

**Local Conference Call**  
**Magalu**  
**Results for the 3rd Quarter of 2022**  
**November 11, 2022**

**Host**

Good morning, everyone. Thank you for waiting. Welcome to Magalu's conference call regarding the quarterly results.

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

We would like to inform you that this event is being recorded and will be made available on the company's IR website at: [ri.magazineluiza.com.br](http://ri.magazineluiza.com.br), where the results release and presentation are already available, both in Portuguese and English. The link to the presentation in English is also available in the chat.

During the presentation all participants will have their microphones disabled. Then we will start the question-and-answer session. To ask questions click on the 'Q&A' icon at the bottom of your screen, write your name, company and question language. Upon being announced, a request to activate your microphone will appear on the screen and then you must activate the microphone to follow up with the question.

Questions received in writing will be answered to later by the investor relations team.

Now, I would like to give the floor to Fred Trajano, CEO of Magalu. Fred, they are all yours.

**Fred Trajano – CEO**

Good afternoon, everyone. Thank you - Actually, good morning. Thank you so much for being here with us on our 2022's third-quarter results conference call. I think that a result that presents here - and we will breakdown throughout our call - a significant evolution of our figures, both in absolute and relative terms, although the company and the e-commerce and retail sector in general continue to go through a still challenging moment in the macro and micro aspect in Brazil and in the world.

I think that, to start the call, I would like to go back to giving you a context that I emphasized in the 2Q, but the phenomenon continues to happen here in this 3Q. It is a Brazilian and global phenomenon, in which we see a generalized drop in the top line of e-commerce and technology companies in the quarters which are being

reported by Brazilian companies and also from abroad; as a result, in my view, of a process of normalization of growth, specifically for e-commerce, a growth that is return to normal. There was a drop here this year, but we see that the levels at which this growth will stabilize, and especially the penetration rate, are levels that are significantly higher than the pre-pandemic ones, and from the moment this normalization is completed - I think already in the 4Q of this year - we will already see a stabilization of this drop due to the tremendous growth of the COVID years. We will see a more normal growth trend. I believe that a bet that the market absolutely cannot take is that the future will be more analogue and less digital.

So, we have a scenario in 2022 of drops in relation to increases - I think digested in 2021 - largely due to that COVID period. From now on, I think that from the 4Q and especially from next year, growth will return to normal, so e-commerce and digital media will continue to grow above analogue ones, and we will see this situation more stable.

Therefore, it is important for us to understand the market in terms of a movie and not a photography. I have made this association because, in fact, the numbers corroborate my statement.

Despite - next slide, please - this drop in the e-commerce market specifically in Brazil (the e-commerce market 10% in this 3Q), Magalu grew, and grew in all channels, especially in online channels. We had a total growth of 2%. I think it's a number that should be celebrated, because the vast majority of players in the segment had difficulty in presenting a low decline, and we had a growth.

This growth that, if we look at the three-year movie, is twice what it was in 3Q19 (14 billion), while in 2019 we had 6 billion. The CAGR for these three years is a 28% annual CAGR. And I think that what I want to highlight the most about this growth is that it was a growth that we managed to achieve, even with a significant increase in margin. So, increase in freight price pass-through, merchandise price pass-through, gross margin increase, take rate pass-through to seller, reduction in delivery frequency, etc.

Therefore, several efficiency measures, margin increase, and even showing here, in short, that we managed to have a good ride and move towards monetizing and improving, about 50% of our operating margin in the quarter. We improved 50 % in relation to the same adjusted margin last year, that is, we said the book value improved by more than 200%, plus the adjusted margin which we think is the fairest comparison, the company's EBITDA improved by 50%, the company's operating profit. We grew in physical stores, 1P and marketplace. I think that showing this growth in a market that dropped with the significant increase in margin that we had, expressively shows that the company is walking the talk and carefully monetizing to continue gaining share and gaining market share. Can you go to the next, please?

I would like to highlight the physical store result. We initially expected that the world-cup effect would start to positively affect the stores in the 3Q, but due to the elections, due to a series of factors, this world-cup effect was concentrated in the 4Q. We can talk about this later on. We already felt that from October and November we have a strong concentration of the world-cup effect, which will definitely favor our growth in the 4Q of physical stores, but even without the world-cup effect in the 3Q, we grew 1% in revenue from stores compared to last year, and we also had a significant gain in market share. It's good news to grow even with the world-cup effect, also remembering that the aid of R\$ 600 was only paid from August, and usually people first pay the bills and then go shopping. Now, we already have the effect of August and September in this quarter, and in the 4Q onwards the effect will be full.

It's a very positive performance, considering that the world cup was concentrated in the 4Q and that a good part of the effect of the aid tends to be in the 4Q - and what we are already experiencing, because for better or worse we already have 45 days of the 4Q and we are very positive about what we are seeing and what we think will happen by the end of this quarter. I want to highlight this - Fabrício also will -, all the officers who are here - Fabrício Garcia, our VP of operations - can provide further clarifications in the Q&A. Next slide, please.

I obviously wanted to highlight e-commerce. In e-commerce, we grew 46% in three-year CAGR. We went out, tripled e-commerce from the pre-pandemic, from the pre-pandemic triad of 2019 to now. Even in a falling market, we grew 3%, a very significant gain in market share here in the Brazilian market. And again, even with all the aspects, reduction of the total payment period, freight collection and a series of changes, repricing were made this year, even so we managed to have growth supported by all the companies in the group, and by the parent company also. Can you go to the next, please?

I wanted to show that for Magalu to grow we had a challenge, because in the last three years we have grown way above the market. In 3Q19, we grew 36, and the market grew 39; in 2020, we grew 148, and the market 82; and last year 22 against 15, that is, our quarterly basis is much worse than the market, and yet Magalu grew 14 p.p. above average in this quarter, which does show that Magalu has truly been consistent in recent years. If we go in a historical series of 8 years or even gaining market share, and now returning to show growth in operating margins, which has always been Magalu's keynote in all years except the last year, due to the adjustments that we have already commented on in the last calls. So, I wanted to reinforce that a lot.

I would also like to highlight - next slide, please - the growth of the marketplace, with a strong emphasis on the 3-year growth. The marketplace had a base - next slide, please - it had a very significant comparison base from the previous year, a much higher comparison base than the 1Q. In our conversations with analysts and investors, we had anticipated that we would have a very difficult comparison for the

3Q due to the growth of more than 67% that we experienced last year, while the 1P had already fallen in this third quarter of the last year.

Even so, our CAGR remains above the average of the other quarters, growing 61% compared to the pre-pandemic, almost quadrupling the sale of our marketplace, showing the assertiveness of our strategy. Later we will open up a little and we will see that this marketplace growth was heterogeneous, meaning that small sellers and sellers of new categories grew significantly more than large sellers and sellers of non-traditional categories, so from traditional categories.

On the next slide, we start to show on the slide, this is the average growth of Magalu's marketplace, and we can see that in 3P we have consistently grown more than the market, so there is a good perspective there, all the work we have been doing to gain share. We practically launched the marketplace four, five years ago and we have a consistent work of great evolution. Next slide, please.

Speaking about this issue of heterogeneous growth, the new categories performance was 40 p.p. better than the traditional categories. What does that mean? In our 3P, we had a decline in the evolution of traditional categories, which were more than offset by the new categories, which is the Company's diversification strategy - not that I think it's good to have a decrease in the traditional categories, it's a seasonal factor.

Traditional categories have done exceptionally well during the pandemic periods. Consumers wanted to buy durable goods in the pandemic, in the pandemic period, and that presents a high base. Many anticipated their purchases which ends up creating a more difficult basis for comparison. I see that in the future, traditional categories penetration in Brazil, which still are very low, will continue to grow; but obviously the company's strategy is to increase the share of new categories in our business, and once again we are here walking the talk, we are moving at our strategy's pace, and I think this number of 40 p.p. difference between the growth of one and the performance of the other shows exactly what we are implementing in our strategy. Next slide, please.

Making this more tangible - and Eduardo Galanternick can detail some of the issues here later in the Q&A - our marketplace starts from a very strong base, above the market of large sellers. Magalu is a leader for several of the big sellers, from industries that sell direct (Whirlpool, Electrolux, Nike). So many of the big sellers, the big Brazilian brands have Magazine Luiza as their main or one of the main sales channels, we have a high share in the 3Q for big sellers.

We are doing an exceptional job for a small hyperlocal and analogue seller with the Parceiro Magalu that we launched during the pandemic. We have a fantastic work here with promising results. I'm going to present some figures, later Eduardo can corroborate my information.

But I want to make it clear that we also have a solid work to do where there is a great opportunity to gain market share, which is for average sellers, who are sellers today purely digital, who are already selling in the market and that we have a massive share-gain opportunity, extremely focused seeing the results of all our work in logistics.

And I would like to highlight all the work that we have at Magalu Entregas, with the news now of our fulfillment that we also launched in the quarter. We already have 500 sellers in fulfillment and growing a lot with extremely positive indicators and space available in all the company's DCs, because we reduced the inventory level to 1P, are available to the seller.

I really believe with the improvement in the delivery time, with the evolutions in logistics - which I will describe further - we will have an opportunity to grow in the three seller segments, maintaining the leadership in large sellers, having a blue ocean in small sellers, but also gaining share in medium sellers. Magalu's strategy is very comprehensive and complete, with solid initiatives for all of them.

Giving even more details - next slide, please - we once again significantly grew the seller base in the last quarter: we reached 236,000 sellers, once again with a lot of support from the store-hunting effort, but not exclusively. We continue to attract many sellers who want to sell through our digital channels - remembering that not only Magalu, but we also have the seller sells on Kabum!, the seller can also sell on Netshoes, he can sell on all the company's assets and channels.

And an extremely significant growth in the number of offers in ads: 81 million ads on the platform. And we continue to grow it. Nowadays it is impossible for you to look for something in Magalu and not find it. We have, we even launched - I'll explain it later - the #buscamagalu campaign showing here and giving even more visibility. Certainly, this visibility will be given now in the world cup since we are a sponsor of it. We are going to be focusing a lot of our communication now on the world cup, both for Black Friday, to sell, but also to show this variety, everything you can find in Magalu. In short, you just don't find counterfeit and smuggled products here; despite of the latter we have everything on our platform. Can you go to the next, please?

I wanted to highlight the work that we have been doing. I think that a differential of Magalu is the human interaction, and we have taken this differential to the marketplace in a very strong way. We are close to the seller, we have been visiting it frequently. We have a corporate value that is ground level, and we are doing it in an even broader way, as we did with Caravana Magalu. We went to several cities along the way, getting to know Brazil; understanding the local realities and challenges of retailers in each of the Brazilian states. We visited several cities in both the Southeast and Northeast, and we had the last caravan in Recife, an event that had more than a thousand sellers has several content and training, and also a change of mindset.

Our focus is to help the analogue seller to use the internet. It is worth stressing that we have 6 million retailers in Brazil, only 300,000 sell online. The vast majority need to do this. As I said, don't bet that the future of Brazil will be analogue. It won't be; it will be digital. And, certainly, Magalu will help several of these companies in this digitalization process.

I think that one detail - next slide, please - that I would like to show here is that our strategy, which is that bottom of the pyramid that I described at the beginning, it is making us walk towards bringing sellers from new geographies. In the vast majority of Brazilian platforms today, 70, 80% of sellers are in the Southeast, and Magalu is succeeding through the Parceiro Magalu and our strategy to bring sellers from new regions.

You see here the onboarding through stores versus onboarding through digital. The concentration of sellers in São Paulo is much lower, we have a lot more sellers in the Northeast (20%), which is twice what it is in digital onboarding, a lot more sellers in the Midwest region as well and in the North region, so a deconcentration that helps even from the point of view of carbon footprint. The less the merchandise shifted, the vast majority of Northeastern customers who buy online, they receive the merchandise from the Southeast, the merchandise is shifted unnecessarily, it generates an unnecessary carbon footprint, not just expenses. And we have this with Parceiro Magalu: a growth road.

I wanted to highlight another figure. As I said, the new, non-traditional categories are growing 40 p.p. more than the traditional categories. The small sellers are also growing much more than the big sellers: we are growing 70 p.p. more in small sellers than in large sellers, once again showing the assertiveness of the platform. For the big sellers, we reduced the subsidy a lot this year. We want to continue having them on our platform selling, even some 1P products even we are changing to 3P for large sellers, but our strategy is very much based on the bottom of the pyramid and in the second tier, so this is what we have been doing and the company's cohort figures are indicating that the strategy is right.

It is important for us, once again, to look at the 3P numbers as a movie looking at the three-year CAGR, because in fact durables and big sellers have a big effect on the basis of comparison of last year. But looking in general, looking more specifically at cohorts, the company is involving positively, exactly as it had planned at the beginning of the year. Next slide, please.

I think I wanted to highlight the importance of the store as a fundamental point for this small seller. Today, more than 520 stores - more than 519 stores - are qualified as Agência Magalu. We have 56,000 sellers using the Agência Magalu. Sellers who used to use the post office, today in Magalu Entrega or in the Magalu ecosystem we use the store more as an agency than the post office, showing that it is a competitive advantage. When the seller opts for the store and not for the post office, he increases, reduces the term by 50%, significantly reduces the delivery time and also

reduces their freight cost by 50%. Thus, it is a much better option for them; using a network that already supplies the store and is also accretive for the company. And we already have a thousand stores with 3P's pick up in-store. About 18% of everything sold in Magalu, in the marketplace - sorry - in the marketplace, it goes to the store, this is normally much higher in 1P.

I want to highlight Kabum!. To Kabum! we brought the Pick Up in-Store for Kabum! Here. 10%. We implemented two months ago. About 10% of everything sold at Kabum! it is already picked up at a store in Magalu, showing the importance of this multi-channel process.

I also want to highlight fulfillment. We obviously released it, as I said, in the last quarter. We went from 32 sellers in July to 500. We are growing significantly the number of sellers and qualified DCs. The idea is that all of our DCs can have a fulfillment operation, and I think the feature of our model, which I wanted to emphasize in an important way for you, is that the DCs already exist, the space already exists, and the operation and this sellers' inventory is fully shared with 1P.

Therefore, there's a synergy and a significant gain with only a marginal cost, because for our rent I'm already paying for the DC rent, we already have the teams there working on the DCs, we already have the trucks leaving the DCs for stores and for the routes of deliveries. Doing an absolutely integrated operation, 1P and 3P, is a great advantage for the company, which will not only provide a better delivery time - we saw that 20% of the orders that are in fulfillment are delivered within one day - and that it will help a lot with our promised delivery times as we move forward, and also at a much lower cost. For us, again, this operation is complete; it contributes with only a marginal cost, because the fixed costs are already there with great synergy, which was the differential of our 1P that we used the synergy with the store, and 3P will use synergy with 3P in the future. We are quite confident.

I have a video here that I want to show you, not only about fulfillment but about the entire evolution of the logistics operation, the Agência Magalu, fulfillment, Magalu Entregas. We bought more than four logistics companies and integrated them all into the Magalu Entregas platform, and today we have super comprehensive 3P logistics, which has actually won over sellers and consumers. I will play this video quickly so we can go back to our presentation later.

Institutional video (23:08 - 25:47)

I think the video is perfectly clear. It shows the case of a small seller, a medium seller, a large seller and various delivery modalities that are now part of our logistics line, the Magalu Entregas line. The evolutions are already significant. We went from 28% delivery on D+2 to 41%. About 80% of all 3P orders go through Magalu

Entregas, and I think we have a long way to go. For example, that same number of 41% for 1P is 81% delivery within 2 days.

I think we can evolve this 3P number tremendously to reach numbers similar to 1P, or close at least, and I believe that this will be the work in the rollout. The platform is built. We are developing it and expanding the number of CDs with fulfillment specifically, but we are very confident that we will evolve significantly even more - but we already have a suite quite significantly for the seller, which was basically built throughout this last year and a half. They are very expressive numbers for less than a year and a half of existence, showing that we have reason to be optimistic about the impact that this will have on the growth of the 3P in the future. Shorter deadlines, higher conversion and higher growth without necessarily investing too much in marketing, etc. Conversion is organic, positive, healthy growth for the operation - and accretive as well. Can you go to the next one, please?

I would like to highlight points that, one factor, I think Roberto will highlight in his presentation. I think we have two additional roads for monetization. One is already happening, we already started experimenting this year, which is Magalu Ads. We have 1500 sellers on Magalu Ads. We launched the self-service, self-contracting platform now. Now you also have ads in Magalu's search, which greatly increases the conversion for the seller. We are improving notably the platform for the seller; it is fully integrated in the seller's portal, and also now the level of potential exposure of these ads within the Magalu platform.

We are also creating. Ads will also be multiplatform; it will also serve to make Ads in Kabum!, in Netshoes etc., in all Magalu content portals too, Canaltech, Jovem Nerd, this is all a way forward. We are very excited about the number of sessions. Magalu is one of the top ten in Brazil overall. I'm not just talking about e-commerce, I'm talking about more or less - I believe - 500 million sessions/month. It's very specific.

If we consider all our media, edge, e-commerce assets, then we have a considerable strength there and we have a solid platform, from an acquisition as well, that was Inloco Media in the past, which is already showing results for the company and it will help us incredibly to monetize and improve our marketplace results in the future, and it will help our sellers to sell more too.

I think a positive point of advertising is with the LGPD changes, changes in privacy going forward, it will be increasingly difficult to get returns on traditional media platforms, and I think that the large channel, the great growth of advertising in the digital world will be within e-commerce sales channels. I see this path very positively from now on and I think we are going to have good surprises, both for the seller and for the investors. Can you go to the next, please?

I would like to highlight the result of our acquired companies. Although I already mentioned Inloco Media in advertising, I already spoke about logistics, all the



companies that we bought for logistics at Magalu Entregas. I would like to highlight those that are customer facing for our acquisitions.

Netshoes had a GMV of 1 billion in the quarter and presented another quarter of net income, even with all this e-commerce difficulty, among others. Several e-commerce companies around the world making a loss, while Netshoes showed a positive result.

Within our ecosystem we have a fashion segment, a 45% growth in the Magalu marketplace with 60% of this fashion segment already having a 3P share. We have 1P, we even have our own brand Vista, we have Zattini with several of the main brands in Brazil, but we have grown a lot in the participation of 3P in the categories (more than 40,000 fashion sellers).

And a powerful highlight for Época Cosméticos also from the beauty segment. We have over a million users on the Época cosmetics app. Época is one of the leaders - if not the leader - in the Brazilian online market this year, with a 52% growth in the marketplace. All of our partners have their own channel, but 100% of the SKUs are available on Magalu SuperApp. I think we maintain a channel because the channel has great organic access, there are people who like to buy in a more specialized e-commerce, but 100% of SKUs and sellers are also available on our Magalu SuperApp platform. We have full catalog integration.

I want to highlight to Kabum! as well - next slide, please - a company that we invested in last year, 1 billion GMV in the 3Q, 48 million net profit, a company that has grown, even in a sector... I mean, it has grown in a sector that tends to have even greater growth in the future. We are at the beginning of the integration. I mentioned the integration of Kabum! already. Kabum! already uses Magalu Entregas and now, with Pick Up In-Store, 10% of orders picked up at Magalu's store. These are customers who did not buy from Kabum! before, so I think it's a very positive thing.

And also highlight the work of AiQFome, 1.4 billion annualized GMV, it is already the second largest delivery app in Brazil. We expanded our presence in cities (820 cities) showing a super interesting growth that month. Can you go to the next slide, please?

This whole ecosystem is obviously integrated into Magalu, even AiQFome, in all cities that have AiQFome they are integrated into Magalu SuperApp. We now have an outstanding positive perspective for the 4Q. We are already feeling it. It is more than a perspective: it is already a reality now.

We are sponsoring the World Cup, and a large part of the media impact comes from that week after the selection of the Brazilian team, the start of the games next weekend. We have a significant volume of media. We are going to use all this top-of-the-funnel exposure to publicize the new categories and to achieve visits to categories which people still don't see Magalu as the first option.

The access is already huge. We already want to show that 77% of visits to our apps, in our app are no longer for core categories, but we want to expand this even more,

increase conversion. We have an institutional campaign of #buscanomagalu, which we will be implemented in this world cup package - obviously also doing all the Black Friday work. We also have the communication part, which is more retail communication to deliver sales in November - we are on Black throughout the month - but certainly we will also take advantage of this to build our branding, our awareness in these categories and to bring flow to these sellers that are entering Magalu.

With that in mind, I would like to pass on my word to Beto to give you the financial highlights so that we can get into the Q&A later, thank you very much.

### **Roberto Belissimo - CFO**

Good morning, everyone, thank you also for participating in our conference call. I would like to bring the main financial highlights. Fred has already commented a lot on our sales growth in all channels. We reached our highest level of sales in the year: more than 14 billion in total GMV; a gross margin of almost 28%, growing more than 3 p.p. compared to last year; an EBITDA returning to the level of 6% and also growing 50% in relation to the same quarter of last year; and a negative net result influenced by the financial expense, which we will also comment on.

On the next slide, we show some of the quarterly evolution of EBITDA, which makes clear the consistency in the evolution since the end of last year. We have evolved our EBITDA margin quarterly.

Overall, we gained almost 2 p.p. with emphasis on the gross margin, and in the gross margin we made adjustments to pricing and sales with interest, which helped with sales and the margin of goods, but the main highlight of the gross margin is the growth of our revenue from services, and mainly the take rate commissions on the marketplace, which have a greater contribution to the 100% gross margin, because it is pure revenue from services.

It is important to highlight that, to make it clear that we managed to grow the marketplace by growing revenue by growing the take rate. As we've been saying since the beginning of the year, the adjustments in the freight policy and policy for prepayment of receivables contributed a strongly to the total take rate and to the total profitability of the marketplace this year, especially in this quarter, which is much higher and expressive than it was last year.

And in addition to the gross margin evolution, an impact in this quarter was also our lowest level of SG&A for the year. We returned our total SG&A to the level of 21%. We were at 21.8% in this quarter, also evolving consistently in all our operating expenses, logistics, marketing, fixed expenses, personnel, rent and everything else. A very consistent work in the pursuit of this evolution of the operating margin.

On the next slide, we show another very important highlight of our result. Once again, we generated operating cash in a very differentiated cash generation, more than R\$ 300 million in cash generation in the quarter, and a total cash position (investments and receivables) of around 9 billion, more than 9 billion, a net cash position of almost 2 billion. Again, a great consistency, and it's one of the best capital structures in our segment.

On the next slide, we show a piece of this evolution. We had 9 billion in cash in June, we generated more than 300 million in operating cash flow, invested almost 200 million, paid almost 200 million between interest and leasing and raised a net amount of 100 million in Kabum! elongating the profile, the capital structure of Kabum! and reducing the financial cost of Kabum! Also, and reaching a total cash position of 9 billion.

On the next slide, we talk a little bit more about financial expenses. The CDI went from the 2% level to almost 14% in these last quarters. Our financial expenses went from 2% to 5.6% in this last quarter, but we show here several actions that we have taken to reduce financial expenses, despite the increase in SELIC.

First, the continuous evolution of our working capital is very important. It was another quarter in which we improved the working capital. In this quarter specifically, we increased inventories in preparation for the World Cup, so we have to look at the coverage. We are the leader in TVs sales in Brazil, so we have strong expectations for TVs sales, so as it has already started, as Fred already mentioned, we reinforced inventories in September, mainly for sales in the last quarter.

And at the same time the World Cup is also a special occasion. We negotiated purchases for the World Cup with longer terms, so we also managed to improve the average purchase term and the balance of suppliers generating cash. And this quarter has also shown a balanced ratio (8.5 billion in inventories and 8.5 billion from suppliers), a balance in this ratio.

And moving forward, we are now in the same, the best quarter from the point of view of sales and working capital seasonality as well. And we should, with the World Cup, Black Friday, return to showing lower inventories than the year past, consistent with what we've been doing since the beginning of the year, and improving working capital by the end of the year and generating cash from working capital again.

In addition to the working capital, we highlight the people who greatly increased the share of PIX over the quarters in Magalu, mainly PIX and cash sales, reaching almost 30% in Magalu's average, remembering that Kabum! already shows more than 40% of this sale via PIX, but we are increasing it in all channels and with that we also reduce the need to discount receivables.

We have significantly reduced the average sales term from a level of around 16 months in the previous year to a level that is currently less than 10 months, so this

also reduces the average cost of prepayment of receivables. And we also greatly increased sales with interest, both on the Luiza card and recently on third-party cards as well, and we can buy up to 24 installments, for example, paying lower interest, extending the payment and reducing the amount of the installment. Thus, there are a series of actions to mitigate the SELIC effect and reduce our financial expenses.

On the next slide, we talk a little bit about Luizacred. Today, we have more than 7 million cards. Since the beginning of the year, we have slightly reduced the granting of new cards due to the increase in default that we are seeing in the market as a whole. It is worth stress that last year we went from 5 million to 7 million, so there was a leap in our base, and this leap has helped us to significantly increase billing, TPV.

We show that the total TPV of our cards moved 13.5 billion, growing 24%, so this here is largely a result of new customers who are buying continuously and increasing their frequency and loyalty with our card, including the blue (*azulzinho*) card that we show there, which is the Magalu Card that we launched last year. We reached a record of 20 billion portfolio, one of the largest credit card operations in Brazil.

And then, on the next slide, before presenting it, I will even comment a little about default. One of the best ways to reduce default is to sell to the best customers, pre-approved customers, and there's a recent feature from our fintech, super cool, which is a new experience for Magalu card customers within the SuperApp to pre-approved customers. The approval rate here is 80%, 90%, because we are only approaching customers who are already pre-approved during their navigation - we are showing a short video of this experience here.

Once the customer is at checkout or browsing through our application, we offer the Magalu card. They can request for the Magalu card in a super easy and fast way, confirm some data and take a selfie and they can already make the first purchase without the physical card. The card is already approved right away, it generates a virtual card and generates the first purchase and then they receive the physical card at their house. It's a complete experience for pre-approved customers, who are making our sale of Magalu cards grow substantially for the best customers.

On the next slide, we show the normalization of default indicators, stressing that Luizacred has one of the lowest default rates in retail, in the market, because it relies precisely on Itaú's entire database and experience, and also on score of Magalu customers to improve the approval rate itself, in addition to all stores and the strength of stores also in the collection process.

The current level of NPL 90 is around 9%, which is in line with the historical level pre-pandemic and during the beginning of the pandemic. Last year was artificially low due to all the aid during the pandemic, a certain normalization was already expected, we are returning to a historic level. Old customers are still very healthy

and very profitable, and here is part of this normalization process and some of the growing pains from the very accelerated growth we had last year.

And on the right, we discuss about the result of Luizacred. In the last four quarters, Luizacred has presented a result very close to balance, close to breakeven. It is worth mentioning that this quarter it reached for the first time, adding financial revenue and revenue from services, the total of more than 1 billion in revenue. We have also made a series of efforts to increase and diversify revenue, and we launched several products this year, including the payroll loan and the FGTS withdrawal.

Luizacred's revenue growth this quarter was spectacular. It is still not being reflected in the bottom line due to this default normalization process, and also because of the CDI which also affects slightly Luizacred's funding cost. As these things back to normal, Luizacred tends to return to its historic level of profitability.

We talk a little more about fintech further. Here it shows all the TPV handled on our platforms, more than 22 billion TPV, growing 20% compared to last year in all channels, in banking as a service, in our digital account and in Magalu Pagamentos, and also in the Luiza card and on the Magalu Card.

And to finish off another slide, we show you another super cool feature from our fintech. In the last two months, we started to strongly encourage the migration of our sellers and the opening of digital accounts by our sellers, a Magalu digital account, free of charge, totally free, with unlimited PIX.

The seller earns 1% cashback on all the expenses they make with the card, so today, in just a few months, we have more than 10,000 sellers receiving all the sales that they make on our marketplace, receive in our digital account on our platform, and from that account they can make a series of payments. We give cashback, there's also the loan, there's the machine, there's the legal entity's credit card that we're featuring too. There are several financial services for the seller to enjoy and grow with us.

Those were the main financial messages, now we open the question-and-answer session. Thank you.

## **Q&A Session**

### **Vanessa Rossini - IR Manager**

We will now begin the question-and-answer session. To ask questions click on the 'Q&A' icon at the bottom of your screen, write your name, company and question language for their position in 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..

We also ask that in cases where there is more than one question, they are asked all at once.

Our next question comes from Thiago Macruz from Itaú BBA. Thiago, the floor is yours.

### **Thiago Macruz - Itaú BBA**

Hey guys, thanks for choosing my question. I would like to understand a little bit about the commercial dynamics, and talking more about physical stores and 1P. I have the impression that you have evolved in the commercial dynamics in recent periods, deepened the relationship with suppliers and that this is presenting results now, we saw it in the cash flow, and I would like to understand if eventually this makes sense. If you could give us an update on that I think that would be very interesting for us. Thank you.

### **Fred Trajano – CEO**

Thiago, thank you very much for the question, I'll let Fabrício answer it, And, just to anticipate a few points, we have a very positive historical relationship with suppliers, and part of our philosophy here at Magalu is "everybody wins". The supplier, the company and the customer have to win, so we always have a vision that is something that we are taking to the seller as well, it is a bit of our standard.

Of course, when you are in a process of inventory reduction, I think this relationship is always good when you are growing, increasing volume in a growth process, and that is it, this level that we are returning to now. It's much easier to be with them this year than it was in the same period last year, when we were in a strong process of reducing and equalizing inventories. But, in fact, it is in a very positive moment, helping the daily routine. I would like to Fabrício to answer about such moment.

### **Fabrício Bittar Garcia – VP of Operations**

Good morning to you all. Good morning, Thiago. Thank you for the question. I'm Fabrício. Fred explained it: we did a 1H of inventory adjustments. When you are adjusting, you reduce the volume a little, stressing the relationship a little bit more. But we are the first or second player of all the suppliers, so our relationship with them has always been fantastic, a win-win relationship. We made a notable plan for the

2H, a notable and consistent plan, and I think this transmits confidence to the supplier and further improves the relationship.

And now, in the last quarter, we are experiencing a good sales volume. We know that, in our business, having the product available at the right time is fundamental, and I think it is making a lot of difference now. We are doing amazingly with all the main suppliers. We made a great plan for the end of the year, and we are having very positive results, not only for TV in the World Cup, but for all categories.

### **Vanessa Rossini – IR Manager**

Thanks for the question, Thiago. Our next question comes from Luiz Guanais from the BTG bank. Louis, go ahead.

### **Luiz Guanais - BTG Pactual**

Good morning, Vanessa, Fred, Beto, Fabrício. Two questions from our side, folks. I think the first one, Fred, if you could please comment on the evolution of the average ticket mainly from the sellers of the Parceiro Magalu, how could we expect the evolution over the next quarters according to you increase the density in the regions you mentioned.

And then a second question is if you can comment a little on the room for price increases in 2023, how do you expect this relationship to work, especially in the 1H with an economy that should still be challenging. Thank you.

### **Fred Trajano – CEO**

Hi, Luiz, thank you very much for your question. Good morning. Is morning yet? I'll start with the second one, I'll let Edu elaborate on the average ticket question a little better, and I've already put some information here that we've been growing on new categories, well, first the second question about price.

I think the question of price, Luiz, is always very relative, it depends a lot on what the market as a whole is up to. If you want to lower the price, raise only the price, lower the price - which is fine-, raise the price, you can't. I think it depends a little on the moment of the market as a whole.

What happened this year, I think there was already a price equalization at a very reasonable level. I don't think it is necessary - apart from something specific that changes in the tax framework for next year - I don't see an additional need for a price increase. Now, what we really need is operational leverage via increased sales

volume, in Magalu's case via increased share gain - and you saw that we managed to increase prices while maintaining share gain... gaining share, sorry.

We managed to increase the price, gaining share, because we have an above average level of service and we have a brand that the consumer likes and respects a lot, so I think that was a super positive point, that's why I highlighted our growth in a market that is falling with a 50% increase in operating profit. I think that shows the company, that it's a company that doesn't need to sell below cost to do well, or to grow or, in short, to win over its customers, I think this is an important point.

I don't see much need for price increases for next year, I think that now we have to continue evolving, which is what I see will happen in this 4Q - it's already happening - which is for us to have operating leverage, grow sales volume, increase the daily sales level in all channels. I think this is a tendency that we come from a very depreciated base and a depreciated moment with a very low consumption.

Now, there is two more months of government aid, three months of government aid, going to the fourth month of government aid, probably the government aid will be maintained next year. Then, there is the world cup in this 4Q, which is super positive for the sector. It is already being positive for the sector, very focused in the 4Q. I expected a reflect of it in the 3Q, but it came in the 4Q. Thus, I think that on positive trends, you don't need to rely everything on price.

And then I would like to turn it over to Edu to talk about the average ticket. This is obviously always a mix, but I wanted him to elaborate a little bit on the answer for you.

### **Eduardo Galanternik – Business VP**

Hi, Luís, how are you? Great question. I think that our entire strategy at the Parceiro Magalu is literally bringing online those sellers that haven't yet digitalized, and that comes very strongly. Firstly, with the addition of geography, because every time we leave the big centers there is a smaller share of these online sellers and we are bringing these sellers to our platform, many of them trying to sell online for the first time.

Additionally to a diversity complement. Most of the sellers that come from the partner are from categories that we have no tradition, they are not from our core categories. Precisely because of this, the average ticket is significantly lower than those of our more traditional categories, and because we have a smaller ticket, we need a partner so that the goods move little and we manage to be profitable in this operation, this is the whole concept of the partner.

And as Fred said, today the Parceiro Magalu is already super relevant for us. On our side, we are even more important for this partner because they are the first ones are



selling online, and they have been the engine of our growth. Fred commented that there are almost 70 points of difference between the growth of the Parceiro Magalu and the growth of the seller. It is a strategy that we trust a lot, it is complementary. The big seller that already attend our demand, the small one that is an essence that brings capillarity and geography, which brings reductions in delivery time, and we have a middle that will benefit from the entire fulfillment and logistics structure. Today there is a platform that is able to serve all types of sellers, each one with its characteristic.

### **Fred Trajano – CEO**

In addition, I think that one point I would like to emphasize is that we want to reduce the average ticket by increasing sales in new categories, but within these categories, not selling the bottom ticket of the category itself. What I wanted to say with that, Luiz, is Magalu is a company that consumers trust to buy branded products, higher ticket products. We have credit and payment options, so the unit economics of each category for larger tickets is better than for smaller tickets.

What do I mean by that? Very low tickets of 20, R\$ 30, economics for e-commerce is very bad, even in hyperlocal. It's not so easy for you to have a profitability, a good margin with that. Therefore, we want to reduce our ticket by expanding penetration and participation in all categories, but we want to have an overshare in the higher average tickets of each of these categories, because that is where we believe we are going to have in 1P and especially in 3P a better unit economics. I think that is one thing I wanted to highlight to make it very clear.

### **Luiz Guanais - BTG Pactual**

Excellent, Fred, it's super clear, thanks Edu too.

### **Vanessa Rossini - IR Manager**

Thanks for your question, Luis. Our next question comes from Ruben Couto from Banco Santander. Ruben, go ahead.

### **Ruben Couto - Banco Santander**

Hi everyone, good morning. Fred, you commented about the sales related to the World Cup starting to appear now in October and November, although a little later than you were expecting. Has this been happening on all channels, including

physical stores? Thus, the quarter starts at an accelerating pace, as you expected, from all channels?

And to start to see this start of acceleration, did you have to be a little more promotional than expected or is it in line with the plans? Did you not need to have this investment in promotion to be able to start encouraging volume? Just to try to understand a little bit what we should expect in terms of margin dynamics now in the 4Q as this volume, this sales acceleration starts to appear. Thank you.

### **Fred Trajano – CEO**

Rubens, thanks for the question. Yes, we are experiencing a situation of better sales growth in all channels this quarter. I think mainly due to the World Cup, but not exclusively. There is nothing being done in an extraordinary way, other than what is already a promotion for a period of Black Friday. The volume is coming easily and organically, without forcing it. I think this is an important point. I don't have a clue. Fabrício, do you want to add something?

### **Fabrício Bittar Garcia – VP of Operations**

I think the most important thing at the end of the year is execution. We did a very comprehensive planning and executing it very well. I think this is fundamental, and we are managing to make the sale, as Fred put it, in both channels, online and offline, within the forecast that we did with promotional dynamics, we don't need to be more aggressive than we had already planned. I believe it is pretty coherent and the sale is coming, given the improvement and our execution capacity, which I think is very good.

### **Ruben Couto - BTG Pactual**

It is clear. Thank you.

### **Vanessa Rossini - IR Manager**

Thanks for your question, Ruben. Our next question comes from João Soares from Citibank. João, go ahead.

### **João Soares - Citibank**

Thanks, Van. Good morning. I would like to go back to the discussion about 3P, I think it's a very interesting discussion that you raised in relation to the ticket. Fred, I

believe the discussion on looking at this seller's lower ticket reversal, this seller's profile and thinking about this seller's maturation curve in the future, what do you expect for 3P growth? I think this is an important point. You opened the call by commenting on a reversal at a stabilization pace, the online growth returning to its natural secular growth. Thus, I would like to understand a little how 3P fits into this context, this is the first question.

The second question, when I look at the coverage ratio, it fell sequentially and coincides with the increase in the default ratio. I would like to understand if you are comfortable today with this coverage ratio, if you think you need to increase the provision going forward, thank you.

### **Fred Trajano – CEO**

First of all, thank you very much for your question. I will answer the first part of the question, then Beto will answer about the coverage one. I think our view, and if you look at the CAGR over the last three years, we see that 3P has grown significantly more than 1P and significantly more than the physical store, I think that for us it is very clear - although 1P was still benefited greatly from the two years of the pandemic and this moment of people at home buying durable goods, so there was this moment that generated above-normal growth, let's say, for that period.

In the future, the company is very focused on 3P growth in all groups of sellers, for all categories, but especially for medium and small sellers and especially for non-core categories.

But anyway, so the focus, if you look at the numbers for the next few years, we have a huge opportunity for growth. I think online penetration in Brazil is still low in world terms, and Magalu's share in 1P is very high, in 3P there is still a lot to gain. I see that we will gain both from the increase in the online space in Brazil and from the increase in Magalu's share of this space in 3P. We gained share this quarter and will continue to gain in the future. I am mainly and especially secure on the 3P channel.

I think that now in the 4Q, we have a 3P that will obviously show better growth than the 3Q, this is already happening. Last year's base for the 3P was very strong (60% growth), the base for the 4Q for the 3P is already smaller, so we're going to show better growth, and then next year the bases are even calmer - and remembering that this was a year of adjustment, of 3P pricing, etc. and such, mostly investment, so I think it tends to grow.

Now, specifically in the 4Q, the 1P will be great because of the world cup, so there is an issue that we cannot look at in relative terms because specifically there is the world cup, which has a greater impact specifically for 1P and the store; and 3P will grow because it grows organically, regardless of the world cup - but the three

channels will show outstanding growth, with a specific issue of 1P and store for this quarter that takes a slightly higher level due to the sale of products for the world cup.

On the topic of default, I'll let Beto answer.

### **Roberto Belissimo - CFO**

Good morning, João. About default - thank you for the question as well - about default, first our level is super conservative. The customer, again, he is approved by Itaú Unibanco and Luizacred follows all the credit, collection, provisioning, risk policies of Itaú Unibanco as a whole, which you know is admittedly very conservative.

The total level of provisions even grew a lot in these last quarters, so we have a level of provisions of around 2.7 billion, almost 14% of the portfolio as a whole, and the coverage ratio itself is not a premise, it is a result of this account. And then every time, for example, what happened last year that the NPL was very low, it was artificially low, that usually leads to a very high coverage ratio. When the NPL increases this coverage, the provision that you had made in advance decreases. It is natural; a mathematical effect.

But if we also look at it, the excess of provisions even grew compared to last year, so we have a solid level of provisions, we do not foresee any changes in the coverage ratio or in the systematics. Provisions are made in accordance with IFRS considering the risk of each client by Itaú Unibanco. We believe the provisions are very conservative and solid. We have a coverage ratio, which, even at this level of 140%, 150%, we consider to be quite high, quite conservative.

### **João Soares - Citibank**

That is great. Thanks Beto. Thanks Fred.

### **Roberto Belissimo - CFO**

Thank you, João.

### **Vanessa Rossini - IR Manager**

Thanks for your question, João. Our next question comes from Bob Ford at Bank of America Merrill Lynch. Bob, please go ahead.

## **Bob Ford - Bank of America Merrill Lynch**

Thank you very much, Andressa. Good morning, everyone. And, thank you for taking my questions. Fred, what is the current conversion rate at 3P and how do you expect this to evolve as speeds tend to improve?

And how should we think about those cost structure margins next year? Should we start expecting margin improvements as you develop ancillary revenue streams like ads? Do small sellers grow in the mix? Thank you.

## **Fred Trajano – CEO**

Bob, I will answer it. We do not disclose the conversion rate, but I will try to answer it qualitatively so that we can reason. Look, the 3P conversion rate, I would say it is still a third of the 1P more or less. Lesser, I guess. We have a significantly higher 1P conversion than the 3P and we have a KPI that is shared by the business area, marketing, with the Lédio area, and of Fátala.

And we have a solid work here on conversion improvement that involves a series of factors. I would say that one of them that is very significant is delivery time, so I think there is a strong correlation between conversion and delivery time. Our fulfillment, with the expansion of Magalu Entregas and increase in Magalu Entregas routes, we have improved this indicator and consequently we will certainly improve the conversion in the future. We have improved a lot as far as the, anyway, even with all the increase, reduction of free shipping, everything we did, we managed to hold a good growth on top of a strong 3P base, largely due to these improvements that we did on a daily basis.

I am optimistic that this number will reach levels close to 1P and grow significantly in the coming years. Not only that, because we have been making a joint effort to make it happen. There is also a whole work of algorithms both in the search and in the ranking of products - remembering that we went from, I don't know, 6 million offers to 81 million offers in two years. Training the algorithms, calibrating the search and recommendation algorithms is a big effort that we have been doing very intensively. I am optimistic for that aspect.

About margins, Bob, obviously we had that, again we improved our operating profit by 50% in this quarter compared to last year, we increased our margin by one more quarter. We have made a great effort, in short, to improve all lines of our operating result, we will continue this effort next year. We have already operated at levels above 6% of EBITDA margin in the past. Certainly, it was another model, the marketplace participated less. The marketplace changes the dynamics of this reality

a little bit, but I strongly believe that we are in a position to return to historic margin levels and we will work and strive for that.

We are currently much more focused on balancing growth with profitability. We have been showing this consistently over the quarters, progressively as well, and that is what we intend to continue in this process. There is considerable space. Many projects have been implemented, now that they are going to flow next year, so there's no alternative but to continue in this effort.

That same 6% EBITDA margin three years ago yielded 250 million net profits in the bottom line, because we had a different SELIC scenario. I can't expect the SELIC to magically drop, we can't count on that. We have to keep working, both to increase the EBITDA margin and also to reduce the financial expenses linked to the sale, which were all initiatives that Beto put in place: the increase in PIX, all the work to launch new products, the *surpreendido* card that we implemented and the credit with interest on e-commerce.

Also, the *surpreendido* in store, which is a very different thing that we launched, where the financing is the responsibility of the issuer and not the retailer. A more natural thing in other parts of the world and we are launching it here. We believe that it can have a positive impact there too to really increase the operating margin and reduce the financial expenses related to the sale, which I think this is the focus of the company in the future, not to count too much as a macro reduction in the interest rate. We have to work and do our part. And, if this reduction comes - which there has to be, because the Brazilian real interest rate is the highest in the world and is at a historic level, I think it is the highest in the last ten years - it is not sustainable in the long run, I am sure it will fall off.

But regardless of that, we have to do our work within the company, both in improving margins and reducing financial expenses linked to the sale.

**Bob Ford - Bank of America Merrill Lynch**

Very clear Fred, thank you very much.

**Vanessa Rossini - IR Manager**

Thanks for the question, Bob. Our next question comes from Joseph Giordano of J.P. Morgan. Joseph, please go ahead.

**Joseph Giordano - J.P. Morgan**

Hello, good morning, everyone. Good morning, Beto, Fred. Thank you for choosing my question. Actually, good afternoon. My question is a little bit about the competitive environment. We see the industry, the main players, very leveraged, a cash generation still under a lot of pressure because of the SELIC. I would like to hear from you how you have seen the evolution in this competitive environment. I imagine that last year it was still in a much more complicated situation than it is today.

And my second question is based on stores. We start to hear about perhaps extending or perpetuating this Auxílio Brasil (Brazilian government aid), and I would like to hear from you if it makes sense in this context to think about accelerating this store expansion again, especially in a context that maybe today, from a relative point of view, you have a much better balance sheet than the rest of the competitors.

And then, finally, looking a little at the integration of assets, you put several pieces together and were assembling that flywheel backed by several startups. Today, how is the level of integration of all these small acquisitions? Thank you.

### **Fred Trajano – CEO**

Thanks for the question, Joseph. There are several points here, I'll try to address all of them. In relation to the competitive environment, I think one can't just have bad news, so bad economy, high-interest rates, high inflation, hangover from the technology world. But I think this bad environment generated a rationality in the world, specifically in the digital world, which I have been in e-commerce for 22 years and I have never seen it. So I think this is the first time - and I have been in e-commerce for 22 years - that I see players talking about profit, profitability, charging for services, growing rationally, and Brazilian and Chinese players. I think that everyone is rational, everyone is doing the math, and that is the good news in this more difficult macro world. I see it in the digital scenario, in the marketplace, in 1P, rational players, everyone wanting to grow and make money, so I think that this is very good.

It is no wonder that we were able to pass so much, improve the gross margin, improve the EBITDA margin and grow sales and gain share, because if the competitor was not following this, this would hardly happen - and then I think that Magalu knows how to work on this environment. Magalu has always been a profitable and cash-generating company. Our e-commerce has always paid off, except for this last adjustment year.

I am sure it is an environment that we know how to play very well. We are not going to learn how to work. I took over the company, gave 6 years of results and then we had this period of adjustment, of monetization. Let's go back on track here, so we are not going to learn. We have technology companies that are going to try for the first time in history, after years and years building.

We took Netshoes that had a negative result and is bringing a positive result. Época was a company that also had a negative result, today it is a positive company. Even food delivery is giving results like Magalu, so I think it is a company that has the profile and characteristics to operate in this. Now this competitive environment is more favorable.

In physical stores, I think there is still an opportunity to gain share, but in the expansion plan, we will still better evaluate what will happen, what is the macroeconomic scenario. We will have to read the environment to define whether to accelerate or not. For the time being, we are still not comfortable with doing any acceleration etc. We remain cautious, observing - but as soon as we find and see, and we tend to be optimistic. As we said, we have a capital structure that supports our plan and we will come back - very quickly and easily. We know how to open a store or a CD, but for the time being we are still waiting a bit, holding back a little, holding our horses, so to speak.

Can you repeat your last question? About integration. The integration. I think I described a lot of things that we did. Magalu Entregas is the result of an integration of four companies that we bought, so Logbee, GFL, SincLog, Sode, GFL, five companies. Currently all of them on the Magalu Entregas platform. And through this platform they make 80% of the 3P deliveries and also a good part of the 1P, Netshoes deliveries, Kabum!. All of them being made through - a good part of them being made - by Magalu Entregas already fully integrated into logistics. The acquisitions were very assertive and accurate and allowed us to improve a lot, 40% of 3P deliveries in two days, 80% within the Magalu universe, largely due to these acquisitions. Everything you saw there in that video, that set of companies integrated into a unified value proposition that is Magalu Entregas.

You also saw the digital account that we presented and all the efforts we are making in this regard. The digital account is a Hub product that we bought integrated, and sellers now do not necessarily receive the value of their sales within Magalu through the account, an integrated account, very positive for them that the float stays with Magalu.

You saw the Ads too, which was Inloco that we bought. The entire base platform, the team that built this platform today was the Inloco team that we acquired. You saw the results from Kabum! and Época. In short, all of them generating a good billing and Netshoes, generating a good billing, and they are also 100% integrated into their catalog in Magalu, using Magalu Entregas, some of them have already used Magalu's own payments engine.

Anyway, I think we are evolving very positively in the processes We are evolving. Acquisitions are not made for you to integrate in a year - and then I don't even like the word integrate; I like the word connect. Connecting APIs, connecting within the ecosystem, so I think this is what we are doing in a positive way, and I think it is an awesome evolution.



AiQFome is also integrated in the cities where you have AiQFome, it is integrated in the SuperApp. Could you please complement, Gra? Graziela, if you want to add, our integration executive officer.

**Graciela Kumruian Tanaka – Executive Customers and Integration Officer**

Hi, Joseph, thank you. In addition to what Fred said, our entire focus is on connecting and generating value in the ecosystem, through the services we have. The example he gave of AiQFome, even Vip Commerce, which is a market integrator, is already connected to the SuperApp. Our objective is not to keep connecting the systems, or integrating back office systems, but to connect the businesses to generate value, both for our customers and for our sellers.

**Joseph Giordano - J.P. Morgan**

Perfect, thank you.

**Vanessa Rossini - IR Manager**

Thanks for your questions, Joseph. Our next question comes from Irma Sgarz at Goldman Sachs. Irma, the floor is yours.

**Irma Sgarz - Goldman Sachs**

Hello, good morning. I think some of my questions have already been asked, but I would just like to go back to Luizacred. I would like to understand how you see the risk appetite for this 4Q. I think the portfolio has become a little more stable now from the 2Q to the 3Q. I believe the card base even dropped a little quarter-on-quarter, which makes perfect sense given the macro scenario, the slightly higher default.

But now for the 4Q, I obviously also imagine that it is an important moment from the commercial point of view, thus, I would like to see if you already feel that it is possible to resume a little more growth in this portfolio, and also understand a little how you are seeing this Luizacred's growth, this path of normalization or the return of the result in net income to a more positive level.

And maybe a question related to that, if you feel that - I know it must be difficult to measure - but maybe through the conversion rate if you felt that a slightly more conservative posture in the granting of credits, if that impacted the 3Q sale you somehow. Thank you.

**Roberto Belissimo – CFO - Magalu**

May I take the lead, Fred?

**Fred Trajano – CEO**

Sure, I will complement later.

**Roberto Belissimo – CFO - Magalu**

Great. Good morning, Irma. How are you? Thanks for your question. In relation to the appetite and the granting, we are basically maintaining the same approval rates, and we are taking great action and effort to increase conversion, whether in the store or online. Online we have highlighted the experience of the pre-approved card, *surpreendido*, a super cool experience, the customer already makes the first purchase.

We are improving the sale and its quality. It is also important to add that the default indicators for this year's harvests, the last few months and especially the digital one, are very good, very consistent with our default record, thus, we have a quite healthy granting.

In the 3Q it did. We disclosed the share of our means of payment in total sales, which decreased a little compared to last year - but nothing very relevant, something between R\$ 100 and R\$ 200 million, and we compensated for this share in sales, precisely in cash sales and PIX. Comparing the mix, the increase of 5.6 p.p. in the PIX, it compensated a little for our reduction in the approval of the Luiza and Magalu cards, and it also took away a little from the sale of third-party cards. We have compensated for this situation by favoring, using other strategies, improving the experience, the campaigns aimed at the PIX.

It is also worth mentioning that we have 7 million customers with pre-approved credit, cards, a portfolio of 20 billion and practically an additional 20 billion limit. The average level of limit use by our customers is between 50% and 60%, thus, we don't need to sell a lot to the new customers to continue growing and promoting sales, so we have a lot of repurchase actions, which are aimed at increase the loyalty of our customers who already have credit approved and already have the card.

And finally, on Luizacred's profitability, I highlighted that we achieved a record revenue, more than 1 billion in the quarter for the first time. We have had a massive growth in all financial revenue and service revenue. We still have room to have a portfolio revenue greater than the current one. We occasionally assess some tariffs, some services that we offer to our customers, a pricing adjustment to also increase Luizacred's profitability, and we are sure that this increase in funding, which should

fall with the reduction in the CDI, and the increase in provisions that we saw this year, should normalize. It is extremely related to the very accelerated growth of last year.

Once again, the portfolios of older customers remain super profitable, and Luizacred has an efficiency ratio, a ratio between operating expenses and revenue that is a benchmark. We also continue to look for opportunities to improve efficiency, but I'm sure we're on the right track. The old harvests are super profitable and it is just a matter of time for it to return to profitability in line with the historical record, or even higher, which is our objective of continuing to seek the greatest possible efficiency at Luizacred.

### **Fred Trajano – CEO**

I think that - just complementing, Irma - today the universe of opportunities to earn money with credit is beyond Luizacred. There are things that we talk about a lot about Luizacred, but the entire fintech universe, Legal Entity account, are currently outside that scope. There is a huge opportunity, several products being launched, the account, the account float, payment Magalu, sellers' prepayment of receivables, a series of other products that are here.

And there is still room for Luizacred to its increase penetration in the online world, because it has almost 50% outside the penetration, and I think less than 10. There is, which is the *surpreendido* card that Beto presented - remembering that we are doing this for pre-approved customers, it is not for everyone. And this is an important detail because it shows that we already have an origination with a lot of credit quality. I believe there is a horizon there to monetize Magalu's GMV with financial products that we still have a lot of room for.

And Luizacred's business itself, which is linked to the store, is cyclical. In the last twenty years, Luizacred had some years that had a greater provisioning process and lower results, but the vast majority of years were very positive. I'm sure we will come back - and this I think has points, R\$ 600 for more months, not only until December but probably for next year, an increase in the real minimum wage, all of this tends to generate a positive impact for this customer profile, specifically Luizacred, which is low-income customers.

### **Irma Sgarz - Goldman Sachs**

Thank you.

### **Vanessa Rossini - IR Manager**

Thanks for your question, Irma. Our next question comes from Daniela Eiger from XP Investimentos. Dani, the floor is yours.

### **Daniela Eiger - XP Investimentos**

Hello all. Thank you. I think that in the end almost all questions have already been addressed. I have a short one here. Actually it is just in relation to this dynamic of durables versus the long tail that we have been seeing. It has been very strong. Notably the long tail is gaining ground because of the macro. But how do you expect to see this in 2023? Like it or not, we are still talking about a very high-interest rate scenario, which is generally a major guilty party for the highest ticket category. How are you thinking about this harmony for 2023?

Also, could you explain more in relation to your fulfillment? I understand that it is still early, but understanding how the impacts have been on the economics of the sellers that adhere to this service, and also the rollout to more stores, as you are expecting in terms of timing. Thank you.

### **Fred Trajano – CEO**

Fantastic question. Anyway, I think I already answered more or less, but I want to emphasize: we certainly should look in the coming years for a greater growth of 3P than 1P store and e-commerce. In the future, I think this is a natural trend, regardless of the macro scenario, because this is a company strategy that we are following - and we started earlier, it started less time, although the 3P already it is more or less the size of the store's GMV. In three years, we managed to reach the store level in the 3P, but I think you can grow more because you include the seller in the base, new categories, in short, all the improvement processes that we described as fulfillment, which will support the conversion and sustainable growth of this 3P in the future.

I imagine - as the 3P is - our strategy is very much in the tail, base and mid, and generally these sellers are not electronic-goods sellers, so the tendency is for there to be a deconcentration of categories - remembering that we have our channels, which will continue to grow. Beauty, fashion and sport will continue to grow. These channels have lower online penetration than electronic goods.

Electronic goods has a penetration in Brazil that is much greater than these other channels, and the gap between what Brazil and the world is for these other categories is much greater. The tendency is for these categories to grow more, the space grows and we are surely prepared to be a share gainer and take advantage of the growth in these categories. I think that is what will happen.

The one thing I always say is this: I don't like to grow one thing at the expense of the others. I believe a good example of this is that when we grew our online durables business, we didn't reduce the physical store. If you look at it, even with all these pandemic issues, among others, the volume of physical store sales is the same as pre-pandemic. All the growth that we had in the online 1P of durables was not at the expense of the physical store. We like to add rather than subtract.

We really want sellers of new categories to grow, but if we can gain share in durables, we'll gain too, because we know how to operate, and historically it is a category that we have been in for 60 years. It is a cyclical category, there is a bad year and then five spectacular years. Sometimes, it is a bad year and a half, four and a half years are perfect, so that has its cyclicity, however, once it comes back it comes back strong, then everyone wants to sell durables and electro too. Everyone comes back to the game. So, there is a bit of that process.

The long-term tendency is for new categories to gain more space, but not because we are going to sell less durables, because we are going to grow more than proportionally.

The other question is fulfillment, Edu can add some comments.

#### **Eduardo Galanternik – Business VP**

Hi, Daniela, this is Eduardo. How are you? Great question. Regarding fulfillment, we have been operating for a few months. The last few months have been very important to smooth the operation; it is working very well. The sellers that joined the platform are giving very positive feedback on how we have been working, and our focus now is to scale. We are going to speed this up, we are going to significantly increase the number of sellers operating within our fulfillment.

Currently, we have three DCs already accepting products from sellers, we will also expand this in the next year, because we saw very clearly the seller that is in fulfillment. They have a conversion 50% higher than the conversion that you have in Magalu Entregas. And if it is delivery to a partner, that seller who doesn't use Magalu Entregas, this conversion more than doubles. So, one should know how to provide a growth. The cost is embedded, there is no additional cost for the company for this expansion. Our priority now is to bring more and more sellers into fulfillment.

#### **Vanessa Rossini - IR Manager**

Thanks for your question, Dani. The next question is from Vinícius Strano from UBS bank. Vinicius, please go ahead.

#### **Vinícius Strano - UBS**

Thanks, Vanessa. Good afternoon, everyone. Thanks for choosing my question. First question, how has the economics of the marketplace evolved here in recent months given these adjustments in 3P pricing? And also on the marketing sphere, do you see any cooling off in paid marketing and how has the mix between organic and paid traffic evolved?

The second question is: You talked about some 1P products going to 3P via big sellers. Fred, if you could elaborate a little bit on what those categories would be that would be great too. Thanks.

### **Fred Trajano – CEO**

Thanks for your question. I think it gives us an opportunity to make an additional point. 3P economics has evolved significantly. I think that, in short, it was an evolution that I think is very expressive as I have rarely seen it from one year to another. Obviously, we were investing in 3P, it was important to reach a minimum scale and we are already in 3P volume practically equal to the physical store. It shows that it is already a consolidated and relevant player, and we are essential for almost all the sellers that we have. If we are not, generally not in all sellers we are first choice, but we are there for them. In some we are first ones, in others we are second or third, we are relevant to everyone.

Therefore, I believe that is a super important point. We evolved a lot. Nowadays, the marketplace is positive. We have a very positive contribution margin for the company. It has very low expenses; it basically has no fixed expenses, it has practically no working capital in the marketplace, it has no inventory. For instance, their ROIC and it is much higher and it is easier for them to experience upheavals as we saw. So, structurally, it has strong economics; it is marginally positive and the more we sell, the more results it will bring to the company.

It is interesting that even the part that is an investment in the marketplace, we are taking advantage of an already installed base, which are the bases of the GFL, the truck routes, the stores and the DCs themselves. We have a space (1.5 million m<sup>2</sup> of space) that we will make available for the 3P that is already there. We reduced the 1P inventory and we are basically making it available at no additional cost to the company. Instead of halving the number of CDs, we are going to use this space to grow the fulfillment of the marketplace in a very accretive way.

It tends to be very positive for our economy in the future. Nowadays we have great take rates. We are still cheaper than the leader in terms of total costs - I am not just talking about take rate, I am talking about take rate plus delivery fee from Magalu Entregas. If we put the two together, we are at 3 p.p., up to 5 p.p. lower than some market marketplaces. We believe there is still room for improvement, but I think that,

in the end, it already is. It contributes positively to the company, it is already super positive and then we tend to grow.

We developed a platform. I think one thing, for example, fulfillment. Our fulfillment is also for heavy products. We developed fulfillment, this is a new product that is not on the market because fulfillment operations are usually for smaller items, so we can, for example, operate furniture and appliances and some larger electronics items with fulfillment, and those products that it doesn't make sense for us to include in our working capital, which is small or the margin is very low, we will let the industry operate directly, for example, and offer the fulfillment service to it.

We are going to be very disciplined and maintain in stock what pays the working capital, the money tied up in working capital in stock, and what we don't have, we are going to try to operate within 3P. The company really wants to be a digital platform with physical points, human interaction, focus on 3P, and we are developing a platform to do this in a very seamless way. As I said, it is the same CD as the 1P and 3P, to make a change is very fast and easy.

#### **Host**

We are now closing the question-and-answer session. I would like to turn the floor over to Frederico Trajano for his final remarks. Fred, the floor is all yours.

#### **Fred Trajano – CEO**

Well, I wanted to thank everyone for participating in our call. It was 1:40 of it. I think it was highly comprehensive. I wanted to reinforce the work of the Magalu team and the implementation of a series of improvements in the company, a significant increase in the operating margin, at the same time that we managed to gain market share. I would like to reinforce my positive view for the 4Q, which is a quarter that has Black Friday, world cup, full three-month government aid, in which we are well prepared to capture this opportunity.

Anyway, thank you all. Especially thank to our team and reinforce my positivity here with this end of the year. A hug to all, thank you very much.

#### **Host**

Magalu's conference call is now closed. The investor relations team is available to answer any other queries and questions. We appreciate everyone's participation and have a nice day.

