate your microphone to ask your question.

Our next question is from Joseph, of JP Morgan bank. Joseph, please go ahead.

Joseph: Hi, good morning everyone, good morning Fred, Beto, Vanessa, thanks for taking my question. I would like to explore 2 macro themes, one of which Beto has already explored in depth. I think, looking at the e-commerce side, we see the company increasingly leveraging physical assets to grow, so looking at going forward, even thinking about the long tail categories that have a lower average ticket, but not necessarily always lower, I would like to understand from you, Fred, when we should perhaps think about 3P reaching 50% penetration of e-commerce, which was that old 50-50 goal, you know, 50 online and 50 3P, online has been over that for a while, but I would like to understand when you are perhaps envisaging this 50% in 3P.

And the second question is a bit on the cash burn side, looking at that variation in the company's net debt. I would like to see, perhaps within the best projection that you have, how we should look at this number, maybe towards the end of the year, right, so if we should have a more robust cash generation, thinking about the second half of the year. And the second is how maybe the Ads business, which is a very high margin business today, 100 million of annualized revenue, can help, as well as the part of Magalu Pagamentos and the Corporate - PJ account, if this should somehow help cash generation throughout the year. Thank you.

Fred Trajano: First, thanks for the question, I'll answer the first one and then I'll pass it over to Beto to talk a little about cash dynamics. Well, anyway, we can see from the 3P growth rates in the first quarter and even in the fourth quarter last year, that they are significantly above the 1P, so I think we are adding sellers base, we are growing especially in new categories, in short, although our 1P is very robust, we are the market leader in 1P, we had growth there that I think is above the historical average in the last 2 years, largely due to the pandemic, Joseph. So, 1P really grew like 3P in the pandemic. 2020, 2021 grew 3P rates, which if it weren't for the pandemic, it wouldn't have been the 1P normalized growth, but it happened because people were home, they needed to buy, and above all, they bought a lot of durable goods. Throughout this pandemic it was the category that did well all over the world in the 2 years of the pandemic, so there was growth that ended up postponing the increase in 3P share a little, but if we continue to grow 3P at rates that are much more expressive than 1P, which is the trend looking ahead, the share growth – which is never a goal, OK, I want to make it clear that I never had a goal of online share over physical store and because I want to grow all channels, we want to grow physical store, 1P and 3P – but naturally 3P will grow more than proportionally, all our work with Parceiro Magalu, physical store digitization is a differential, it is a blue ocean because we are entering a sellers base where no one else is, the Magalu caravana that we are holding, I think it will be soon, thus 3P will in fact be largely responsible for the company's GMV and will continue to be the great growth driver as it was in the first quarter, the great growth driver of the company was 3P and it will continue to be, looking forward necessarily in the long term. So, this is our vision.

The 3P is accreative from the standpoint of post-margin contribution of the company operated the way it is operated now, because the way 3P was operated last year by the market was more of a negative contribution, so take rate zero, free shipping over all even for a product of, I don't know, R$10.00 average ticket, so we were operating in an absolutely irrational situation. I see that all marketplace players in Brazil have become more rational recently, and it is a banner that Magalu likes. Magalu has always historically operated with profitable growth and 3P is intrinsically an even better channel than 1P, intrinsically and conceptually, but it has to be put in practice, with healthy competitive practices, which is what I'm seeing happening now.

So, we should continue to grow above the market average and it will contribute to margins, just as the marketplace will contribute to our margins because we think we can certainly get back to historical levels, we worked for around 4 years, and I was the CEO, with margins above 8%, so I see this as an absolutely healthy level and I think that at this interest level it is healthy. We will have contributions from all Fintech actions, especially credit, both for the seller and consumer, because credit is the money maker in the Fintech world, payment processing is just to get the basis for you to activate credit, but what really works is credit, anticipation of receivables and credit not necessarily related to receivables, plus Ads, a sector that operates worldwide with a 50% margin, especially when it is growing, and I think the market has a lot of room for it. We have 400 million sessions per month considering all our channels, KaBuM, Netshoes, Canaltech, Jovem Nerd, Steal the Look, considering all of them, we have 400 million sessions/month. It's quite an ecosystem, with a huge audience, so we can significantly increase monetization and marketplace, with Fintech focusing a lot on credit, both to companies and individuals, and Ads will contribute a lot, so that we regain margins and even surpass our track records in the future, which I'm sure is what lies in our future.

And about cash, I think Beto has already explained, we also generated more than 1 billion of cash per year in the last 5 years, the exception was last year, mainly due to the issue of inventories, that we discussed a lot in recent quarters, which slightly unbalanced working capital. But we have always operated working capital in a positive way, suppliers greater than inventory, with a positive cash cycle and that is what we will resume. Again, our track record speaks for itself, a super consistent track record, 1 billion in average. Even if you consider last year, if you add the year before last with the past year, it was more than 1 billion in cash generation, because in the year before last, it generated more than 3 billion in working capital.

So, the pattern at Magalu is to generate working capital above the result, so we are optimistic about it this year. Obviously, there is a lot of work, we are in the midst of a complex economic situation, but that is our focus.

And, Beto, would you like to add anything?

Roberto Bellíssimo: Joseph, I think Fred said it all. In the second half of last year, we had a purchase plan and we already had an order schedule with the industry for 3 to 6 months, so it was not possible to stop buying when we saw the sales slowdown, and we ended up buying and ending up with a higher inventory and this meant early payments in this first quarter, so to speak. So, I think the variation in working capital this quarter, in addition to the natural seasonality of the first quarter, is totally associated with the anticipation of purchases that we made at the end of last year.

This will no longer happen, this year we already have a budget, a purchase and sales schedule that is much more adjusted to the current reality, we continue to improve inventory turnover, we already have a healthy average purchase period, but we are always looking for an average term to fund our inventory turnover, so, as Fred said, we have always generated cash based on this ratio, the trend is for this to return in this quarter, in the second quarter, in the third quarter and very intensely in the fourth quarter, which is the best of them all and for the first time, the World Cup and Black Friday will be in the same period, especially with Netshoes.

So, regardless of the macroeconomic scenario, seasonality leads to a period of higher sales. With more controlled inventories, you end up generating a lot of cash and then this leads to a greater balance of suppliers at the end of the year, which is then paid in the first quarter of the following year and the game moves on, this is retail dynamics, working capital dynamics. So, the quarter that let's say, has the most negative working capital is only the first quarter, the trend in the coming quarters is cash generation from working capital.

So, I think this is what we can say about cash generation as a whole. I don't know if there was any further topic in your question, Joseph.

Joseph: That's it, Beto. So, only if Magalu Pagamentos starts to contribute in some relevant way in the second half of the year.

Roberto Bellíssimo: Magalu Pagamentos has contributed a lot in recent years, both in terms of margins, working capital and final profitability, so Magalu Pagamentos, which is actually a highlight, showed growth of nearly 75% this quarter compared to the first quarter last year, and we say "the marketplace GMV grew 50% and Magalu Pagamentos grew 75%", which shows that our sellers are using our means of payment more and this has contributed to service revenue, which consequently increases our consolidated gross margin and profit, and with this profitability, Magalu Pagamentos once again had a profitable quarter. Last year, it generated 150 million net profit, this year the trend is also for high profit from Magalu Pagamentos and now even more so, with more services, more products and services for our sellers, including the corporate credit card, which is issued within Magalu Pagamentos.

So, it's another way to monetize our Fintech ecosystem as well.

Joseph: Perfect, thank you.

Roberto Bellíssimo: Thank you, Joseph

Vanessa Papini: Thank you, Joseph. Our next question comes from Bob Ford. Bob, can you hear us now?

Bob Ford: Yes, thanks a lot. Congratulations for the improvements and thanks for taking my questions. Is the improvement in operating margins just to meet past interest or is it something we should expect in the long term? And can you also discuss some of the early things learned from this market in terms of challenges as well as response in consumer engagement, please?

And finally, in Magalu Ads, where are you in relation to consolidated terms and functionality of Ads and what do you think about Ads long-term contribution to the group, please?

Fred Trajano: Well, Bob, thanks for the question. What was the first question?

Bob Ford: Is improving operating margins a short-term and long-term thing.

Fred Trajano: Bob, the margin increases were something that we have been working on and communicating to the market since 3Q last year, it is absolutely necessary in this reality of higher interest rates. So, without a doubt, the short term is a trigger for us, in short, to focus more on margin than growth, mainly on the 1P of durable goods and also in physical stores with durable goods, sales from physical stores – when I say 1P I am talking about the 2 channels – because it is the reality now that you need for this moment.

Now the point is, whenever you gain efficiency, it comes to stay, and then when interest rates drop, which is our perspective... well, there are some who expect this in the second semester, others who expect it only next year, but whenever it lowers, the margins stay and the bottom line improves significantly, so I think it is an efficiency improvement that is here to stay. You also use crises to improve efficiency, focus on things, and when it is a growth level you don't focus, and then that efficiency usually stays. And recalling that these margins also tend to increase not only with efficiency measures, but with the new products that we are developing and intend to scale, as I said, it is the Fintech, we talked about Magalu Pagamentos, but above all the credit operations that we will provide to companies and individuals tend to improve our margins. They have always contributed to Magalu's results, it is not news for us, I have more than 40 years of experience in consumer credit, so credit is something we know how to operate, not news, so much so that the NPL, despite the crisis is well under control at 6 and I believe we will have good news from now on in relation to margins from this operation, not only from individuals but from companies as well, and I also see Ads with a huge potential to contribute to margins, when looking forward.

So, I believe, I am optimistic about this issue, and another thing, it will be our focus too, I believe the market tends to demand more profitability from technology companies, the whole market is already operating with this more rational base, so I think everybody is looking for more profitability, more balanced profitability growth, this is obvious, all companies in Brazil and the world, including startups, are seeking profitability. So, I think that this is a one-way ticket, that the basis will be closer to valuation and, finally, companies in general, publicly-held or closely-held will be looking for this, this ends up giving more room for companies that have always operated at rationality level, with a good balance, such as Magalu.

About Ads, Fatala, I think you could talk a little about the technology part that we are developing in Ads, a little about both geoloc and this search service, just to show a little bit what we are doing from the technological standpoint, and then I will ask Edu to talk a little about the market.

André Fatala: OK. Hi Bob, talking about Magalu Ads, we made a change last year with the acquisition of the Inloco team, and regarding source code, we developed our own AdServer, we worked hard to adapt it to what we wanted to do here on Magalu Ads, we launched it, and now started to work on having more real estate, let’s say, within the Magalu channel. First, we started with recommendations, some display windows, now we are taking it to search, we are working on the matching algorithms, to also consider the geolocation of these products, also give priority in Ads to products that are closer to the consumer. This is being done now and as the next step we can exploit the traffic that already exists from other Magalu channels, Netshoes, Época, Canaltech, KaBuM, and, as said, this gives the sum of 450 million sessions/month, and be able to use all this traffic and display our sellers’ ads.

So, this is what we highlighted in the part of the road map regarding development, so today we have this part of evolution within the channel in Magalu and now we will move forward to take the ads to other channels in the ecosystem.

Fred Trajano: Edu, do you want to add anything here?

Eduardo Galanternick: I think that, as Fatala said, the expansion of the gold platform, to be in the search and we even do that well considering what self-service is, this is what will give us scale, we are very confident about that. On the other hand, our content verticals, Jovem Nerd, Steal the Look, Canaltech, as we joined commercial forces, we are managing to have expressive growth in the revenue from these channels, we have special products bringing this community of advertisers closer, we have a relationship with our vehicles, as well as with all the projects we have within Magalu itself.

So, as Fred said, it is a high-margin business, that is, Ads with these 2 drivers, which is the platform through service channel mainly through sellers, and on the other side the branded content part, top of the funnel for large advertisers. And we are very confident in the work of the entire team towards continuity, to keep growing and contributing to the company's results.

Fred Trajano: He also asked about the market, Edu, I think I wanted to... I'll answer, then if you want to, you can add something. The market is already very important from the number of orders standpoint, it represents around 40% of the total number of orders, this is our 1P effort, and now we are greatly increasing the 3P effort, which includes orders from VipCommerce, and we must also consider AiQFome. Bob, I think all this is aimed at increasing frequency. Recalling that our growth focus is not 1P, it's 3P, this Vip integration that we just announced and is entering perishables here. It is now very much in the early stages. We are optimistic, I think the way to grow is to make local commerce and the local store for the platform, not to make the centralized market 3P, the traditional marketplace model, and I think we are going in the right direction with the purchase of Vip, with the integration of the super app to do this in an economically efficient way, because trying to deliver soap powder from a Distribution Center in São Paulo to the northeast by plane is not going to pay the bill. So, I think this is the company's focus, to make the delivery there super-cool. The smaller the ticket, the more local the delivery has to be, so this is goal for the lower ticket category.

Vanessa Papini: Thank you for the question, Bob.

Our next question comes from João Soares, of Citibank. João, please go ahead.

João Soares: Good morning, thank you, good morning everyone. I wanted to explore fulfillment a little bit, Fred. What is the company's ambition today regarding fulfillment penetration, looking perhaps at the 3P GMV percentage and thinking a little about the economics of this fulfillment, how are you going to charge, perhaps with an additional take rate here for the seller, to be within fulfillment, in short, understand what the company has in mind for the economics of fulfillment.

And then, a second topic, just to see if we are interpreting your mind correctly here, it is interesting to see that 3P already has an incremental contribution margin to the rest of the company, so I think we understand, looking at the medium and long term, we are seeing an environment today, as you mentioned, that is very rational, and later on maybe this environment will change again. So, I don't know if the company's intention is to maintain, sustain this 3P contribution margin via Ads monetization, as you said, perhaps fulfillment monetization and this offsets other investments.

Anyway, I would like to understand the company's mindset in the medium and long term for this 3P contribution margin. Thank you guys.

Fred Trajano: Thank you very much for the question. I'm going to talk a little bit about fulfillment. Décio is on vacation, he's not here today, so maybe Fatala can give a little further information from the point of view of how we systemically designed the fulfillment, but the logic was - and that took a while because we designed a systemic solution – that we would like to have a fulfillment that is absolutely supplementary to 1P, we wanted to use the same Distribution Centers, the same docks, the same logistics operators, the same store truck and all the same fleet and network that leaves the Distribution Center for the customer's house, including all the cross docking bases that we invested in.

We invested a lot in area last year, we had a historical Capex investment, we have more than 1 million square meters of storage area, reducing 1P inventory, and now we have room to operate sellers and partners categories under an already installed cost, so this is the plan, and we also have truck idleness ranging from 30 to 50%, so I think there is a lot of marginal space to absorb an already existing network, existing routes that already work for 1P and supplement that with 3P, which obviously increases with storage. We already have Magalu Entregas, which has grown a lot, 110% in the last quarter, we have already reached 30% of deliveries within 2 days, and I think the focus of fulfillment is to help this 30% within 2 days to increase, I will not give guidance on that, but the plan is to significantly increase the share of 3P delivery within up to 2 days. Today this is our only relevant logistic gap, the delivery time within 2 days. Recalling that we only started our efforts a year and a half ago, went from zero to 30, right, so we're already there, I think we've evolved a lot in a company that only started the marketplace 5 years ago, brought in 180,000 sellers, went from zero to delivery in 2 days at 30%. I think we did a very good job, and the way we designed our fulfillment is totally accreative. I think we will be able to make a profit operating with the lowest fees for market sellers without unnecessary subsidies, because, again, the cost is marginal, we are using a base of already installed Distribution Centers, already installed areas.

We should increase Distribution Centers looking ahead as well, obviously now we already have a layer of fat because we invested a lot, but increasing the logistics capacity, 30% of the store area is also for storage, this is super important to reinforce, it's not just the Distribution Centers and cross docking centers, so it's logical to take advantage of being multichannel. And recalling that Collect from Store for 1P is 45%, ship from store and Collect from Store is only 3% for 3P, this number will increase a lot and the cost of Collect from Store is very low for the company in 1P and will be low for the seller as well. So, I think that fulfillment will help in many ways and we were able to design it in a way that has the same benefits as our 1P multichannel.

I think the digital world rationality is a one-way ticket. I think we are not in Kansas anymore, I think there have been many, many years of negative interest in the world, I don't see the possibility of Brazil returning to 2% nominal annual interest in the short term, so I see that, in general, investors and executives will have to make growth happen with rationality, so irrationality in today's world no longer makes sense and, in my opinion, it won't be back anytime soon. So, startups that are operating with a lot of cash burn are not succeeding in raising funds and large government-owned company operating with high cash burn are being forced to rationalize, under pressure or having a very strong pace in share price, so in my opinion it's kind of a one-way ticket and this is how Magalu has operated historically, with a lot of balance, we have always grown above the market with profitability and we will want to continue operating on this principle, especially in an environment where the cost of capital is so high.

João Soares: Thank you, Fred. So, just to conclude here, so we should... maybe this 3P contribution margin is on an upward trend?

Fred Trajano: With the integration... with the inclusion of Ads and products and Fintechs, yes. We have already increased the margin, which already gives us the possibility of working so that we have a positive contribution margin, we don't need to increase it further now, because we are not burning cash. There is a marketplace burning 2 billion of cash per year and the negative economics per order, we are not in this situation, so here we should keep an upward level, but without major bumps because we also have to balance growth. Our 3P is not as big as we could be and we will get there, so it is important that we balance it well, without exaggeration. I think we are being tougher there in relation to margins in 1P, in 3P we just wanted to have a positive margin and develop initiatives to improve it in the long term, but we don't want to exaggerate the dose here because we need to keep growing 3P above 1P.

João Soares: Thank you, Fred.

Vanessa Papini: Thank you for the question, João.

Our next question comes from Irma Sgarz, of Goldman Sachs Bank. Irma, go ahead, please.

Irma Sgarz: Hello, good morning. I have 2 questions. First, just going back for a moment to fulfillment, I just wanted to understand a little more about what changed your mind, as in the past you've said that fulfillment might not make so much sense, that offering cross docking to sellers would be the solution, would make more sense to you. I understand that idle capacity has a very important reasoning, but I imagine that there must also have been some other feedback, something else you learned that changed your mind. So, I just wanted to understand a little more about this evolution in the logistics strategy for sellers and fulfillment.

And the second question, which was Caravana and Parceiro Magalu, these initiatives are really cool, I think it makes perfect sense. I would like to understand a little more about when you started to think this would be an important driver for 3P growth, if this is already something for this year, maybe for the second half of the year or more in the future, more for the medium term, let's say. Thank you.

Fred Trajano: Well, Irma, thank you very much for the question, I think it gives me the opportunity to clarify that, after all, it is not a strategic change, we never said that there would be no fulfillment, we always said that our focus was on local delivery and cross docking, and it still is. I don't see fulfillment being the major part of our deliveries in the future, it will always be an additional option for sellers who want to stock products here, but we continue and will continue to grow a lot in delivery with cross docking and focusing heavily on hyper local delivery. It is a supplement to logistics services, recalling that our fulfillment does not come with an exclusive Distribution Center for 3P, which is the market standard, using the infrastructures already owned by 1P, supplementing 1P facilities with a much lower marginal cost than the cost of those operations that are 3P Only, which, in short, was a differential of our 1P, which has always been the only 1P with profitability in the market, and will be for 3P as well.

So, I don't see it as a strategic change, but rather as a supplement to options for the seller. It means that I still think, looking ahead, that fulfillment will never be the biggest part of our 3P deliveries, but it will be an important option and will contribute to increasing faster delivery times, higher service levels for those sellers who want to pay for this service. So, again, it's a supplement and not a strategic change of route.

I do not remember the second question. About the caravana! As to caravana, in short, we are going to visit several Brazilian cities, so it has a super important aspect of attracting a very specific seller, which is the analogue seller. We believe that it is important to have this proximity in order to make this conversion, as I said, it's a multi-year project, we're going to visit several cities this year and we're going to do this next year, we're super excited about it, but keeping in mind that it's part of a larger value proposition, you don't just hit the road, we have a whole technological stack from Parceiro Magalu that is unique for analogue retailers, we have the entire physical store hunting team that has done the preparation for this, we have all the logistic capacity with the store as Agência Magalu and we also have all the work from the hunter teams and a series of other initiatives that we have in order to attract analogue sellers.

As a whole, they are already making a difference. We were the company which has added the most formal sellers to our base in the last 2 years. We already carried out 2 important pilots in April, so I am very optimistic that all the initiatives have added to the caravana, which I think is the icing on the cake, which will help us to continue to have sustainable growth in the seller base. And an important point of the caravana is not just to bring in new sellers, Irma, it is also to sell more ecosystem services to sellers, meaning selling more credit, more machines, selling the card, putting sellers on all platforms of the group, not only in Magalu, but also in other platforms, to attract restaurants to AiQFome. So, it has a vision of materializing the ecosystem in the city, not only bringing in new sellers, but also cross selling.

Irma Sgarz: It's very clear, thank you very much.

Vanessa Papini: Thank you for the question, Irma. Our next question comes from Helena, of Banco Itaú BBA. Helena, please go ahead.

Helena: Hi guys, thanks for taking our question. Our question is actually a follow-up on some things that have already been raised here, about profitability and working capital, but what we wanted to understand here is how you were able to reduce a large amount of inventory and at the same time improve profitability. So, if you could discuss a little bit about how the 1P margin was specifically, how it evolved the gross margin and when you think this market rationalization was important for this improvement, that would be great. Thank you.

Roberto Bellíssimo: Good morning Helena, thanks again for the question. Well, the gross margin, as we pointed out, grew so much in 1P in terms of revenue from goods due to the effects that we mentioned, price increases and interest charges for end customers, so, well, this affects the gross margin of goods significantly, this margin increased a lot in relation to the last quarters and returned to a level closer to that of the first quarter of last year, when we only talk about gross margin on goods. When we talk about Magalu's total gross margin, just the parent company, there is the service revenue helping a lot, and this service revenue is associated with an intense growth of the marketplace, which grew by more than 50%.

So, when we look at Magalu only, we had a large margin expansion combining these two things, and, when we look at the consolidated, there is the parent company and the consolidated, we have the very positive effect of Netshoes and Época Cosméticos, two very important verticals and leaders in their categories with a gross margin of 40%. There is also the consolidation of Magalu Pagamentos, Hub, Bit, all of them Fintechs with a very positive gross margin, basically, it constitutes revenue from services, which has a very high gross margin, this makes Magalu's gross margin grow even more in the consolidated.

So, it is a combination of factors, Magalu's products and services, new categories, and Fintech services; and when we talk only about goods specifically, I think you highlighted a point that is super relevant, we managed to increase the merchandise margin a lot compared to previous quarters, we sold 1 billion in inventories, which we talked about, selling excess products in a quarter that is usually marked by fantastic sales, the retail promotions at the beginning of the year and everything else, and we managed to do this with great operational efficiency, we were very assertive in all campaigns, all promotions in stores, e-commerce, the two channels, let us put it this way; we managed to reduce interest-free promotions and increase interest-bearing sales, and this also involves campaigns, mobilizing the sales force in physical stores, a lot of AB testing in the e-commerce, we managed to reduce... a year ago there were many campaigns for payments in up to 24 installments without interest, that no longer exists, interest-free sales are for payments in up to 10 installments at most and in a much smaller proportion than in the past, most of the sales for payments in more than 10 installments bear interest, and then when we sell with interest, before we charged lower interest rates, now we charge higher interest rates.

So, a series of initiatives that increased our gross margin of merchandise too, even though we sold 1 billion in inventories. Therefore, I believe it is a combination of factors, all of them very sustainable, so to say, and we will continue to try to reach them in the next quarters as well.

Helena: Perfect, thank you.

Roberto Bellíssimo: Thank you, Helena.

Vanessa Papini: Thank you for your question, Helena. Our next question is from Daniela Eiger, from XP Investimentos. Dani, go ahead, please.

Daniela Eiger: Thank you for taking my question and good morning, everyone. I have some follow-ups. The first point is related to working capital, I would like to explore a little bit this intense reduction in suppliers, I understand that you said that it was a consequence of lower purchases, and I think that maybe it was because of this normalization of the level of inventories, but I would just like to understand if there is also a dynamic issue, perhaps a negotiation of better conditions for cash payments, in short, that you saw as an opportunity in view of this more challenging macro scenario to, perhaps, ensure a more adequate gross margin at a lower price level. Anyway, I would just like to understand a little bit if it was purely an issue of lower purchases or if there was also a negotiation issue.

And also thinking ahead, you mention this more adequate level of inventories, however, given the issue that we have seen of China still in a lockdown, a risk of supply disruption, we see the lack of many products in the United States; how do you see a possible recovery, especially I think in the second semester here in Brazil and then maybe more concentrated in the fourth quarter, how can we think about this new level of inventories, if this already makes sense even in this scenario of a possible resumption in the second semester or not, then eventually we would have a new recomposition for the second semester.

A faster second semester, just to make sure that I did not miss it, but this issue of operating margin at 8, I would like to know what timing you believe that makes sense to think about this return to these levels. And the last one is in relation to the default issue, in fact it is quite controlled, but I would like to know if you could explore it specifically looking at the sellers, which is actually your risk. How has this been going on and if you could talk a little bit about how you see the mortality of these sellers in view of this more challenging macro scenario.

Well, I think that is it, thanks for taking the question.

Fred Trajano: Hi, Daniela, how are you? Good morning. Well, the question has several parts, let us see if I remember them all. The first one about the suppliers' dynamics. I think that, in fact, regarding terms, the levels are still absolutely healthy and, in fact, I believe that in a scenario where you are negotiating a period for reducing inventories and then recomposing these purchase inventories, actually you always have to analyze which is your best option, more time or a lower cost and what brings the best profitability for you. We thought it would be good for us to enter the second quarter clean, without long payment terms with the suppliers, with a much lower inventory level than the closing level at the end of the year, so now we can push the second quarter forward with a more balanced operating margin.

So, yes, in a certain way with clean working capital to carry out the negotiations from the second quarter onwards, we do not have many suppliers close to maturity, so we have a very positive space for negotiation for these conversations from the second quarter onwards.

I still think that the inventory is not fully equalized because, if you look at the coverage term, we have already had better terms, so there is still some work to be done, it is not fully equalized, but the majority of the work we did in the first quarter.

That being said, I think the situation now, Daniela, is much better than last year. Last year we acquired inventory in the second/third quarter of the year, the dollar was at 5.70 and we were there at the top of the overheating in the United States, which were buying all the products in the world, so there was a moment of much... The Corona Voucher in the United States was much higher than ours, I believe it was US$ 3,000, so, in fact, there was an explosion in consumption there and it was a time when there were not many products in the world and the dollar was high. Now, the dollar is at 5 and we even feel there is a certain excess of products.

Not yet as much as it will happen in the second semester because I feel that the economy is slowing down in the United States and it will continue to grow strong with this interest rate increase project, but what I have been talking about with my suppliers, Rego can complement later, our sales officer, is much more availability in most suppliers than we had last year with a better dollar rate, so we have better purchase conditions here, even with better costs, the exception is steel, the white-good appliances that are still under cost pressure, but there are products to be sold, there is no supply problem, but I think we are in a better condition with lean working capital to make negotiations from now on and maintain higher margins and all, but we believe that we can improve the margins and improve the working capital looking ahead.

Let me make this clear, Daniela, we are not giving a guidance of 8, OK? What I said is that, historically, we operated at margins of 8 and that we could reach such margins again, in short, because this was our standard, I am very convinced that this is possible again. I am not going to give any guidance regarding this term and it is not even a guidance, it is just a comment that we operated 4 years in a row before the pandemic, all stores open, with a better growth and margin balance, so we are totally capable of reaching that again because the company is bigger now, it has more scale, more bargaining power, more scale to dilute fixed costs, so, I am convinced that this is possible, but it is not a guidance and I will not set a time frame for it.

I do not remember the other questions, Beto, you can comment.

Rego, and then if you want to comment on the suppliers' issue, feel free.

Roberto Bellíssimo: Good morning, Daniela, how are you? Regarding default, you asked about sellers' default, right? And we have a product that is a loan for sellers, financed through our FDIC, we have already granted loans to more than 1,000 sellers among the 180,000 sellers we have, the focus is small sellers, sellers that need a loan to invest in inventory and sell more in our marketplace, so they are sellers to which we lend, on average, around R$ 50,000 per loan. It is still a relatively small portfolio, this internal account has only around R$ 50 million, we are doing adjustments to the experience and models and, soon, we should accelerate it, we will probably scale this product a lot, which will grow a lot in the future, driven by the growth of our marketplace, the growth of our seller's base as a whole.

I think the default today is very low, the NPL 90 is below 5%, this is public data, we disclose it in our FDIC results, it is public data, you can see that the default is very low, we are still making these adjustments, the advantage of this product of ours is that, first, we have all the seller's data on a daily basis of transactions and our seller's score, so that is why the default rate is very low too, we use all the data to pre-approve and approve the seller based on experience, NPS, quality, growth, growth rate, cancellation, all the data we have available on the seller on a daily basis, which greatly improves our approval model, we also combine the model with external data, obviously, so that makes the approval itself very efficient.

In addition, the seller has an umbilical relationship with us, they sell through the platform, they want to pay to be able to continue selling too, so it is different from a clean operation, a simply transactional operation, it has a very strong relationship, a certain interdependence, and, above all, we have the receivables as a guarantee, and, in the future, we will even be able to have inventories as a guarantee.

So, this operation is super relevant for our strategy and for the growth of our Fintech, our marketplace, and the monetization potential as well. Thus, a super-controlled and super-low default, less than 5% of NPL 90.

Daniela Eiger: Excellent, super clear, thank you.

Roberto Bellíssimo: Thank you, Daniela.

Vanessa Papini: Thank you for the question, Dani. Our next question is from Richard Cathcart, from Banco Bradesco. Richard, go ahead, please.

Richard Cathcart: Thank you, Vanessa. Good morning, everyone, thank you for taking my question and thank you for the information that you shared in the release about the growth of the several categories.

I would like to ask specifically about the apparel category, I know it is a topic that we have already discussed here, but I would just like to go back specifically to the issue of cross sell level that you are managing to encourage among specialized sites, Netshoes, Zattini, Época, etc. and Magalu's super app specifically in the apparel category. Also, I would like to understand, if you could share some information about the levels of organic and paid traffic in this apparel category. Thank you.

Fred Trajano: Thank you for the question, Richard. I will let Sílvia, our Head of the Fashion area, answer this question.

Silvia Machado: Hello? Good morning, Richard. Sorry, we were having an issue with the microphone, but thanks for your question. So, first, when we talk about our website, our specialized websites and Magalu's super app, in short, we understand that each of these value propositions have a very relevant role, whether on the specialized or general website, right. So, our super app allows us to really do the one stop shop, it is the destination of all our audience within Magalu and, mainly, it is based on the marketplace, so we can leverage our assortment diversity by coupling many sellers, thus, bringing this easiness and convenience to our consumers.

So, there is a series of benefits that we are developing with our general value proposition, it has cross-benefits for the consumer in the super app. When we run a Cashback campaign, our consumer has benefits in several categories, we have the Parceiro Magalu, Parceiro Magalu is very relevant for both categories, both fashion and beauty, also from the point of view of bringing small sellers; at Magalu, we have this purpose of being able to involve these smaller sellers who, often, will not be able to go digital themselves, but we can, in the Magalu app, with Parceiro Magalu, support these sellers and these smaller brands in the digital transformation, and this is very productive, we have already seen very expressive earnings.

So, today, in the fashion category, Magalu has been growing at 3 digits for a few quarters; in the first quarter we grew 115%, so Magalu already represents 40% of our fashion sales and we understand that, in the future, this will continue to evolve at that speed.

And then when we talk about the cross sell, your specific question about cross sales among the specialists in the Magalu app, we also see this benefit; Zattini, Netshoes, and Época are big, sellers in our Magalu super app and we are able to leverage the expertise of these specialized platforms, which is this experience more focused on the category, we sell higher average tickets, at Zattini we can sell higher average tickets, so, generally, products, a mix of more fashion products, and this is also leveraged between Magalu and Zattini.

However, Richard, I will just stress that we also understand that each of these specialized websites have a separate role, OK, so, yes, within Magalu with the cross-selling in Magalu, but they also have their audience. Just as an example, together, Netshoes and Zattini have an active user base of 9 million clients, it is quite relevant. Zattini has 2 million active users, it is a very engaged base and we understand that it is important and that it will continue to have investments in the future.

And I recall that you asked a question about flow, organic versus paid flow. Richard, we understand and we can see that, within our specialized websites, Zattini, Época, Netshoes, we have a greater organic flow, so they are platforms that are the destination for the categories and have gained loyalty, so the organic flow is higher, it is also highly leveraged by our apps; as I said, Zattini has 2 million app installs, a very engaged base, in recent months, it was in the top 3 among the most installed apps in the fashion segment. So, we have this strategy with our specialists of investing and engaging users via the app, and this helps us a lot with the organic flow.

In Magalu specifically, there is greater leverage in the paid flow, however, over the months, we have also been following this evolution of the increase in the organic traffic, as we create this base, knowledge is created, we can also see this progressive evolution of the organic traffic in Magalu.

Richard Cathcart: Excellent, thank you for the answers, very helpful. Thank you.

Vanessa Papini: Thank you for the question, Richard. Well, our next question is from Andrew Ruben, from the Morgan Stanley Bank. Andrew, please, go ahead.

Andrew Ruben: *Hi, thank you for the question. Most have been answered, but I would like to understand a bit more about KaBuM, in particular what drove a continued strong margin and if there are any takeaways from KaBuM's margin trajectory that can perhaps apply to the Magalu core business. Thank you.*

Fred Trajano: Thank you for the question, Andrew. Well, KaBuM is a very special company in many aspects, its segment is growing a lot, it has a huge loyal base, a huge organic traffic, an extremely high level of cash sales, its Pix share is above 30% to give you an idea, so discounting receivables does not have much effect in its... although it is a high ticket operation, very high cash sales share, and hyper efficient, so its SG&A is 10%, very low, in short, centralized inventory in Espírito Santo, a very balanced operation, very efficient, with unique characteristics, without so much competition, it does not have big competitors, they are small operators here in Brazil that do not have KaBuM's reputation, so it has particular features and, of course, in all the companies we acquired, we always try to bring know-how, we did it with Netshoes and certainly with KaBuM, whatever there is of intelligent processes and more efficient operations than ours will be used for 1P as a whole as well.

But it is proof that a well-managed 1P can pay off.

Vanessa Papini: We now conclude the questions and answers session. I would like to turn the floor over to Frederico Trajano for his final remarks. Please Fred, you can continue.

Fred Trajano: Well, I would just like to thank you for participating in the earnings call and wish you all a good week.

Vanessa Papini: The Magalu conference call is finished. The investor relations team is available to answer other questions and concerns. We appreciate everyone's participation and have a good day.