CONFERENCE CALL TRANSCRIPT

4Q18 EARNINGS

FEBRUARY 22, 2019

Operator

*Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Magazine Luiza's conference call, discussing our the fourth quarter of 2018 results. At this time all participants are connected in a listen-only mode. Afterwards, we will have a question-and-answer session when further instructions for you to participate will be given. If you need any assistance during the call, please ask an operator for help by pressing *0. Now we would like to turn the floor over to Mr. Frederico Trajano, CEO of Magazine Luiza. Mr. Trajano, you may proceed.*

Frederico Trajano - CEO

Good morning, everyone. Thank you very much for participating in our financial results conference call for the 4Q18. We will also be presenting the annual results for 2018. I am joined once again by the entire management of the company. I will give you a brief introduction to the call. We changed it up a little bit, so I will comment on a few slides about our operations, with more discretion regarding our performance, and then Roberto will detail the financials. Then we will all answer your questions after concluding our presentation.

With regard to 2018, as I mentioned at our Investor Day on December 14th, I believe perfection is an unattainable goal, but humankind is constantly seeking it. And if there ever was a year when we came very close to it, it was 2018. We had an utterly fantastic performance, and I emphasize the fact that it was very balanced. We achieved very strong performance in all of the company's business segments, in all departments, and we had many goals here to have met – so the bar was very high. We achieved nearly all of these goals, and even in some cases, exceeded them considerably. I had a team working very hard across all channels, regional units, business segments, front and back office, top and bottom line, so it is a year to be celebrated, for us to be happy with the results, especially because it was not a positive year in terms of the overall macroeconomic scenario. It was definitely better than previous years, but still far from Brazil's full growth potential. So, I am deeply satisfied with our results in 2018, and very proud of the hard work of the Magazine Luiza team, which really paid off.

I would also like to point out that, as mentioned in the annual report's message from management, we are entering a new cycle for magazine. Given everything we achieved and everything we implemented, especially when it comes to the digital transformation of the business, I believe we have already completed this process. Magazine Luiza is already a digital company. It does not make sense anymore to talk about the digital transformation of our business, because the business has already been transformed. I consider Magazine to be a digital company, a tech company. I like to say it is a digital platform with physical locations and human warmth. We are looking at a digital company with physical locations, we can definitely say that.

With that, after all the work we did, we have a balanced capital structure, we paid our debts and we are capitalized with net cash. Our operations are very well-structured, with high efficiency and very low SG&A, significantly outperforming the industry, so we are working with a lot of efficiency. We have a very good, balanced and motivated team, so we feel entitled to set greater ambitions for ourselves, since we have already digitalized Magazine Luiza's business. Now we want to digitalize the country as a whole, so we indulge this ambition, which may seem far-fetched, but we are actually very confident that everything we did for our company we can also share with other companies, attracting more consumers to our base and sharing the benefits of digital transformation.

It is important to remember that we still have only 17 million active consumers, from a total economically-active population of around 150 million Brazilians. So, our share is very small compared to the total of consumers in Brazil. We still have a lot of room to grow in scale, and our focus is to really scale up our model and share it with other companies, to help us achieve our purpose of promoting the digital inclusion of more and more Brazilians. It is a huge challenge, mainly in terms of maintaining the service level we have today with an operation where most of the sales still come from our own inventories, within a single corporation. Although the marketplace posted revenue of around R$1 billion last year, the majority of our revenue is still from 1P, meaning first party product. As such, our main challenge in this process is to be able to convince and encourage companies to participate in our ecosystem and share the same service level we have. This may be the greatest challenge of our process, as well as the fact that when you grow considerably, with as high an ambition as we have now, which I personally like to call "China-paced growth" - I talked about it at Magalu Day as well, at last year's Investor Day - we end up having growing pains, and we must be extremely balanced in order to control and maintain the very high service level we achieved in the last year, which was the year of the customer for us. We joked that it was the year of the customer "to the bone," and we had very high service level targets, which were all met. Now we want to maintain that looking forward, with a huge challenge in the fact that growth would be even more exponential now.

I will now move on to the presentation, with more details on the fourth quarter and a full-year perspective. On the first slide we have four bullet points about physical stores. In terms of physical stores, I would like to point out that same-store growth reached 19% in the year, and considering new categories it would be equivalent to 25%, 26% in the year, with an average increase of 2 percentage points in market share. We gained market share in virtually all of the categories in all regions, following previous years of substantial market share growth in physical stores. We added 100 new stores and closed a few, but the net balance of stores was 96 in the year. The additional revenue from new stores opened this year, as well as last year, led to an increase of 7 percentage points in addition to same-store sales. So, the growth in physical stores was very significant in 2018.

I would also like to point out that when I say physical stores, I am talking about a digital platform with a physical location. They play a key role in fulfillment of e-commerce sales, accounting for more than 30% of all e-commerce sales, mainly in the *click & collect* modality, but also growing towards *ship from store*. So, these stores function as "shoppable distribution centers", and we have carried out structural renovations at the stores. We had 100 renovations last year, and all of the 100 new stores we opened were already included in the mini-distribution center concept. This means stores with 30% of their total area dedicated to storage space, as well as strong systems to make sure that these stores will serve e-commerce customers well. I think this is a very important differential of ours, and if we consider stores as DCs we will have approximately one thousand distribution centers this year to help with e-commerce sales fulfillment. This multichannel model is made possible through this process.

I would also like to emphasize that we are nearly concluding store process digitalization. We launched a mobile cashier pilot at the end of last year, where the salesperson prints the invoice to consumers, who won't have to go to the cashier to collect it. We already had mobile sales, but we needed mobile cashier. It's a very complex process, and we had to negotiate with virtually all 19 states where we have stores to get their authorization to use the invoice printer that the salesperson carries with them today, or a mobile printer. We are now rolling out printers to all of our salespeople this first half of the year. So, consumers won't need to go to the cashier to pay if they already have an instrument, if they are not paying in cash. If they use a credit card, the salesperson can complete the purchase for them. The entire process takes 2 minutes, it's very fast, and very different from the market average. Bear in mind that a while ago it would take 40 minutes for this process to be concluded.

The same with digital credit, where salespeople can issue credit cards without having to go to a credit island inside the store. Note that 50% of our customers who shop at the physical stores use our private label card, Luiza Card, and 17%, almost 20% of the Magazine Luiza customers are using the Magazine Luiza credit card for the first time. So, new customers are already using the Magazine Luiza credit card, which makes it very important for the credit process to be expedited as well. Today, salespeople are able to approve a new card, and customers get to leave the store with their card in hand, because we are printing plastics at the store. It is a very fast and agile process, to be rolled out to all stores in this first half. All of our processes have already been fully digitalized.

Moving on to the next slide, with details about e-commerce. Of course, we would like to highlight the Company's app. I would like to emphasize one specific figure; we have a lot of figures for the app, because it is a market standard to share the total number of downloads, which for us was 24 million. However, in Brazil we still have a lot of uninstalling, so approximately 30% to 40% of customers who install an app will uninstall it after a purchase. This is something we have been working on, to make the app lighter. This is a market standard, our number is well below the market average, but it is still very high. The figure I would like to highlight for our app is this: 6 million monthly active users. These are people who use the app every month, which I believe is way more relevant than the absolute figure, which was highlighted in a few reports. It is a very high number. And 40% of all e-commerce sales were also from the app. So, I believe these two figures are very consistent and attest to the success of our strategy of strongly investing in and focusing on online growth through the app. It is a very good experience and way above the market average. Lastly, we want to continue to invest strongly. We talked a little bit about the superapp release, and we can talk more and detail this plan going forward.

I would also like to highlight delivery time. I believe one of the main drivers of growth in e-commerce last year was the fact that we really managed to reduce delivery time for all products sold on the website to well below the market average. Today, 30% of all deliveries of website orders are promised for and completed within 48 hours. We actually deliver a lot more products within 48 hours, but the ones shown here are those we promise to deliver within that time, the ones consumers know will get to them in 48 hours, and they actually do. Considering also *click & collect*, which accounts for more than half my sales today, customers will get their products within 48 hours. This is a very strong differential from any other purely digital player. Players who are not multi-channel are unable to offer this amount of products and have such high penetration in 48-hour delivery. In fact, this attests to the superiority of our multi-channel and omnichannel model in meeting the needs of the Brazilian market which, as we know, has a lot of logistics issues.

The acquisition of Logbee has significantly helped this 48-hour mark. Logbee is already present in 200 cities, accounting for 14% of all e-commerce deliveries, but in some markets, like São Paulo, it has a much higher share. We also launched 12/12 delivery - where you can order by midnight and the product will be delivered by noon the next day - in the fourth quarter of last year and are planning to roll it out; this was significantly helped by ship from *store* this year.

I would like to highlight the marketplace. We have been receiving a lot of questions regarding our marketplace operation. I believe we exceeded even our most optimistic expectations regarding marketplace last year. We ended the year with more than 3,300 sellers and 4 million SKUs on the platform. As I mentioned, GMV was R$850 million at only two years of operation, as it was effectively rolled-out last year. In 2017 we were experimenting with and adjusting the operation. The Magalu Entregas modality is the basic model; 50% of the sellers and 30% of the orders are using Magalu Entregas, which is the basic model, under our standard agreements with carriers, and we are now rolling out Fulfillment by Magalu, in which sellers will use our own network, the Luiza Network, and Logbee. We have 20 sellers as pilot and will roll it out during the year. Although Magalu Entregas is already a huge benefit compared to the seller's individual package, Fulfillment By is our main differential from competitors, who do not have Logbee or Luiza Network delivering for them. This is perhaps the main focus of our operation - rolling out Fulfillment By this year. It is a goal pursued by many Departments within the Company, we are really focused on it, and we will work hard to have as many sellers as possible selling through this modality - cross-docking at first, with no storage, but also looking at storage by the end of the year. Magalu Pagamentos has over 2,000 sellers on the platform as well, and we are very focused on seller service, even more so than end consumer service. We obviously aim to substantially increase the number of sellers this year, and we already have a huge advance target for 2019. I cannot disclose this target yet, but we are expecting a very high volume, which will obviously help, since this is the main focus here. This will help sellers, because their discount rate is lower than the market, but also our profitability and the monetization of our marketplace and all of these sales, which will continue to grow significantly.

Finally, before turning the floor to Beto, I would like to emphasize what I have been saying throughout the year. This was the year of the customer at Magalu, when we placed a very high bar for all indicators and KPIs related to end customers, understanding that there is a trend in the world and in Brazil for companies to become more and more customer-centric and balance margin indicators with end consumer satisfaction levels. We focused, and are still focusing, on growing the active customer base not only in terms of GMV and revenue, but we also want to see more Brazilians shopping each day, all digitally-included in our platform. We reached 17 million active customers last year, an increase of 34% on 2017. We are the only retail company today with the RA1000 seal from the Reclame Aqui website, both for physical stores and e-commerce, so our satisfaction levels are way higher than the market average. The challenge now is to keep this up along with the accelerated growth in marketplace, looking ahead. But we will maintain this expectation and goal. This is what makes us stand out. We want to pass this on to 3P as well, as it grows and gains share in e-commerce and in the Company's total sales.

We reduced complaints filed with Procon by 29% for every 1 million products. So, our efficiency levels improved significantly, as well as our service levels, and our customers are facing less problems - well below the market level as well. First call resolution, which is when the customer contacts customer service by phone or chat, increased from 19% to 87%, so basically in 90% of the first calls we received from our customers we were able to solve their problem and complaint. Customer satisfaction with our customer service is at 80%, one of the highest levels in the market. We also saw significant progress in NPS, which grew considerably. Our NPS now is way above the average for our category. Even internationally, these levels are very high, both for the physical stores and e-commerce.

Now I will turn the floor over to Beto, who will comment on the financial highlights.

Roberto Bellissimo – CFO & IRO

Good morning, everyone. I will go quickly through the numbers, the highlights of the quarter. I think the numbers speak for themselves, we had very significant growth. I want to point out the dilution of operating expenses as well. For the first time ever, we reached an SG&A level of 20%, an all-time low for us and one of the lowest in the market. That was despite the fact that we invested 1.2% of our net revenue in service level this quarter. This attests to the Company's operating efficiency.

Another highlight was the ROI of 33% and ROIC of 39%, very high returns. So, we continue to grow significantly, with high return and high cash generation as well. In the quarter we generated R$1 billion in cash from operations.

Then we show you the highlights for the year as a whole, which was very much in line with what we did in the fourth quarter; the year was very consistent in all quarters. Then, on page 8, we show you a few operating highlights. I would like to comment that we more than doubled investments and managed to open 100 new stores by investing only R$87 million, which corresponds to an average investment of R$1 million per store. This goes to show that the new stores are, as we mentioned, growing substantially with very low investment, low rent, and very fast return.

Then we show details of our revenue growth by quarter, channel by channel, which was very consistent. Then we have our gross profit evolution, with gross margin decrease resulting from the growth in e-commerce, which gained another 5 percentage points in market share, reaching 38% of our total sales. Here we have the strong dilution of administrative expenses, as well as total expenses, a R$40 billion decrease despite additional expenditures.

In terms of equity accounting, the results of LuizaCred were primarily influenced by IFRS 9, slightly ahead. Either way, these aspects contributed with R$40 billion to EBITDA margin; as shown on the following page, we ended the year with an 8% EBITDA margin. Total EBITDA in the year grew another 20%, with EBITDA margin of 7.7% in the quarter, influenced by all of the aspects we already mentioned - very high sales growth, e-commerce, investments in service level and customer acquisition, which will help us keep growing at a much higher pace than the market.

Then, in terms of financial result, we kept interest expenses below 2% of net revenue. Excluding the advance of receivables, we continue to post net interest revenue. The increase in expenses with advances is fully connected to our strategy of focusing on the Luiza Card. Luiza Card grew considerably, over 50% in the year, within Magazine Luiza. This is our focus, and we get a lot of benefits from that, both in revenue and EBITDA margin.

In terms of working capital, when we discussed our third quarter results we anticipated that the working capital trend in the fourth quarter would be very positive. In the year as a whole, working capital contributed with R$350 million to the Company's cash generation. We increased net cash position by R$488 million, almost R$500 million in net cash generation as a whole. We ended the year with total cash of R$2.6 billion and net cash of R$2.2 billion, a very strong and optimized capital structure.

Then we show you the evolution in total cash flow. Our cash flow from operations in the year reached R$1.1 billion, more than enough to cover investments, the payment of R$400 million in debt and interest, and all dividend payments and share repurchases we made, ending up with R$2.6 billion in cash.

Net income grew significantly in the fourth quarter, with ROI of 33% and ROIC of 39%, both very high. With regard to LuizaCred, in the last quarter we sold over 500,000 new cards. In the year as a whole we expanded our base by almost 1 million cards, already considering cancellations; it was the highest growth in the history of our card base. As a result, LuizaCred revenue grew as well, both inside and outside, mainly inside. Inside revenue in the quarter grew 45% to R$1.6 billion. In the full year, LuizaCred total revenue was over R$20 billion. So, this was a year of major achievements for LuizaCred, a lot of growth, while also maintaining portfolio and customer quality at conservative and stable levels. Here we have a breakdown of the portfolio of payments in installments at one of the lowest levels ever, only 7.2% in the last 90 days and 2.7% in 15 to 90 days, with extremely high coverage as well.. Provision for doubtful accounts covered almost 200% of the default portfolio.

LuizaCred results in the quarter and the year were lower compared to the previous year in IFRS 9, but stood out in BR GAAP: in the quarter, results improved by 36%, with net income of R$47 million in the fourth quarter compared to R$34 million in 2017. In the year, net income was R$161 million in BR GAAP. We added the BR GAAP figures here because this is how banks report results, this is what counts in terms of Basel and dividends, and in a way this is more comparable to previous years. IFRS 9 was initially adopted in 2018, and it significantly advances provisions, both for customers who are in compliance and those who still have limit available. So this led to a difference in both results... BR GAAP was almost twice as much as IFRS. Additional provisions totaled over R$100 million in IFRS 9 compared to BR GAAP, which is very conservative in our assessment as well. As we pointed out, if Magazine Luiza's results were determined based on the accounting practices of the Central Bank of Brazil, our profit in the quarter would be over R$200 million and R$635 million in the year. This is for comparison purposes only.

These were the financial highlights we wanted to share with you. Now we would like to open for questions and answers. Thank you very much.

Operator
*Ladies and gentlemen, now we will 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 Mr. Robert Ford, Bank of America Merrill Lynch.*

Robert Ford – Bank of America Merrill Lynch
Good morning to all and congratulations on the results. I was very impressed by same-store sales growth, with the comparison basis at 15%. Could you please give us a little color on the trends for early 2019, and what you are thinking about in terms of growth in the short term, since you have a difficult comparison basis in the first half of the year.

Frederico Trajano - CEO
Good morning, Bob, thank you for your question. I will answer first, then I will pass the floor to Fabrício, who can shed more light on the topic. Like I said, Bob, our economy has not fully recovered yet, in fact, the economy was struggling in the year as a whole, but it has been improving since the last quarter. Looking forward, we are expecting some tailwinds for the first time in three years, I would say. There is a lot of repressed demand in various categories. The most resilient category during the crisis was telephony, and now I think there is room for a more balanced growth in the categories looking forward. Now, I would like to point out that we have been gaining a lot of market share. The crisis was hard on everyone, but mainly on smaller operators. Some regional players struggled a lot and were not able to survive the crisis. So, we are still gaining a lot of share. I believe we can still gain a lot of share, because I do consider our current share small. Depending on the category, our share is around 12% or 15%, specifically in physical stores. So, there is still a lot of opportunity to consolidate the industry, since our operation is very healthy and balanced, our inventory management is very balanced, we are reducing stock-out, credit is going well, the operation is going well, the shopping experience is good after the digitalization process we implemented at the points of sale, the team is motivated... So, there is room to gain more share. Bear in mind, and Fabrício can speak more about this, that the comparison basis for the first half includes the World Cup, which is a huge challenge, especially for the second half.

That said, we started the year on the right foot. Fabrício, would you like to add anything?

Fabrício Bittar Garcia – Commercial and Operations Vice-President

I think that is the point. We performed well in all categories last year. Like Fred said, we had a good start in January in all categories. The challenge really is the second quarter, in terms of offsetting the growth in margin with the growth in other categories. We are trying to grow in the second quarter. We expect lower growth compared to other quarters, but offsetting image sales - especially in May and June, which are the strongest months for the World Cup - with growth in other categories. That is all, I think.

Robert Ford – Bank of America Merrill Lynch

Thank you. You have also been very pragmatic in terms of increasing the number of stores and store renovations. What are your CAPEX plans for 2019, as well as store opening and renovation plans for the year?

Frederico Trajano - CEO

Bob, I can't give you any guidance, but I can say that last year we renovated 100 stores and opened another 100. We plan on staying aggressive on this front, both in store renovation and store opening; we want to keep it up. We have a very good capital structure, and we are able to not only maintain but also accelerate investments during the year. We are very excited. Bear in mind that when we open a new store we are not only considering the sales potential of that market for physical stores, but also improving delivery time for e-commerce, because the store is a shoppable distribution center. The store helps us on these two fronts.

Robert Ford – Bank of America Merrill Lynch

Lastly, Fred, you said that over 30% of your e-commerce sales are promised to be delivered in two days. How do you see this number evolving in the year, and what investments are you making to guarantee faster and free shipment? Thank you.

Frederico Trajano - CEO

Our goal is to significantly increase this share in 1P. Remember I don't have that delivery time in 3P yet, so we want to expand the share of delivery considerably. To achieve that, our main focus is the roll-out of Logbee, because it includes... We have the Luiza Network, which is very appropriate, comprising our more than 1,800 carriers. They are all capable of delivering products with a larger cubic volume. Logbee can add to that network with a different type of fleet, to deliver smaller products that we used to ship through couriers, mail, etc. Now we are going to expand Logbee, and we are also working on improving inventory availability at the DCs and stores. Remember that, considering our 12 full distribution centers and 960 stores, we are saying that having the right product at the right place to enable 48-hour delivery, and even 12/12 delivery, depends on comprehensive supply work. It requires a series of initiatives, but we are very comfortable. That is also one of the main goals of our team, e-commerce, website, and even Lab, which still has a lot to develop on that front... So, we have to implement a series of initiatives to expand fast delivery.

Robert Ford – Bank of America Merrill Lynch
Thank you, Fred. Congratulations once again.

Frederico Trajano - CEO
Thank you.

Operator
Our next question comes from Mr. Joseph Giordano, from J.P. Morgan.

Joseph Giordano – J.P. Morgan
Hello, good morning everyone. Thank you for picking up my question. You talked a lot about the superapp, but did not give us many details. What I want to know is whether you can give us a more concrete timing for that, if that's something for the first half or the second half. I would also like a little more color on the strategy for how much capital the company will allocate for this. Because the superapps we have in the market today have required hefty investments in customer acquisition cost, especially for the high-frequency part. My second question is: how will you bring your card, which is a partnership with Itaú, into this superapp potential, and even establish a wallet payment platform? Thank you.

Frederico Trajano - CEO
Good morning, Joseph, thank you for your question. Well, this is a great opportunity for us to share more details on our vision, which is very simple to understand. The focus for this year... The long term vision is a superapp. I usually say that overall app utilization frequency in Brazil today is very low, compared to what you see in China, for example, with Taobao or Alibaba, which customers use eight times a day. The most used apps here in Brazil have a frequency of four to five times a month... A very low average. So, our ambition is for consumers to be able to do everything in the Magalu app environment. For this year... This is a multi-annual vision, so to speak. We have many years to go before we get to what we see in China today, because it also took China's superapps, like Taobao and WeChat, many years to get there. The vision for this year, to be more straightforward, is to tackle two main fronts to achieve initiatives that will significantly increase frequency, our MAU and DAU - monthly active users and daily active users respectively. The first one, Joseph, is to expand categories, as well as SKUs and offers available. We have already made significant progress, going from 40,000 items to 4 million. We are actually challenging everyone who talks to us to look for a

product on our app and not find it, because it is very hard for you not to find a product on our app today, with the exception of a few categories. We already have 4 million offers, and with the expansion of our marketplace, there will be a lot more. It is very hard for you not to find a product on the Magalu app. That said, we need to grow in a few categories, which have a higher frequency. We have said that we want to go into fashion, mainly, but not solely, via 3P. So, this is a strong category for us to look at this year. We have already launched Mercado Magalu, a category with a very high frequency. GMV is not that high, but frequency is. It has everything you find in a supermarket except for perishables. We started it one year and a half ago and have been growing significantly. We also want to grow this category in both 1P and 3P. There are other categories to be launched in the year to increase use frequency. This will automatically create new users. We don't really need to invest in marketing that much, because we already have a very large installed base, one of the largest in Brazil for apps. Now we want to get this installed base to increase utilization and reduce uninstall levels, by offering a more comprehensive range of products. So, one focus of the superapp is to increase category offer. Another one, as you mentioned, is payment and credit. Today we have 3.7 million active customers using our card, soon we will get to 4 million active customers, and they are still not using this digital product very often. We want to bring all of the card's functions into our app. This is about system integration; we have our app APIs, Itaú has their app APIs, which is the card's transactional base in Itaú, and we want to integrate these APIs so that customers will use the card on the app more often, and even make some payments through the app. These can be off-us payments as well as on-us, which is where we want to launch our digital wallet as well, the digital account, like we said during Magalu Day. This is what we will be launching over the course of the year to make customers use our app more often. This sums up the universe of payment/credit, expansion of offers in SKUs and new categories. This is our focus this year. And to answer your question about investments, I don't think the superapp requires too much investment. We can also introduce third-party services through API openings to the market. I don't need to build all of these services, I can simply integrate with other bases, bring them under a light marketplace umbrella for the app, which is more or less what the Chinese did as well. Some of the services offered by the Chinese superapps are developed by them, but others are offered through partnerships, which is the miniapp within the superapp. It's not necessarily a capital-intensive strategy, and I think that will be our case. In fact, our entire strategy, looking ahead, not only for the superapp but also for the Magalu Service platform, our entire strategy is a lot more asset-light than it used to be in the last decades. What I like to say is that while the market is investing in opening DCs and stores, we are investing in opening APIs. That is a lot more asset-light than some of our competitors who have to invest heavily in physical assets, because they don't have the base, but we do.

Joseph Giordano – J.P. Morgan

Perfect. Thank you, Fred. Good morning.

Frederico Trajano - CEO
Good morning.

Operator
Our next question comes from Mr. Thiago Macruz, Itaú BBA.

Frederico Trajano – CEO
He got cut off.

Operator
Our next question comes from Mr. Ruben Couto, Santander.

Ruben Couto - Santander
Good morning, everyone. Still with regard to the superapp, you shared this figure of 6 million monthly active users, which is remarkable. But for comparison purposes, could you share this figure for around the end of 2017? And with this 6-million figure you mentioned, is there not enough critical mass for you to roll out a subscription model, in line with the benchmarks you are always talking about? I think you have Clube da Lu, which is close to that, but not necessarily the same thing. I would like to understand what you think in terms of this possibility of having a different subscription model, if that is something you think about going forward. Thank you.

Frederico Trajano – CEO
Thank you for your question. Good morning. Well, I have talked about this subscription model before... Ruben, sometimes we try to replicate a model from abroad here. There is no subscription in China, you know? So, just because Amazon has Prime in the U.S., it does not mean we have to bring this exact same model to Brazil. We are offering 24-hour delivery, 48-hour delivery here in Brazil, for free. In fact, for people who purchase through the app. I am not charging anything for that. I think purchasing and economic power in Brazil is much lower than in the U.S., so it makes a lot less sense to have a US$100/year subscription plan for freight packages or any other benefits out there. I believe the subscription model is more appropriate for product niches and more frequent products, not necessarily as a loyalty program. I can't think of any paid loyalty program that has been successful in Brazil. This is more like a free loyalty program, which is more about compensating customers for shopping frequency than anything else. I do not plan to copy or emulate this model, and there are many successful platforms outside Brazil that managed to grow without necessarily replicating Amazon's

model in their countries, which is the case of Alibaba, like I said. So, there is no plan to emulate that at all.

Ruben Couto - Santander

Got it. A comparison basis for the 6 million MAU that you mentioned... That is from last year. Do you have an idea of this growth?

Eduardo Galanternick – Chief E-commerce Officer

Just to complement this information, Ruben, the increase was around 140% from the end of the previous year, contracted basis.

Ruben Couto - Santander

Great. Thank you.

Operator

Our next question comes from Mr. Thiago Macruz, Itaú BBA.

Marco Calvi – Itaú BBA

Hi everyone, good morning. Actually, this is Marco. I got cut off and could not finish my question. Fred, our question is more subjective, so to speak. The message from management gave us the impression that, despite the exceptional growth you had in 2018, the Company suddenly decided to hold back on that growth to take an even bigger step in 2019, especially in marketplace. Is that what it is? Is our interpretation of the message correct? Thank you.

Frederico Trajano – CEO

Sorry, could you repeat your interpretation, please? I did not understand that well, Marco.

Marco Calvi – Itaú BBA

Our interpretation is that, despite the exceptional growth you had in 2018, suddenly the Company made decisions to hold back on that growth a little bit, in order to take an even bigger step this year. Our understanding is that this bigger step would be in marketplace. I would like to know if this understanding is correct. Thank you.

Frederico Trajano – CEO

No, and I am actually curious to know what led you to this interpretation. But no, absolutely not. On the contrary - what we meant in the management report is that, even though we grew so much last year - like we said, 35%, 60% e-commerce, plus 19% in physical stores, with a 26% total - we believe we can grow even more in the future, especially due to the exponential nature of the marketplace. That is because marketplace has already been relevant for our growth last year but, looking ahead, it can play an even bigger role in overall growth, both GMV and the Company. So, what we meant is that we want to grow even more looking forward, compared to the last few years. Of course, our growth in 2018 was exponential, so the comparison basis gets harder and harder. I just want to point out that when I say growth, I do not necessarily mean GMV growth. I mean growth in terms of consumer interaction. I have been saying this for the last few calls, that my focus is not to grow our total GMV, which stood at nearly R$20 billion last year, but rather to expand the 17 million active customer base and their shopping frequency. Mostly that. So, we want to grow, mostly exponentially, our customer base and the number of times each customer buys from the Company. That is our focus, that is the KPI of the digital company, a platform we have to look at going forward. This is what we mean. What we meant in the beginning is that, looking ahead, marketplace will allow us to keep growing at even higher rates than last year, despite the tough comparison basis. That is the point of the message.

Marco – Itaú BBA

Perfect, Fred, very clear. Thank you.

Frederico Trajano – CEO

You're welcome. Thank you.

Operator

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.

Frederico Trajano – CEO

I would like to thank you all for participating in the call, and once again congratulate everyone on the Magalu team for the superb 2018 results. Thank you very much.

Operator

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