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CONFERENCE CALL TRANSCRIPTION

2Q18 RESULTS

AUGUST 8, 2018

Operator:

*Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Magazine Luiza's conference call, referring to the second 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 and thank you for participating in our earnings call for the second quarter of 2018. I am here again, as usual, accompanied by our executive officers, and we will be available to answer any questions you might have at the end of this call which I will introduce together with Roberto Bellíssimo. Discussing a bit on this quarter, I can affirm that we had an exceptional result. I think there is nothing better for a retailer than sales growth and undoubtedly this was the main highlight this second quarter. Sales grew 43% across all the channels, evidencing a solid and consistent result, lots of efforts endeavored in entire organization. The physical stores recorded 27% same-stores sales growth, a historical record and again the e-commerce posted an exceptional growth of 66%, already reaping the benefits or our marketplace growth strategy, undoubtedly, the marketplace significantly contributed to such growth of e-commerce total GMV. Reminding that we have been reporting such growth since the fourth quarter of 2017, this is the third quarter we are also reporting the marketplace GMV. Thus, this a growth that no Chinese can turn their noses up. We can see that such growth was well balanced in channels and categories, all categories advanced, and it is important to highlight our management team's execution capabilities concerning the World Cup. This year we had the World Cup, and its effects on sales already could be seen in the first quarter, but especially in the second quarter. In our successful marketing campaign called 'Sai Zica' (Bad luck be gone!), our customers were invited to exchange their televisions of 7x1 loss to Germany in the 2014 World Cup for new ones, also buying consumers' old TVs, thus setting a creative action, but at the same time an interesting process engineering to repurchase these televisions. We bought back thousands of televisions during such period. This marketing campaign was an international success, broadcasted in international digital media, even a German TV mentioned our campaign. We had a voice share in social networks equivalent to brands which sponsored the games broadcast, which this year we did not sponsor, evidencing that our campaign was very successful and obviously this is reflected in our results. Not even one of the most severe crises faced by our management, the truckers' strike, was sufficient to slow down our sales. Immediately after the first signs of such strike, we created a Crisis Committee, involving entire Direct Ex, which is the board of executive officers, plus all the areas which somehow could make decisions to mitigate the crisis effect, I think we worked very well during such difficult period faced here in Brazil. Then, in our first decision, we extended delivery times at physical stores and at e-commerce for consumers, in advance of all competitors, not afraid of the initial impact this could have on sales, and being absolutely transparent with consumers. We even had delivery terms exceeding 20 days, we knew this could have a great impact on online sales conversion and even at the stores, but we did not change our mind, because, after all, we are calling this year as 'Cliente na Veia' (Embodied Customer Insight), the year of consumer, then we are fully focused on this motto and we could not start differently, even running the risk of losing sales. We were also creative and agile to redirect our marketing campaigns, both at stores and at e-commerce. Then, our campaign at stores were much focused on inventory products, with rebates and special payment conditions. At e-commerce, terms were extended, and this segment struggled initially, we created a campaign called 'Vale a pena Esperar' (It is Worth it to Wait), with free shipping to customers who made purchases during the strike, waiting 20, 30 days, 'making lemonade out of lemons', and in this regard, we worked very well. I also would like to highlight the work of our logistics team, who is increasingly aligned to our business, both concerning express delivery during regular days (the commercial area did a very good job), and the resumption of inventories after crisis. Thus, in less than three days, 98% of our supply was regularized, and within few days we also reduced the delivery term of e-commerce. It was an exceptional job, and during such period, we did not lose our Reclame Aqui RA1000 rating, we extended the ranking for our physical stores and we maintained our Reclame Aqui RA1000 rating for e-commerce. I would like to reiterate what we discussed in our first call this year, and broadly discussed with our investors our customer-focused strategy, by improving indicators we established here with high barriers for the year. Indicators both of quantity of active customer base, new customers, repurchase, customers who buy with credit card, because they represent higher customer lifetime value, and service level indicators, then, referring to express delivery, the time to exchange a product, and finally, the NPS which is also an indicator we have been recording across all the channels, inclusive with share in variable compensation from store manager to the company's chief executive officer. We managed to significantly evolve all indicators, despite the high targets. Our customer base substantially increased, with a relevant contribution from the marketplace, i.e., 19% of new customers of e-commerce, which significantly brings customers to our company, came from marketplace. We also have new stores, expansion stepped up and we are conquering new customers in new markets. We opened 27 stores in new markets where we had a small presence, such as the states of Goiás and Maranhão.

We doubled the number of cards sold compared to the same period last year, and we increased our customer's credit limit, giving them higher purchasing power. Express delivery is present in 100 cities, all distribution centers operate under such mode, with a relevant contribution from Log-B. We reduced by 60% the average time of refund to customer requesting exchange, or giving him the option to exchange, buy, then, in my opinion, this was a good job. We also reduced the waiting time at the call center. Last week, we had 30 seconds of waiting time at the call center and we maintained the RA1000 rating. This is a result of an amazing job of stores and obviously the technology applied at stores and offices in general and of all the company's areas, and the technology applied with higher investments in systems development. In this regard, we have a new fact, which is the LuizaLabs, which has a new base in São Paulo, LuizaLabs teams moved to a new space at the end of May, we will also relocate the development teams in Franca to a new space, since we have a center both in São Paulo and Franca between August and September, this is the estimate of our move, and we remain focused on our digitalization process and conquer new financial objectives also through the application of technology to our business.

I would like to finish my introduction, before turning the floor to Roberto, discussing a bit on the outlook. Obviously, the World Cup was a non-recurring event in the second quarter. Then, increases now will be much alike other quarters, excluding the World Cup, that we have been recording. We also have few factors posing certain caution now for the second half, which is the forex depreciation, and the pressure from several industries to increase prices, which will be absorbed by consumers. Thus, there we have an uncertainty in this regard, but we already see a pressure from price transfer, which burdens cost and somehow sales, within this context. It is worth reminding that I have been giving such warning to the market, that we also are accelerating customer-focused investments, these are investments which can decrease margin compared to last year, since we have a huge objective of increasing the customer base in Brazil's retail, and a better level of services, but this necessary carries a trade-off. You can't make an omelet without breaking eggs, and I see these investments, this characteristic, such scenario will be reflected in next quarters' results, then, I think it is reasonable to inform this before investors reviewing the earnings, without weighing these aspects. Now, I turn the floor to Roberto and at the end, I will be available to answer your questions.

Roberto Bellíssimo – CFO

Good morning everyone, thank you for participating in our call. I would like to start on our second quarter highlights, as Fred already mentioned, sales grew 43%, R$4.6 billion above a very high base in the second quarter last year of 27%, in a market which has not grown much, the IBGE has not release June figures yet, but until May, growth was very low, negative in few months.

Brick-and-mortar store sales rose 34%, 27% under the same store concept, also above a very high base of 14%. We also point out here the share from new stores, boosting such growth by 7 percentage points, also a very god result since the beginning. E-commerce sales hiked 66%, also above a base of 61% and E-Bit released 13% growth in the second quarter, then, again we gained market share at e-commerce. The marketplace stepped up from R$30 million to R$150 million, multiplied by five and reached 10% of total e-commerce sales.

Concerning gross profit, our margin dropped 0.9 percentage points, in line with previous quarters, slightly above due to the World Cup, influenced by e-commerce share, which increased approximately 5 percentage points. Our performance was very positive during the World Cup, under the image category. On the other hand, we diluted operating expenses, we had a very strong dilution of 1 percentage point, especially from fixed expenses, bringing SG&A expenses to 21.8%, even considering higher investments during this new phase of customer acquisition, and higher level of service. Thus, EBITDA grew 32% to R$312 million, a record level for this quarter, with a margin of 8.5%. We also significantly diluted financial expenses and net income reached R$141 million, practically the double compared to last year.

Cash flow from operations totaled R$1 billion in the last 12 months. In the quarter, cash generation was also very positive, and working capital continues contributing, recording R$200 million in the last 12 months. Net debt decreased in 12 months, from a net debt position to a net cash position of R$1.3 billion, and we ended the first half with a total cash position plus receivables of R$1.9 billion.

On the next slide we can see the evolution of stores openings, there we reached the highest organic growth of our history: 61 new stores in the last 12 months. This quarter highlight was the inauguration of 27 stores, and we should open other 30 stores in the third quarter. Then, the pace of growth continues accelerated. The CAPEX doubled compared to last year to R$85 million, in lie with our growth plan and our proceeds obtained from follow-on last year. In the first half, investments were up 50% reaching R$121 million. Now, we again show the quarterly sales evolution: approximately R$5 billion sales in the quarter, e-commerce sales of R$1.5 billion, growing 65% in the first half of the year and other figures we already mentioned, this is the tenth consecutive quarter we speed up growth and we gain a substantial market share. On the following slide, you can see the evolution of gross profit, we significantly diluted administrative expenses, i.e., office expenses and management of distribution centers, also fixed expenses, such as rental. Rentals increased basically due to new stores and very low adjustment, even below inflation.

Selling expenses rose mainly in variable expenses due to decisions to increase investments in marketing, logistics and personnel, to improve services during sales and post-sales. Equity income came lower than last year, chiefly due to higher provisions, IFRS 9, afterwards we will discuss LuizaCred’s results, which anyway, contributed with R$10 million in the quarter, 0.3 percentage point. On the following slide, we can see the EBITDA quarterly evolution, pointing out sales growth, a very positive contribution from e-commerce growth, also reducing operating expenses. Financial expenses significantly decreased, practically by half in percentage, from 3.7% to 1.9%. Excluding anticipation of receivables, we have net revenues, the expenses related to anticipation of receivables are fully in line with sales growth and higher share from Luiza card, which also composed our strategy.

Now referring to working capital, inventory turnover was 73 days with an average purchase term of 90 days, then, we maintained a positive cycle of almost 20 days. Thus, working capital needs continue improving, contributing with nearly R$200 million to cash generation in the last 12 months. We significantly increased net cash position compared to last year, also compared to the last quarter. This quarter, specifically our cash flow from operations totaled approximately R$300 million, and even significantly increasing investments and paying interest on equity, we improved cash position in the second quarter. And also a highlight here, S&P raised our rating to AAA. We reached a very important objective for our capital structure. Another highlight here refers to stocks, this quarter we joined the MSI and our liquidity, stock average daily trading volume significantly increased, standing at R$150 and R$200 million/day.

Afterwards we show the evolution of the ownership structure, we are reducing gross indebtedness and this quarter, we decreased by R$200 million gross debt, sustaining a solid cash position. Net income significantly rose to R$141 million, with a ROI of 26% and an analyzed ROIC of 29%, i.e., we continue growing and maintaining a very high return on invested capital, also generating cash.

Now, discussing a bit on LuizaCred, we show the evolution of cards base, then this quarter we sold the double of new cards against the same period last year, and we added net, 240,000 cards to the base. Since early in the year, we decided that one of the priorities in relation to our focus on customers was to increase even more the base of Luiza card. Customers with cards are more loyal, they repurchase, they spend more, with higher average ticket and higher frequency, and we have managed to increase this base over the last three quarters very interestingly, thus raising LuizaCred's sales, which grew 37% year-over-year, highlighting growth inside Magazine Luiza, which stood at 68%. Then, customers positively contribute to both e-commerce and especially brick-and-mortar stores.

Then, we can see the evolution of LuizaCred's portfolio, delinquency indexes continue improving: NPL 90 improved 1.3 percentage point year-over-year, and short-term NPL, another 0.6 percentage point. That is to say, we are managing to boost cards base with a very good quality. The net income was influenced by the new provision methodology under the IFRS 9. We point out here that the coverage ratio, for instance, went up from 132% on the same date last year to over 200% this year. Thus, under the IFRS 9, we have to make provisions, not only higher provisions for our portfolio, but also new provisions, limits available not yet used by our customers. As this quarter we significantly increased the sale of new cards, also we significantly hiked the limit available for best customers, level of provisions also stepped up, but are temporary, i.e., these are provisions, the quality of portfolio remains the same and if we look at profit under BR GAAP, which can be compared to last year, reached R$40 million in the quarter, up from R$32 million recorded in the second quarter last year, and a ROI of 22%. Then, again, LuizaCred's figures contributed to our total results and we will continue focusing on our sales, our efforts to increase Luiza cards base.

We now finish the financial highlights, I will give the floor to Fred to make his final considerations and then we can open the question and answer session. Thank you very much.

Operator:

*Ladies and gentlemen, now we will start the questions and answers session. To make a question, please press *1. To remove a question from the list, press *2. Our first question comes from Mr. Robert Ford, Merrill Lynch.*

Robert Ford – Merrill Lynch:

Thank you very much, good morning everyone and congratulations Fred for results achieved. Could you explain more on promotion, please, how many televisions consumers bought, and how much tv promotion should boost sales in the quarter, please.

Frederico Trajano – CEO

Good morning Bob, and thank you for your question. I am going to explain... you asked how many TVs we sold in the quarter. Well, the information we released was we gained share compared to the last World Cup, and we also gained shares compared to last year, and we have been gaining share over the last quarters. I think we sold over one million TVs during first six months of the year. More than that, we also sold specific products, since consumers wanted to exchange a product with a better product, also with higher average ticket, we sold 4K, we sold big screens, screens over 50 inches, thus, it was a very good performance. But I would like to emphasize and Fabrício may add, that our performance was very good across all categories, not only in the quarter, which obviously in the image category recorded an exceptional and high contribution due to the World Cup, we gained share and grew in other categories. Fabrício, if you want to add something to this fact.

Fabrício Bittar Garcia – Commercial and Operations Vice President

Good morning, thank you Bob for your question. As Fred mentioned, the image category grew three digits both at e-commerce and at brick-and-mortar stores. Our performance in white goods, furniture, portable devices rose two digits, both at store and at e-commerce across all categories, thus, significantly contributing to sales growth. We gained share across all categories, share significantly increased, 100% of categories. Thus, our performance was very positive across all categories of the company, and our margin's drop was not so meaningful, due to the heavy volume of televisions sold.

Robert Ford – Merrill Lynch:

Congratulations and again talking about cards, as you said, sales doubled, could you explain the reasons for such increase and which are your expectations for the remainder of the year, please?

Frederico Trajano – CEO

Bob, I am going to first answer your question, then, I will ask Roberto, maybe Marcelo Ferreira, who is LuizaCred head to complement the answer. Well, the card base growth strategy is based on the fact we conducted customer lifetime value studies, early in the year, and we verified something obvious, but of a very high magnitude that consumer buys with card, he has a lifetime value much higher than consumer who buys without card, it is significantly higher. Why? His repurchase rate is much higher than customer who does not repurchase, he is more loyal, and becomes a strength to sustain growth also at brick-and-mortar store. Reminding that the card is a phenomenon of brick-and-mortar stores, its penetration on the Internet still is low, although we are adopting several initiatives, soon we will innovate in the issue and approval of cards for that customer who buys for the first time at e-commerce called 'Cartão na primeira Compra' (Card in the First Buy). Therefore, we decided to heavily invest and broaden our targets, objectives and investments to attract customers with credit card. At the same time, we increased the credit limit for these customers, we changed a bit the limit. Thus, our strategy is bases on these factors, whenever you increase the cards base, in a first moment, you have any type of impact on the financial result. But this is offset by what we calculated for the long term, that typical decision of short term versus long term. Then, it is much focused on long term, we are investing part of short-term result in such growth. If you want to add, Roberto and Marcelo.

Marcelo Ferreira – LuizaCred Head:

Just adding to what Fred mentioned, card has a dynamic, during first two years it does not record profit. Only after first two years that card will give profit. The IFRS 9 positions this fact, let's say, in a higher level, it carries all the expected loss for the beginning. Thus, provision for loan losses (PDD) significantly increases and Roberto Belíssimo also discussed the limit. Why did it increase from the first quarter to the second quarter? Obviously, with the World Cup we recorded higher increase in the second quarter, that we expect to continue over the upcoming periods. Thus, such strategy of positioning the card in the core, and you can also observe the issue of media, the cards was highly advertised in Magazine Luiza promotions, bringing a higher effect on provisions this second quarter. However, and as Fred mentioned, although it seems a reduction here in LuizaCred's results, everything is correct, the credit performance indicators are increasingly improving, as you can see. You can also see the BR Gaap to verify there is no problem, our growth has been meaningful, we have here investments in the card, but everything is perfect and our strategy remains with the card in the core, our customers becoming more loyal and bringing further sales to Magazine Luiza.

Robert Ford – Merrill Lynch:
Can we expect a higher level of card issues due to such strategy, as Fred mentioned?

Frederico Trajano – CEO
Yes, we will continue significantly investing the growth of new cards. Inclusive, Roberto, could you talk about credit card embossers?

Roberto Bellíssimo – CFO
Bob, we launched a new campaign, stimulating our employees to direct, convince customers to use our card. We started merchandising Luiza card at Faustão TV show, also conducting a marketing campaign focused on Luiza card, with an exclusive promotion. With Luiza card we can offer extended terms, sometimes not charging interest rates, or with lower interest rates. Customer can use Luiza card in other stores, then, he has other sources of income. Only for you to have an idea, 90% of our Luiza Card customers are active, 65% of them use the card every month on average seven times in the month, therefore, this card is very active. It is the main card of our customer, and if you observe these customers' testimonies, many of them cry and show their happiness for using the card, for having credit available. And something very interesting we started doing this year, was to make available embossers at the stores, called in-boxing real time, online, customer leaves the store with his card embossed, with his password, and ready for use. We will be rolling out these embossers by the year-end in almost 600 stores. Thus, our strategy is concerned with increasing the base of active cars.

Robert Ford – Merrill Lynch:
This makes sense. Only one more question. Now, you are delivering to over 100 cities. Which is the sale percentage of these markets? And how does express delivery take place, how is consumer's shopping frequency?

Frederico Trajano – CEO
Our express delivery is B+2, then, within 48 hours. And the indicator we mentioned, a long-term objective, I would say until the end of next year, we already commented this

with the market, is that 50% of sales under this mode is of 1P (traditional e-commerce).

Robert Ford – Merrill Lynch:
And how many representatives in 100 cities in referred delivery?

Frederico Trajano – CEO
We cannot provide this information, Bob.

Robert Ford – Merrill Lynch:
Thank you and again congratulations.

Operator:
Our next question comes from Fábio Monteiro, BTG Pactual.

Fábio Monteiro – BTG Pactual:
Good morning everyone. I have two questions, one is related to online sales. You mentioned customers who bought items at the marketplace, 19% in the second quarter. I would like to understand specifically from new customers, if you could give us an idea, first how much online sales are growing in number of items, orders and the percentage of new customers who are entering into the base, how many customers are buying items at the marketplace, I don't know if you have this information. Also, I would like to have an idea on the categories, excluding the television effect, which was very specific, which doubled market share, you had few campaigns referring to the World Cup, I would like to understand which were the outstanding categories, inclusive in the marketplace. Thank you.

Eduardo Galanternick – E-commerce Executive Officer
Well, Fábio, this is Eduardo speaking. Thank you for your question. During last calls we mentioned that sales result came from conversion growth, browsing and ticket. This second quarter specifically, we recorded a drop of ticket, but a drop fully directed by our focus on increasing shopping frequency. I can affirm that although sales grew by 66%, in terms of items sold, we grew by more than 100%. Referring to the marketplace, as we mentioned, although it represents 10% of our GMV, from all customers who bought at Magazine in the quarter, 19% of customers bought an item from the marketplace. In terms of categories, obviously, the marketplace follows our other categories, but it has represented a relevant additional assortment, and especially an additional number of customers. We can mention the automotive category, the perfumery and cosmetics category, the market category we launched, which are very positive to bring new customers. Although such drop of ticket, as I mentioned, we can see a positive impact from our business and from marketplace to our customer base. Ok?

Fábio Monteiro – BTG Pactual:
Ok, thank you. Only one more question, you recorded an operating cash flow of R$980 million in the last 12 months, R$280 million in the quarter, we can see you are very focused on strategy, and no interest in relevant M&As, which for us is positive, a focus

on organic growth, well, you are considerably advancing in terms of market share without acquisitions. Then, my question refers to the use of cash, you commented on the stores opening, you even accelerated, 27 stores were opened in the quarter, 71 stores in the last 12 months. We can see this as one of your fronts, and obviously the investment in the marketplace, but could you discuss a bit on the level of indebtedness you consider appropriate and if you see any other use for the cash you are generating, considering no M&A, at least, a relevant M&A in terms of size. Thank you.

Frederico Trajano – CEO

Well, Fábio, we have succeeded in managing working capital and with growth, and even with steady margins up to now. Obviously, we managed to reduce indebtedness and now, we are in a position of net cash, with a very interesting financial condition. Reminding that always when you look at our power of capital it is important to consider the card anticipation. When we consider our indebtedness ratio, we also take into account the card anticipation. This is not a traditional debt, but it raises a financial expense, and we want this financial expense to stand at a level around 20% of EBITDA. Reminding that now we have lower interest rates, but with a complicated international scenario, which may give rise to higher interest rates in 2019. I recall the 2014 World Cup and the year of 2015, which was a very difficult year for all Brazilian retailers, and for use especially. In 2014, interest rates were very low, and then, in 2015, interest rates doubled. Financial expenses practically absorbed entire EBITDA that year. Thus, the company need to be cautious, although now we can see a momentum, with low interest rates, good sales, we need to be cautious, because we know in Brazil, interest rates have high volatility. And considering we need to deduct receivable to sustain such capital structure, we need to consider this factor, in our opinion, we do not have such cash surplus, as I mentioned sometimes in the call. Then, obviously, we need to maintain such conservative policy of interest rate and market volatility. From the investment viewpoint, we are significantly stepping up compared to last year. Stores opening, as you mentioned, we already reiterated here, we will keep an accelerated pace in the second quarter and fourth quarters as well, and probably next year. We also have the stores renovation, we are converting stores into mini distribution centers. We are initiating this project and we are also speeding up, I think we have a target of over 100 stores this year, and all stores throughout the years as well. We are investing in distribution centers, both in enlargement, exchange of points-of-sale, we will exchange the distribution center in the state of Bahia, we launched a new distribution center in Goiás, Fortaleza, we increased the area, and we are also investing in equipment, software, automation. Needless to say, our relevant investments in technology, both in OPEX and CAPEX, significantly increasing the number of Lab teams, this is the area which has increased the number of administrative staff at the company, out of stores. Thus, all these factors requires from our cash. Then, I think today, the company's focus from the investment viewpoint is: technology, logistics, customers increase, also the level of services I've mentioned, part of these investments are in OPEX, others in CAPEX. Finally, this the direction the company intends to follow. This year the company acquired LogBee, and solutions, such as LogBee complement our ecosystem, we continue looking at alternatives in the market, as we have been mentioning since the follow-on held last year, that this would be the company's strategy, we have been very systematic in our strategy.

Fábio Monteiro – BTG Pactual:
Ok Fred, excellent. Thank you very much.

Operator:
The next question comes from Richard Cathcart – Bradesco.

Richard Cathcart – Bradesco
Good morning everyone, I have two questions. My first question is about the app, if you could give us any idea on the app penetration in e-commerce, I think you mentioned the figures in previous quarters. My second question refers to gross margin. Obviously, we could see a shrinkage due to the channels, you also mentioned in the release a slight contraction inside the channels due to the mix. I just would like to ask, considering you sold one million televisions, how did you manage to basically deliver a gross margin which slightly came from television mix data channels? Thank you.

Eduardo Galanternick – E-commerce Executive Officer
Good morning Richard, this is Eduardo speaking. Thank you for your question. I will start talking about the app, then, afterwards, Fabrício may discuss on televisions. Referring to the app, this is a proposal we initiated at the end of 2015, without any representativeness. We are very pleased to see that at the end of this quarter, we now are app company, today, this is the channel with the highest traffic representativeness inside our business, reaching nearly 30% of sales, we are mentioning here, the B2C. Not investing much in downloads which reached 16 million, but one of the most important targets of our team is the MAU - Monthly Active Users, wherein we pursue not only the download, but also customer interaction with the app and make this one of the most important tools of push, push is already very important inside app sales, and we believe this is the right path, and we will continue investing so that app becomes increasingly important, because experience there is very positive. Ok?

Fabrício Bittar Garcia – Commercial and Operations Vice President
Referring to margin, this is Fabrício speaking, as I mentioned before, other categories performance contributed to our margin not record a substantial decrease. We did an exceptional work with televisions, as we already mentioned, but white goods also grew six times more than the market. In telephony, the market kept the pace, and we grew two digits. In furniture, the market kept the pace, we grew two digits. Imported products, which is a relevant category, with a high margin, we grew three times more than the market. Then, I think, the fact is we performed very well in other categories, not only in TV. In TV we were ahead of the curve, but in my opinion, our performance was excellent in other categories, thus, providing higher stability to the margin.

Eduardo Galanternick – E-commerce Executive Officer

Also referring to our margin, I would like to point out our sales of services, we have been doing an excellent job to sell insurance, warranty, new services, we also launched the digital services. Then, both control plan, and services, such as installation and maintenance of line of services, we can see their relevant contribution to sales growth. Here, we are not referring to price increase, but the penetration of this service, which has significantly contributing to our results, or to sustain our margin.

Richard Cathcart - Bradesco
Ok, excellent, thank you guys.

Operator:
The next question comes from Felipe Casemiro, HSBC.

Felipe Casemiro – HSBC:
Good morning everyone, and thank you for taking my two questions. My first question refers to the solid performance of physical stores in the quarter. Fred already mentioned in his speech and in the first question, but I would like, we would like to understand as to omnichannel initiatives, for instance, the customized campaigns through the app, which resulted in 16 million downloads in the first quarter, and stimulated such heavy traffic of customers at stores. This is my first question, besides a solid marketing campaign. And my second question, could you give us an update on the plan to roll out logistics solutions to the marketplace? These are my two questions. Thank you.

Frederico Trajano – CEO
Thank you for your question, Felipe. Concerning your first question, as we mentioned in our release, today, the app's focus is to generate sales for e-commerce, although it has omnichannel features, with a click and your CVV (card verification code) you can buy and pick up the product at store, and such sale goes to the digital channel. Then, the app download growth and the marketplace strategy still significantly contribute to e-commerce growth at stores sales, although we have proved, quarter after quarter, that there is no cannibalization, channels manage to grow with specific strategies within this context. But certainly, these issues contribute to the digital channel growth, I think you mentioned this specifically. The store was actually impacted by our promotions and our campaign 'Sai Zica' attracted several customers to the stores, as it involved the exchange of good, customer had to visit a store to exchange his old television, thus, resulting in a heavy traffic at stores. Consumer continues visiting the store, reminding that he has credit card, additional credit limit, and payment by installments. Thus, campaigns specifically target the physical world, they ended contributing to other channels, but they prioritize the physical world, they contribute to the channel growth, obviously, at this level, the omnichannel contributes in this regard, although we have been investing in online and offline, in marketing campaigns in Facebook, Google, in digital platforms, attracting customers to the stores, we have a specific line of marketing investment in this regard, with growing results. In MagaLu Entregas (delivery) we are increasing the number of sellers, if you want to discuss a bit on the number of customers, then I talk about fulfillment.

Eduardo Galanternick – E-commerce Executive Officer
The mode we have today at Magalu Entregas, of sharing agreements, we already have nearly 20% of sellers adhering to this mode. Referring to models of crossdocking and collect, we have a pilot test estimated for the third quarter.

Frederico Trajano – CEO
Our estimate is that over 50% of sellers have the first mode by the year-end.

Felipe Casemiro – HSBC:
Ok. Just a follow-up in this last question, considering the GMV growth of 3 percentage points, looking at the annualized terms, by the year-end you should have a GMV close to R$1 billion. Do you already have a structure to meet such fulfillment for 3P (marketplace) by the year-end or not yet?

Frederico Trajano – CEO
We will launch the fulfillment pilot test at the year-end, then, obviously we will invest in such structure to the extent we can see its success, sellers' adhesion. We are not building capacity before evaluating the pilot test performance. We can do it very quickly, then I prefer doing it just in time rather than building capacity in advance, as this will significantly consume our profitability. Then, we will look at the pilot test, see which type of area is required, which type of infrastructure is required, and based on these factors, we will expand our distribution centers. Reminding that our focus is inventory turnover, items stuck in inventory are neither good for us nor for seller, isn't?

Felipe Casemiro – HSBC:
Of course. Thank you very much for your answers.

Operator:
The next question comes from Olívia Petronilho, JP Morgan.

Olívia Petronilho – JP Morgan:
Good morning Fred, good morning Roberto, thank you for taking my question. I have three questions, the first two questions refer to the physical stores. We are able to understand what we see in same store it should not be considered as structural. But when you look at categories, excluding TV, if you could give us an idea of what you have seen now in early second half, what do you expect moving forward? If what we can see in the first quarter may be considered more normalized. My second question refers to new stores productivity, we have a very high same store, but I think the same store gap for growth, it is very strong, since areas expansion was 6%. Then, I would like to understand if these stores profile is different from what you have from legacy portfolio, how is the maturation of these new stores, what you have seen in terms of maturation here, if it is in line with the company's expectations. My third question refers to e-commerce, if you could give us an update on the Shoppable Distribution Centers project, if you have few pilot tests, I would like to understand what this project

have changed e-commerce productivity in delivery terms, the progress of such project, and when we should expect its roll-out. Thank you.

Frederico Trajano – CEO
Ok. Well, I will start here, maybe someone may add afterwards. Referring to your first question, in fact, as I mentioned early in the call, we do not have a World Cup every quarter, probably, in my opinion, we will see very similar figures over the next quarters. For instance, the first quarter, reminding that the second half's basis of comparison is much stronger than the first quarter last year. Thus, having this in mind, it is really a great challenge from the viewpoint of generating growth after the World Cup, considering that the basis is very large and we do not have an external factor with such capacity to boost additional demand, as this was the case of the World Cup. Then, I think I can say that this is the line, without giving you a guidance. Your second question: stores opening. I would say we are very pleased with maturation curve of new stores, we succeeded in stores of São Luiz (Maranhão), Goiás, besides other stores we opened in other states. Thus, I would say that over 95% of stores we opened are going beyond our original estimates, when we calculated the store ROI, ROIC, IRR and the payback, thus, we are very pleased with their performance, and finally, we will continue accelerating store openings, because preliminary figures are very promising.

Fabrício Bittar Garcia – Commercial and Operations Vice President
Just complementing, I think that in relation to new stores, the first strategy succeeded, we chose the right places to enter, we entered into two new markets, purchases and acquisition, we succeeded in such entry. I think the main issue is the discipline we applied in the opening of these stores. We have been very stringent with location, with occupation cost, thus, this is significantly contributing to stores attain the level of sales it needs to reach breakeven. Then, I think this discipline has been our great competitive advantage, in the performance of these stores, which are really performing very well.

Frederico Trajano – CEO
The third point I've mentioned, we expect until the year-end to have more than 50% of 1P deliveries within 48 hours, this will require us to observe a rollout schedule, investments in technology and of stores as Shoppable Distribution Centers, they are relevant to contribute to such indicator. Then, we need lots of discipline and competition when executing these renovations, and this is not easy. Renovate a store while it is operating...

Fabrício Bittar Garcia – Commercial and Operations Vice President
Actually, the stores which have been inaugurated already have this new concept, and other 100 stores will be renovated this year. At the year-end, we will have over 200 stores under the same concept.

Olívia Petronilho – JP Morgan:
Ok guys, thank you.

Operator:

The next question comes from Guilherme Assis, Brasil Plural.

Andres – Brasil Plural:
Good morning everyone. In fact, this is Andres speaking. Beto, Fred, I would like to comment the increase in accounts receivable you recorded this first half, since it has been higher than its historical data. My doubt is if this is related to higher contribution from online sales or if there is any specific factor. And following this same line, could we expect in the online segment, will level continue going up? Thank you.

Frederico Trajano – CEO
Good morning Andres, thank you for your question. This increase is fully connected with sales growth, and our decision of not discounting so many cards, as we used to do in the past, due to an improved capital structure. Thus, we do not have any other... the mix, if you think in terms of mix, Luiza card share is increasing and Luiza card is not included in the balance sheet, most of it we discount with LuizaCred, always with LuizaCred. Now, the third parties card tends to grow, with sales growth and especially, the e-commerce growth, since share from third parties at physical stores is very low, because Luiza Card share is very high, and it is high at e-commerce, it tends to decrease to the extent we increase LuizaCred share in e-commerce, also one of our main objectives. However, credit card sales will continue growing, keeping the pace with the Company's growth. And in our balance sheet, the decision of discounting or not is a tactical decision, a decision if we want to convert it into cash or not, and we have to consider a daily liquidity and very low discount cost. Then, this is a very easy way to raise a line of credit. But the trend is very similar to current one, to the extent we continue generating cash, but we do not need to discount all receivables, as we used to do in the past.

Andres – Brasil Plural:
Ok, understood, thank you Fred.

Frederico Trajano – CEO
Thank you, Andres.

Operator:
The next question comes from Franco Abelardo, Morgan Stanley.

Franco Abelardo – Morgan Stanley:
Hello, good afternoon everyone, and congratulations for results. I have two questions, the question refers to selling expenses. Could you quantify or at least, qualify the level of services investment in the quarter, or more specifically 35% increase in selling expenses, how much derived from sales growth, higher logistics cost, ultimately, how much of this higher investment derived from customer acquisition and services improvement. This is my first question. My second question is: which was the free shipping penetration in total sales, in online sales this quarter, you had that campaign called 'Vale a pena Esperar' (It's Worth it to Wait), which mitigated the impact of truckers' strike, I would like to understand if you really recorded a significant increase

in such free shipping in the second quarter, and how should we see such penetration in the second half of the year? Thank you.

Frederico Trajano – CEO
Thank you for your question. Such level of disclosure we cannot provide. Referring to variable expenses, we also do not give such information, but actually a relevant portion of such increase in variable expenses derived from our investments in express delivery, which involves, for instance, have more people at the distribution centers to quickly handle the goods, enhance work shifts at the distribution centers, and enlarge the number of supply routes frequency. This involves a series of logistics investments. We added nearly one thousand people to the Company's logistics operations over these last quarters. This is a significant figure, again, evidencing we are very serious concerning our commitment to a faster delivery in Brazil with high indexes, and we would not do it differently. And another investment is other call center operators to reduce the average time of services, other investments in Luiza Card, in marketing to activate Luiza Card. Then, here we have a relevant issue, which was mitigated by a higher margin of contribution from the World Cup. I cannot disclose this information, but your argument is correct, I think part of such expense increase derived from these investments. If it weren't for investments, the company's margin would be higher in the quarter. Then, I think it is important to complement this information, significantly higher I wouldn't say, but it would be higher in the quarter. And referring to free shipping, it was a week of 12.

Eduardo Galanternick – E-commerce Executive Officer
Overall our free shipping policy, Franco, this is Eduardo speaking, it has been very consistent. We provide free shipping for all the orders of the Pickup at Store and free shipping for all the orders made through the app above R$99. We also have the promotional free shipping. Such promotional free shipping compared to previous years slowed down. This quarter, we had the campaign called 'Vale a pena Esperar' (It's Worth it to Wait), basically one-week duration, five days after the truckers' strike, without any relevant impact on consolidated results in the quarter, but actually, the Pickup at Store has been growing and our app, as well. Ok?

Franco Abelardo – Morgan Stanley:
Perfect, this is clear. Thank you and again congratulations for results.

Eduardo Galanternick – E-commerce Executive Officer
Thank you.

Operator:
The next question comes from Maria Paula Cantusi, BB Investimentos.

Maria Paula Cantusio – BB Investimentos:
Good morning everyone, and congratulations on your results, thank you for taking my question. I would like to know how you see the competitive scenario, do you think still there are weak competitors due to the market conditions, or do you already see any upturn from these competitors? And how do you see the competitiveness in the

second half with such promotional event, such as the Black Friday. This is my first question.

Frederico Trajano – CEO

Good morning, Maria Paula. Thank you for your question. Well, we have been commenting on this competition issue for some time during the call and I do not see any relevant change in the competitive scenario for the first half. What I've mentioned earlier is I think this is a macro issue and I reiterate our big competitor is Magazine Luiza of previous year. Thus, growing over a high base of comps has been our greatest challenge. I see the market still rational, because Brazil has not left the crisis, thus, we our economy is still weak, investors and banks are cautious to inject capital into the companies, both via debt and equity, then, nobody has money left to make aggressive or senseless investments from the margin viewpoint. Thus, I do not see any relevant change in the market for the second half, I reckon situation will remain the same. In my opinion, the challenge will be a macro issue rather than a micro issue, both in online and offline, I do not see a great change at this moment, for this second half, everything can change next year or two years from now, but I do not see relevant changes in microeconomy this second half of the year.

Maria Paula Cantusio – BB Investimentos:

My second question: I would like to know about the performance of marketplace products you have been making available at brick-and-mortar stores, if this perhaps drove the brick-and-mortar stores' same-store sales.

Frederico Trajano – CEO

No, this is the very beginning. We faced few situations of experience during pilot tests which were not so positive as we would like, and we are correcting these issues, then we may rollout it more intensively. Thus, it has impacted yet the brick-and-mortar stores' same-stores sales. We believe this is a great opportunity to increase brick-and-mortar store conversion, enhance the level of categories, but we still need to adjust the technology there, the entire process in order to provide a better experience and be able to succeed with this channel.

Maria Paula Cantusio – BB Investimentos:

Ok Fred, thank you and congratulations again.

Operator:

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

Frederico Trajano – CEO

I would like to finish this call reinforcing my satisfaction with results delivered, congratulate all 20,000 employees of Magazine Luiza for such exceptional results amid all the hardships faced during such period. Reiterate my confidence in the long run, in the company's strategy, in the measures we have been adopting. Also reaffirm we will face more challenging macro situation compared to the second half last year, and thank all investors who believed in the company over these last few months. Thank you very much, good afternoon everyone.

Operator:
Magazine Luiza's conference call is closed. We thank your participation and have a nice afternoon.