

Local Conference Call
Magalu
Earnings of the 2nd Quarter of 2022
August 17, 2022

Operator

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 using the globe icon at the bottom of the screen and choose your preferred language, English or Portuguese.

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

During the presentation, all participants will have their microphones disabled. Afterward, we will start the Q&A session. To ask questions, click on the “Q&A” icon at the bottom of your screen, enter your name, company, and question language. Upon being announced, a prompt to activate your microphone will appear on the screen. You can then activate the microphone to ask your question.

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

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

Fred Trajano - CEO

Good morning, everyone. Thank you very much for participating in our earnings call referring to 2Q22. I am here once again accompanied by the entire executive board of Magalu, they will be available to answer the analysts' questions at the end of the presentation that Roberto Bellissimo and I are going to make.

I would like to start with a slide of the presentation that we uploaded to the material. Talking about this 2Q, it has the characteristic of being the quarter that first takes on the trend of normalization of the growth curve of the online market after the 2Q20, when we had the first full COVID quarter.

So, I think that in Brazil, and in the world, there is a process of normalization of the growth curve, and I would like to reinforce that this normalization is not an inflection

of the online growth curve, it is simply an adjustment. Two quarters ago, there was growth driven by the fact that people were at home buying online, buying products for their home, but the future trend remains at a level as we already predicted before of growth, increased penetration of e-commerce in Brazil and in the world.

We see companies in the world that showed stability in their online sales, a few online Ads, and for the first time saw flat or slightly decreasing sales, but this is simply because there were two years of comparison basis, as I said, with abnormal growth and on the basis of comparison of growth slightly driven by this characteristic.

But I wanted to say that it is not an inflection but a normalization. The future of retail is not analog, the future of advertising is not analog, the future is digital both in retail and online, and looking ahead, it is very important for us to be aware that in 2022 we are experiencing one frame and not the motion picture.

Therefore, when explaining our growth on the next slide, of this quarter, it is very important for us to look at the motion picture from the last three years. Magalu has grown 34% per year since the beginning of the pandemic until now, before the pandemic, in 2Q19, Magalu's GMV (Gross Merchandising Value) was of 5.7 billion, and we maintained 14 billion of GMV in this quarter, we even had a slight growth when compared to the 2Q of last year, a CAGR (Compound Annual Growth Rate) of 34% in these three years, so more than double of sales, 34% of annual growth and we reached 72 of online sales share.

Online sales, even with this entire base, even with this situation of growth normalization, we managed to grow 2% in the quarter. According to Neotrust data, we earned 11 p.p. of online market share over this period of COVID, and the CAGR of our growth was of 61%. Magalu sold four times more in this quarter than in the same quarter of 2019, showing that we managed to maintain a rhythm, a very high level of revenue, even in a normalization scenario like the one we are currently experiencing.

The big highlight for this, next slide please, was undoubtedly our marketplace. We multiplied it by six times from the pre-COVID quarter to this current quarter. Even in this quarter regarding a very high growth base, since we grew 214% in 2020, we grew 63% in 2021 and upheld it, we managed to grow 22% on top of this very high base, maintaining an average annual growth of 84% comprising the marketplace, has already reached a level of revenue from the physical stores, showing the consistency of our planning, of our strategy.

In 2018, we announced to the market that we had digitized Magalu and then we had transformed into a traditional retail company with a digital area, into a digital company with physical points and human warmth, and that as of 2018, we would transform into a digital platform with physical point and human warmth - and it is precisely that strategy that we are implementing, and the data speaks for itself: 84%

of CAGR, 6x more GMV than before the pandemic, and a growth in the quarter compared to last year, which already had a very high base, of 22%. Next, please.

I think it is also important to emphasize within our strategy, that we announced to the market in 2018, which was the strategy of diversifying categories. Certainly, in the pandemic, as we experienced when talking about e-commerce, we also had an anabolic base of growth in durable goods, but Magalu took advantage of this growth base very well. We grew significantly. Before the pandemic, we were the third largest chain in durable goods in Brazil, we emerged from the pandemic as a leader in the category, although we experienced a drop in the category - like the entire market - in this quarter compared to the same quarter of the previous year. We gained share and we maintain a very solid position, one that is well above what we experienced before the pandemic.

But I would like to highlight the growth of the new categories on this slide. Obviously, during the pandemic, we were one of the companies with the best supply of durable goods, but in addition to selling durable goods very well, we grew a lot in online sales of the new categories, we grew at a percentage rate at least twice as high as the sales of durable goods growing significantly, and, in this quarter, we once again experienced a strong growth on this base, which means that our online GMV - next slide, please - is already 52% composed of new categories, that is, most of what we sell online today (1P and 3P together) is from new categories, the result of all the investments we have made in the companies we acquired (Netshoes, Zatiní, Época Cosméticos, Estante Virtual, Kabum), and also from the entire investment and all the consistency of our marketplace growth plan, which obviously has a large proportion and penetration of these new categories. So, the walk in the talk here is also doing a good job of deconcentrating the categories - again, we are a leader in durable goods, we like the category, we are indeed experiencing a counter-cycle - but this counter-cycle always passes. It is a sine wave, and it will grow back looking forward.

But we are also doing consistent, targeted work, which is being evidenced by the evolution of the numbers quarter after quarter, and this number of 52% of GMV from new categories is a milestone for our company, for two-thirds of our revenue, which is the GMV online. Next, please.

One of the great driving forces behind this diversification is our marketplace. We reached the historic milestone of 200,000 sellers at the end of June, with great emphasis here: the great driving force for this growth was a strategy that we launched in the middle of the pandemic, which is the Magalu partner. We believe that the future of Brazilian retail growth lies in omnichannel and hyperlocal retailers. For us to reach the 30, 35% online penetration levels of China, we will necessarily have to help the Brazilian offline retail to go online.

There are 6 million Brazilian CNPJs (National Corporate Taxpayers' Register), but only 300,000 sell online. So, Magazine Luiza developed a whole technological spectrum with the Magalu partner to help this retailer go online, and we have the full

support of our multichannel, presence in almost 1000 cities, the support of a field team and an entire structure from Magazine Luiza's physical store to help with this and make it happen.

To give you an idea, half of these sellers came from our physical store hunting effort. Out of the 200,000 sellers we had, 100,000 came from the efforts of our physical store team, they are helping and contributing a lot to this transition.

What is also helping a lot, next slide please, is the Magalu caravan. We have already toured a few Brazilian cities (Sorocaba, Piracicaba, Limeira, São José dos Campos, and the last two with a full caravan that was Maceió and João Pessoa). Everywhere the caravan goes, we increase the number of sellers integrated to the platform by more than six times, we increase and provide visibility to our ecosystem, we show all the service options that sellers can do, Ads, financial services. The caravan has been an absolute success and has helped us a lot in attracting Brazilian analog retailers.

I think an important factor in this process - next slide - is that with the caravan, with this multichannel, with this differentiated approach of making a marketplace also relevant for the analog and multichannel retailer, we are achieving two important topics for our company:

One, as I said, is the diversification of our categories. Today, out of the sellers that enter via the Magalu partner, 11% are fashion sellers, multi-brand companies, 10% home and garden, 9% market, 7% sports, 7% household items, which provides a basis for diversification for our super-important category, an offer that is now available to our clients on our digital platforms, which shows that we still have a positive trend for growth in these new categories.

But I also wanted to highlight the importance of hyperlocation. We are managing to reduce the concentration of GMV sellers in the Southeast. We increased the sellers' presence in the Northeast by 7 p.p., by 3 p.p. in the Midwest, by 1 p.p. in the North region (we have not even made a caravan there yet, the focus of the caravan is currently on the Southeast), and we are also going to make the caravan in the South, increasing 1 p.p., 2 p.p.

We are deconcentrating, and I think the important thing here is what we say, for the low ticket, hyperlocation is fundamental from the point of view of having a lower ticket, of a unit economics that makes sense in the long term, which, in other senses, also helps the company's carbon footprint, since currently, this characteristic of all products leaving São Paulo for all of Brazil, in addition to having a deficit from a unit economics point of view, it is also a crime from an environmental point of view. So, we obviously have to keep moving forward with this matter of making the goods travel less, with the option for the local seller to be available to the local consumer, and also in this line of diversification that I have already mentioned.

On the next slide, I would like to reinforce the role of the store as a local support point for the ecosystem. I already mentioned about the ranking matters that brought in half of the sellers comprising our base, but I would also like to point out that the store is much more, that the store is much more than a point to bring a seller. It helps the seller connect to the ecosystem, and it is a huge differentiator for us, mainly from a logistical point of view: approximately 500 stores now operate as a Magalu agency. We have small sellers that start to post their products at the store instead of at the local post office, and with that they save 50% of the freight cost, we have a much better level of service - we have almost 20,000 sellers already using the stores as a Magalu agency - and, today, we also have a very interesting growing share of clients who buy from sellers and pick up from a store, which is a much lower delivery cost, 17% of everything we sell on 3P is picked up at the store.

I would also like to highlight the great work done by our logistics, especially after we acquired the logistics companies, GFL, Logbee, Sinclog, Sode. Today, 80% of all 3P requests go through Magalu deliveries. We managed to go from 19% of delivery within 48 hours to 40% of delivery within 48 hours, an increase of 21 p.p. - and the trend is for us to evolve in this, and with that, obviously, we will be able to increase the conversion rate, 3P service level and, obviously, continue the growth flow looking forward.

So, indeed, a very good job from logistics, which since last year has focused its efforts on serving the sellers of our marketplace and bringing their service level to the same level as our 1P, which we currently have 83% of requests for 1P delivered within 2 days, which is an unbeatable level that we want to try to translate to the seller.

Part of our efforts is in leveraging our assets - next one, please. In order for this to happen, we launched practically at the end of last month our fulfillment, which is a completely integrated fulfillment. It is important to stress that it is a different value proposal from the market value proposal, why is that? Because our seller stores their goods in the same distribution center as Magalu stores its own product. This has zero marginal cost for the company because we already have the space, and now, with the reduction in inventory, we have more space available in practically all of the distribution centers for us to place products from our sellers. The same person who performs the picking, performs the shipping, the same network that carries out the delivery, so the marginal cost is very low.

The cost that we can offer our seller is very competitive, and Magalu has become, even with all the take rate increases, with the reductions in the free shipping policy, the best option for the seller in terms of economics, and, with fulfillment, we use this multichannel model that we are creating, even more so. In less than a month, 100 sellers have joined the platform - we have interesting numbers that we can share later in the Q&A - but we are very excited about this proposal.

Also, of course, our vision is still hyperlocal, multichannel. We think the best option is to use the cross docking network that we have, but we are complementing it mainly for the large seller, those who are the largest, who have growth opportunities, that within Magazine, the medium and large, also the offer, providing them with the possibility of having very positive levels of deliveries. With such, we have faster delivery with lower costs.

Well, I would like to highly emphasize, and this is also due to our reaching more than 50% of GMV online in new categories, the excellent performance of the companies we acquired. Magazine Luiza made investments before and after the pandemic. The first one was Netshoes in 2019, and we have made very significant progress in categories that are very important for the Brazilian online. I wanted to highlight its numbers, because it also shows how the company is disciplined in the application of funds, how it makes accurate investments that make sense with the company's overall strategy.

Netshoes has more than R\$ 1 billion in GMV for the quarter, it had profit and cash generation, and gained 2.5 p.p. of share in the category. A very good job - remembering that when the Magalu partner's seller enters the platform, that seller does not only sell on the Magalu channel, but they also appear on the Netshoes channel as well, and we have all these advantages for those sellers specialized in sports.

The same applies for fashion. We had a 37% growth in the category in the quarter - including the Zattini channel, the Magalu channel. In Magalu's fashion channel alone, we had a growth of 88%, we have more than 30,000 sellers in the fashion category, we have an annualized fashion GMV already in the range of 1,600 billion, being one of the main fashion players in Brazil, even considering those who have been on the scene for a long time, and we gained 2.8 p.p. of share in the category.

Época Cosméticos is also worth mentioning, as this was one of our slightly older acquisitions. It is top-of-mind today in cosmetics and perfumery online, number one, probably on GMV as well. It is a company that has been making a profit and generating cash. As well as Netshoes, it is also on a very positive path, keeping in mind that all Época products, if the brands authorize it, of course, are also in Magalu - but its own channel has grown a lot, and also with the small perfumeries that enter the Magalu partner, in addition to selling only in Magalu, they will also be able to sell in Época, and we have been working to create a unified onboard to be able to make the seller, in a single control panel, capable of selling not only in Magalu but in all sales channels as well, and making their lives a lot easier - and obviously using the other platforms.

I would like to highlight Kabum once again, which generated 150 million of operating cash flow in the quarter, it made a profit and generated cash once again, even with a difficult comp that it also had last year, it has contributed a lot to the company, a totally new category for us, also growing and with an enormous future potential.

And provide more visibility to AiQfome, an annualized GMV of 1.4 billion. AiQfome already makes approximately 3 million deliveries per month, it is already the second largest delivery app in Brazil reaching almost 1000 cities, there are 815 cities in Brazil, we continue our expansion.

It is very important to emphasize and appreciate that the investments Magalu made are paying off, are being positive and contributing to our strategy of diversifying sources of revenue, income, and cash generation as well.

Another important acquisition that we made a while ago - next slide - was In Loco Media. We have made a few - next slide, please - a few interesting developments. The most important one being, as everyone knows, Ads in retail, which is super important mainly in internal search. What provides the most return to the advertiser is when they can advertise and sponsor the product for the client who searches within Magalu's own channel.

We launched the sponsored links in the search of Magalu that is included in the video that we have in the presentation, and we also created a self-service panel so that the seller, or the advertiser can easily promote the products, establish campaigns, create campaigns within our Seller Portal. The revenue in the 2H... the 2Q doubled compared to the same period last year, and we believe that Ads will be an important source of monetization for Magalu in the future - next slide.

Speaking of monetization, someone we have been monetizing a lot is Lu, our digital influencer who was in Times Square this week, who won the Cannes Lions in June. She has shown to be, she is the main virtual influencer in the world today, with more than 32 million fans, her representation has grown a lot and has also been contracted by brands, etc., showing all our efforts to digitize Magalu.

Finally, before turning the floor over to Beto, I would like to emphasize that this week we won, we had already won first place in the best company to work for in Brazil and by GPTW. The Latin America ranking just came out and we were also the best company to work for in Latin America.

So, even in a tough year of efforts, adjustments, a series of challenges, the company continues to maintain its focus and strategic execution, taking care of its people and its clients. We maintain, in all the brands of the group, we maintain a high NPS, and we intend to make it grow looking forward, and we keep our team super happy, motivated, and really engaged to build our next steps.

Now I give the floor to Beto to provide more financial details.

Roberto Belissimo - CFO

Good morning everyone, I would also like to thank you for participating in our conference. I start with the main financial highlights. As Fred already mentioned, we

grew 22% in the marketplace, 2% in e-commerce, gaining market share, total sales growing 1% with stable sales in the physical stores, gaining market share as well.

Total sales close to R\$ 14 billion in the quarter; gross margin of 28.6%, very important development in the gross margin compared to last year, we will talk a little more about that; EBITDA of almost 500 million with 5.7% of adjusted EBITDA margin; and a negative net income close to 1% of negative margin.

On the next slide, we present a little more about the development of our quarterly EBITDA to highlight that it is the best EBITDA margin since 2020, with a significant evolution in relation to the last quarters, mainly regarding the end of last year, but also in relation to the 1Q of this year.

And we had a goal this semester to increase our profitability without losing market share. We were able to do that and also increase, reduce... increase our efficiency, decrease our operating expenses without losing the level of service, we did that too.

In gross margin, we went up 3 p.p., we increased the product margin, passing on cost inflation, selling more with interest, selling less without interest - but we mainly grew our revenue from services associated with the marketplace and associated with *Magalu Pagamentos*, which grew 22%. Our service revenue grew even more, it grew by 25% driven by the marketplace. And we significantly reduced our expenses (agreements, marketing, logistics and fixed costs). It is worth remembering that, in this quarter, we had practically no non-recurring expenses that we had in previous quarters. In fact, we already have a much more adjusted operation in this quarter.

On the next slide we talk about another great highlight of the quarter, which was our cash generation, operating cash generation of R\$ 1.3 billion, we increased our total cash position from 8.5 billion to 9 billion (500 million more of net cash), and our net cash position increased from 1.6 billion to 2.1 billion. We maintained our very robust capital structure, and the best cash position for the middle of the year, for the 2Q of the year.

And this cash generation - on the next slide - it was greatly stimulated by the evolution of our working capital; it was also another highlight. We reduced the level of inventories a little more and increased the balance of suppliers as well, so our working capital improved by around 1 billion in this quarter.

We did not change, we did not change the average purchase term, but, as in the 1Q, we had acquired less because we were reducing inventories by 1 billion, the purchases returned to normal in this 2Q, so we acquired almost 1 billion more. So, the balance of suppliers grew by almost 1 billion, and we reached a working capital position in the middle of the year that was practically balanced, flat, but also considering last year, we realize that there is still room, due to seasonality, to evolve our working capital. The December position was of almost 2 billion, so there is still

room to improve the working capital in the 2H, and today we already have a lower inventory than the inventory of June of last year - excluding Kabum, which was merged at the end of last year. So, we have better working capital than last year, and we still have the potential to continue evolving.

On the right side, we present the evolution of the financial expenses. They are always closely associated with the evolution of interest rates in Brazil. The CDI went from 3% to 12% in this period, and to minimize the effect of the CDI, we have taken a series of measures to reduce the average sales term on credit cards, increasing the share of spot sale, reducing the share of card sales. We are promoting PIX a lot. PIX is already growing a lot in Magalu, and it is a reference in Kabum. At Kabum, PIX reaches 40% of the sales. So, we are working hard to reduce the main financial expense that we have, which comes from the cost of advance payment of receivables.

On the next slide we talk a little about LuizaCred. In the last twelve months, we grew the base by more than 1 million cards, we accelerated the growth of the card base a lot. LuizaCred's total revenue in this quarter reached 13.6 billion, also growing 42%. We reached a loan portfolio of 20 billion, one of the largest credit card operations on the market without a doubt.

And, on the next slide, we show how the quality, one of very low delinquency (7.7% of the portfolio overdue for over 90 days). The overdue portfolio... for less than 90 days even reduced in this quarter, it improved, and the one for over 90 days remains at a level far below that of the history level, far below the pre-pandemic level, which demonstrates the quality of the portfolio, the conservatism in our LuizaCred approval rate with all data from Itaú and Magalu's score also in the credit approval.

In terms of results, LuizaCred has had a performance practically at breakeven, and highly driven by the very accelerated growth of the last quarters. The new client always brings a little more provision, and, under IFRS, we anticipate a little more provision as well, it is somewhat part of our growth, the portfolio of old clients continues to be very profitable and increasing as well.

Then, on the next slide we also talk a little bit about our initiatives at the Fintech. We reached 5.7 million digital accounts (we grew from 5 million to 5.7 million in this quarter), and now fully integrated with our proprietary technology acquired from Hub Fintech, the best shopping experience of our app, fully integrated digital account.

Now also integrated into the AiQfome mini-app. We are expanding MagaluPay to all companies of the ecosystem, to be the digital account for all companies of our ecosystem.

We also made important developments in the Magalu card experience in the SuperApp, an experience now fully, faster, more fluid, more intuitive, and focused on the pre-approved client. It has generated excellent results in the sale of Magalu

cards on the SuperApp, and this quarter we also launched the personal loan in the digital account contracted within the SuperApp - on the consumer side.

On the next slide, on the sellers' side, we have also grown a lot, we reached a TPV of 8 billion. We have promoted all our financial services, our corporate digital account, our POS, our PJ (Legal Entity) credit card at all events by means of the caravan that we have taken through Brazil, and always with a lot of profit. *Magalu Pagamentos* continues to be very profitable, with more than 40 million of profit in the semester, and with the potential for an increase with the adjustments in the advance payment take rate on important receivables that we also made recently, passing on a little of the CDI increase as well.

Finally, on the last slide, just to contextualize the total cash flow for the quarter, again 1.300 billion in operating cash generation, investments of 200 million, leasing, interest, we have paid debt, we have paid interest on equity, and concluded with the position of total cash of 9 billion.

Thank you very much, with that we conclude the presentation, and we may start the Q&A session.

Q&A Session

Operator

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

Our first question is from Felipe Guanais, from Banco BTG. Luiz Guanais from BTG. Luis, please proceed.

Luiz Guanais - BTG Pactual

Thank you, Vanessa, good morning Fred, good morning Beto. Fred, I wanted to explore a little bit on what you said about the evolution of services for the partner, for the sellers of the Magalu partner. If you could comment a little on how we could expect this evolution over time.

And, then a second question regarding this, is how we can also think about the economics of the Magalu partner's platform. I understand that at first there is an

incentive for these sellers to plug in there, but, on the other hand, you have these added services and new categories that you are bringing in.

So, considering these moving parts, how could we think about the Economics evolving as well? Thank you.

Fred Trajano - CEO

Good morning Luiz, thank you very much for the question. Well, Magalu's focus this year, first we have to grow the GMV. I think we had few sellers and few sales in 3P, so I think our focus - and it has continued like that - is still very much on increasing the GMV and increasing the seller base.

So, we managed to get 200,000 sellers, we finally grew the GMV significantly this year and in the three years of the pandemic, and we launched many products this quarter that we intend to explore in order to increase the monetization that we have from this seller and this GMV. First comes the GMV and then the monetization, ok?

What are we doing, Luiz? The caravan, it focused a lot, we are using the caravan for two markets: the first market is the blue ocean market, which is where I have, like in João Pessoa, Maceió, 35,000 sellers and only 500 of those sell online. What is the focus of this market? Is to attract seller to the platform (seller who is not on any other platform, by the way). These are analog sellers who have never sold online, doing an evangelization job of helping this guy get online. First they have to enter the platform, start selling, then we start selling value-added services.

Now for the 2H, Luiz, we are already adding markets that are more mature to the caravan route. So, we are going to intersperse markets like the Northeast markets that I mentioned, with markets where we already have a large base of sellers, and what are we focusing on for this caravan, Luiz? Selling the added services.

So, we should go to a few bases - I will not mention the names of the cities yet - but bases that have a lot of sellers who already sell in our ecosystem, who already have a good GMV in the ecosystem. For these, we want to sell the ecosystem as a whole: making them sell in all the channels of the group, and now facilitated by the unified Onguard that we are developing in 2S, making them make an Ads, making them take out a loan. Advance payment of receivables is what has grown the most in the short term, and we have been monetizing this a lot, including as the increase in the take rate that we have been doing. I am going to ask Leandro to add a little on the other projects that we are doing, but now is the second cycle of the caravan and it is going to be more (sic) in increasing this penetration.

What I can say about the economics of the marketplace, Luiz, is that we have substantially improved the economics when compared to last year. So, the economics of the marketplace is already marginally positive, and as the fixed cost of

the marketplace is practically zero, it is marginally contributory to the company, and you can see this through the increase in the company's consolidated gross margin.

So, we had an increase in the take rate for all audiences, including for the very own partner, Magalu, a reduction in the freight subsidy, and that did not stop us from growing above the market and presenting important growth. And even so, Luiz, we have a much lower total cost/seller level than the market.

So, I think we still have a great opportunity to grow by monetizing, but my main purpose is still to increase sales and increase the conversion rate of the products, increase the liquidity: more sellers selling more products, diversification. Monetization will happen over time, and with this new caravan strategy that we have going forward. I do not know, Leandro, if you want to add something?

Leandro Soares - Chief Marketplace Officer

I just wanted to add one thing that I think is important specifically regarding the partner program. We have a very large base of sellers that used to be completely analog and that are starting to sell digitally, and we use this partner program to distribute the ecosystem as a whole. So, the example we recently launched to partners, they may sell the Magazine Luiza and even the marketplace products through our platform. It is like a judge's partner for the legal entity that has a point of sale down the line, so we also get this type of service.

In addition, the partner then acts as a contracting service for the other services. They can directly contract a checking account, loan, and adds to the services we have, not only the financial ones but also the logistics ones, which we provide to our partners.

Fred Trajano - CEO

To conclude, Luiz, I just want to stress that we have an incentive for the partner only up to the first 100,000 of monthly revenue, from then on it goes to normal rates. Again, a very significant evolution in the contribution margin of the marketplace that we can already see in the company's consolidated balance sheet.

Luiz Guanais - BTG Pactual

Perfect Fred, thank you. Thank you as well, Leandro.

Operator

Our next question is from Maria Clara, from Banco Itaú BBA. Maria Clara, please go ahead.

Maria Clara - Itaú BBA

Thank you, Vanessa, good morning Fred, good morning Beto. Our question here on Itaú's side is regarding the inventory levels, which we noticed are still at somewhat high levels. From our perspective, then, could we say that short-term cash generation should benefit from higher inventory turnover? Thank you.

Fred Trajano - CEO

Thank you very much for the question. I will turn the floor over to Roberto Belíssimo first, and then Fabrício will answer - but we do not think the inventory is high. What we had in the 1H was a focus, we reduced the absolute value of inventories and the focus in the 1H was concentrated on increasing margins, reducing expenses, and we believe that in the 2H, now the sales perspective is better, so you always have to look at the inventory with the perspective of what you are going to sell in the future, and not with a perspective of the past. So, for what we believe it is possible to do in terms of growth in the 2H, we believe that inventories are already normalized. But I only made this introduction so that Roberto and Fabrício could add to it.

Roberto Belissimo - CFO

Just to complement, Maria Clara, thank you for the question as well, we have a lower ex-Kabum inventory than we had in June of last year, so, since the end of last year and the beginning of this year, we have reduced a lot, sold a lot of surplus inventory, we reduced the total value of stocks by more than 1 billion, we have a very healthy inventory.

We have a practically balanced relationship between inventory and suppliers. We still have a little more inventory than suppliers (about 8 billion of inventories, approximately 7.5 billion suppliers), so, historically, we have always had inventory turnover faster than the average purchase period. We have an opportunity, we are working towards getting this profile back, and then having more suppliers than inventory, speaking on a medium and long-term basis. It depends, the 2H, as Fred said, is a quarter in which inventory turnover is usually better because it is a period of seasonally higher, more favorable sales, and we already have a very balanced inventory.

And, as we already have a balanced inventory, when you sell more you buy more, and the supplier balance grows (this usually happens a lot in the 3Q, and especially in the 4Q), so, looking at the fulfillment of the working capital at the end of last year, just like at the end of every year, the trend is to end the year with more suppliers than inventory, and that means an improvement of the working capital from the current starting point to a picture like the one at the end of last year, of over 2 billion of working capital cash generation, so to speak.

So, I think this is an overview of the working capital and of the improvement opportunities. Would Fabrício like to add something?

Fabrício Bittar Garcia – VP of Operations

Good morning, thank you for the question as well. Just to add, Fred said it well. The most important thing, I think, is that the inventory is at a satisfactory size, and we are prepared for the end of the year, but the most important thing is that it is a healthy inventory, and we have low disruption. So, I believe that with sales improving in the 2H, our interest rate should improve, so I think this is a good sign.

Maria Clara - Itaú BBA

Perfect, thank you.

Operator

Thank you for the question, Maria Clara. Our next question is from Joseph Giordano, from J.P. Morgan. Joseph, go ahead, please.

Mr. Joseph Giordano - J.P. Morgan

Hi, good morning everyone, thank you for taking my question. I would like to explore this matter of inventory turnover and all these expectations for the 2H. We have all this assistance coming in, so I would like to understand what you are already experiencing in July, in terms of trends both on the online and offline side, even considering the margin issue a little.

We see a very significant evolution on this front from the company's side, and until we understand if we could expect more, as we enter the 2H, we still see some restructuring expenses, so if there is more costs coming out, and even trying to see with which margin level we should end the year, if, maybe, we will go back to those historical levels of 7.8%, I do not know. Those would be my questions, thank you.

Fred Trajano - CEO

Good morning Joseph, how are you? Thank you for the question. Well, I will try to answer it without giving any kind of guidance, you know we do not have this practice here, but I will try to address it.

We, Joseph, I believe that part of the margin gain from now on has to come from operating leverage, you know? I think we had a 1H in which we made several adjustments, reduction of interest-free sales, freight charges, extension of time limits here and there, transfer of product cost to price, increase in take rate.

It is an agenda that when you execute it as we did in the 1H, I think the leader's role is to change the course of the river. When you change the course of the river you have to be kind of focused. It is hard to make an adjustment like that and look at sales at the same time, you know? It is almost, I think we had a super positive result keeping share - even gaining share in a few categories - but the company's focus was indeed on a percentage increase and not on sales growth.

Looking at the 2H from now on, I think that part of the margin improvement, especially when talking about EBITDA and not gross profit, it has to come, necessarily, from sales growth, ok? There is no margin in retail without sales growth. This can be a short-term agenda, in the short term it is necessary to adjust the route to change the river as I said, but the important thing for any retailer in Brazil, and the world, is to grow their sales.

We, I think that we currently have a good base, adjusted inventories, the company's capacity more adjusted to the number of people in stores, people in DCs, renegotiated agreements. Of course, expense is like, expense is like fingernails, it always grows, and you always have to cut it.

I always see an opportunity to improve expenses, and we will continue working to reduce expenses. Several expense reduction projects were not implemented in the 2H... in the 1H, they will be implemented in the 2H, it is just that it is a little easier, it is not as difficult as it was in the 1H concerning capacity ratio, it involves a series of changes process, systems change, etc. - but the company will continue trying to lower the absolute value of its expenses by bringing it to a lower level - but an important part has to be with operating leverage now.

I think in this aspect, what is it really about? I will not give guidance. I promise to work hard, work really hard. We have a very good team, we have a very good brand, we have inventory, we have credit, we have digital channels with many visits. We have everything we need to gain market share again. Even if the scenario does not improve in the 2H - which I think it will because there was no 40 billion of aid in the 1H, there was no World cup in the 1H, there was no Black Friday in the 1H, there was no 5G in the 1H.

So, you have several factors that will contribute to the situation improving a little, but even if it does not improve - which is unlikely from the point of view of our category due to all these factors that I mentioned - we have all the conditions to gain market share. I want to remind you that Magalu's market share in physical stores is less than 20% in Brazil - in physical stores, I am not considering it with the online segment - and even online, in several categories we also have less than 30% market share, so speaking of 1P. In 3P, the opportunity to gain share is huge, and we are launching fulfillment with the Magalu caravan, with a series of services that we are launching for the seller, with the improvement of our logistical delivery time for the seller, we are capable of gaining share as well.

So, I believe that we can start on a path from the 2H onwards with a more adjusted operation to gain share, and then, the evolution of the margin would come a little with the help of the operating leverage. So, this is what I have. It is not a guidance; it is not a promise. What we are going to do is work very hard with a lot of serenity for the moment as well but believing that retail starts with the sale and everything else follows later.

Mr. Joseph Giordano – J.P. Morgan

Perfect, thank you, Fred.

Operator

Thank you, Joseph. The next question is from Felipe Rached from Goldman Sachs. Felipe, please go ahead.

Felipe Rached - Goldman Sachs

Hi, thank you, Vanessa, good morning everyone, Fred, Beto, thank you for the opportunity. Fred, you mentioned fulfillment in the presentation. It seems to have launched well, leveraging the structure, the technology that you already had for the 1P. Could you elaborate on where you have already implemented the fulfillment, where you think it makes sense to implement it, where it does not?

And then, if I could ask one more thing, changing the subject a little and addressing the physical stores a little, given the current situation, what are your expectations for openings and closings in the short term? Do you think there is still some space to optimize the store chain? Thank you.

Fred Trajano - CEO

Good morning, thank you very much for the question. I am going to start on the answer quickly and then I will pass it on to Leandro, and then to Fabrício. Well, we have space for fulfillment in all our DCs (we have more than 22 distribution centers in the company). With the reduction in inventories, we currently have an idle area in many of these DCs of 30, 40%, and this idleness can be used for us to place the sellers' products.

We have to get tax authorization with each state to get it. Each state has a different regime, it involves a lot of work from the legal department. For now, we have the Louveira DC, and we are also getting authorization here for Guarulhos - but the idea is that all DCs - even all stores in the future - can be part of our fulfillment offer for the seller itself. So that is the idea, I am going to ask Leandro to give an idea of how it is for the sellers, if they are already using it, so you can see our potential, and then Fabrício answers concerning the stores.

Leandro Soares - Chief Marketplace Officer

Thank you for the question. I think we launched; the results are very promising. We have, in a short period, of approximately one month, we already have 100 sellers using our service, and, obviously, we are selecting the first sellers, there is a long line of partners who would like to use our service. As Fred mentioned, we started at the DC in Louveira, which is our main DC here in the region, and we are already seeing a lot of positive results.

So, the first thing we notice, the deadline drops to practically three days in relation to what we promise, what we do when it is not within our fulfillment. Within the state, we already have more than 95% of our offers in two days, in up to 2 days for the client, but more than that, we also grow a lot in delivery in one day, which, when you have a partner, is harder for you to get it in one day, because, usually, that is the time it takes the partner to deliver the product to us. So, we already deliver directly to the client and get this benefit for our clients as well.

So, we see very promising numbers, and this should certainly increase in the future, and one more thing that I think is a differential besides what Fred mentions that it works on any of our DCs, is that we can also do fulfillment of heavy products. We already deliver heavy products, and this is another differential that we offer to our partners.

Fabrício Bittar Garcia – VP of Operations

Thank you for the question, Fabrício speaking. As for stores, we are starting at a slower pace of openings, so, for the 2H we should maintain this low pace of store

openings given the adjustment phase of this year. We already closed a few unprofitable stores in the 1H, we should not close any more stores now for the 2H, it depends, we may close it only if it is performing poorly - but we already did what we had to do in the 1H.

Felipe Rached - Goldman Sachs

Alright, thank you, very clear.

Operator

Thank you for the question, Rached. The next question is from Ruben Couto, from Banco Santander. Reuben, please go ahead.

Ruben Couto - Santander

Good morning everyone. I wanted - I have two quick ones actually - to go back a little on the partner Magalu's discussion. Fred, I think you gave a lot of interesting information, I just wanted to understand how the recurrence of these new sellers is. I think you mentioned that limit of R\$ 100,000 that now has a normalized take rate, but in addition to that, how has this seller's share evolved? Have they continually increased the number of products, have they sold more? Anyway, I would like to understand if the short-term benefit that we are seeing in the 3P GMV has been more due to the addition of new sellers, or if the sellers that have been in the base for a longer time have grown as well.

And, while on the subject of the Magalu partner and how this diversification of 3P, of 3P has been happening in terms of other categories, has this made you rethink a little about the question of product mix in the stores? Can you explain a little on how this experience of 3P's online GMV has led to these questionings regarding the products' category in the store? Thank you.

Fred Trajano - CEO

Good morning Ruben, thank you very much for the question. Well, what we see in the yields of the partner Magalu's sellers - and we are comparing them a lot with the sellers when we opened the platform to the medium and large sellers back in 2018, 2019 - the cohorts, the partner Magalu's yields, they are performing better than the yields when we started the marketplace, so these are encouraging numbers: low churn and increasingly positive productions.

We have a lot of work now, it is one of the focuses of the Labs and of the Fatala team for the 2H, which is the 3P conversion. We think we have a huge opportunity, because imagine that we have placed 70 million product ads on our platform, the search algorithms, recommendation algorithms, the marketing tech team, so it is a gigantic base of new data, and we have a great opportunity to fine-tune these algorithms (search, recommendation, *martech*).

So, the big focus of the Labs and of the Fatala team for the 2H is to increase the conversion. This will provide even more liquidity to a cohort that is already doing well. We will certainly work to have increasing numbers. I have fantastic stories from several companies that were saved by Magalu in the pandemic, who have really cool stories, we are sharing more of these stories now, and there is even one about Father's Day, whoever accesses Magalu's Instagram will see the story of a seller who even brought his son to work on the company because it was Father's Day.

So, there are many really cool stories of the lives, of companies, that were transformed and enhanced by the Magalu platform. It is a fact, it is real, and it has a very positive potential when looking ahead - and we will still do a lot to improve. We have 64 years of 1P, and practically three years of 3P. We have already achieved a lot in three years, but this team here will do much more for us to continue this flow forward.

And, once again, I do not see... I see that the main thing, the opportunity for growth of the Brazilian e-commerce is in the local and multichannel seller. I am very convinced that the new frontier of growth comes from this CNPJ, and we are very well prepared technologically, geographically, and we have the capabilities to be a main player in this digitalization process, for we are the only company that went from being analog to being digital. We have some experiences, and we know the pains these people have.

Operator

Thank you for the question, Ruben. Our next question is from Vinícius Preto, from Bank of America. Vinicius, please go ahead.

Vinícius Preto - Bank of America

Hi, good morning everyone, thank you for taking our question. The first point is a follow-up to Joseph's question about the 2S, if you could comment a little on how the expectation is regarding the implementation of 5G, and if you have already seen something in relation to the improvement of the smartphones category in the cities where it has been implemented already.

And our second question is about the Magalu Ads. You elaborated a bit further on the evolution of the Magalu Ads, and we would like to know how you are thinking in terms of evolution of functionality, data use, use of geolocation, integration with the other channels of the ecosystem, and if you could provide, you mentioned that revenue doubled each year, could you elaborate further on how relevant this revenue is today for the overall result, thank you.

Fabrício Bittar Garcia – VP of Operations

Well, I will answer about 5G - Fabrício speaking - we have very good expectations. It has already been implemented in 8 cities with a projection that we will be implemented in 28 cities by the end of this month, and in all Brazilian capital cities by the end of the year. The coverage is still not the coverage we dreamed of, but the demand is increasing. We are taking advantage of it, including running campaigns with 5G in all the cities that are launching it.

We are seeing an increase in the demand between 30 and 40% of 5G devices (they are devices with an average ticket higher than R\$ 2000, and this is very good), and it is matching the number we got from carriers, that it has increased the demand for 5G plans by 40 to 50%. So, the outlook for 5G is very good, and it certainly generates medium-high ticket demand - and we are very prepared for that.

Mr. Eduardo Galanternik – VP of Business

Vinícius, Eduardo Galanternik speaking, answering about Ads here. Our focus in this 1H was very much on expanding the demonstration of these sponsored products in the searches and recommendations, which are actually the places where they have the greatest monetization potential. This has been done, as well as all the advertiser experience improvement: the self-service that Fred mentioned, improvement of the dashboard, and we had already made the integration with payments, ok?

Following that, the next steps are very much in line with what you asked in your question. Actually, using a lot of clients' data in order to geolocate offers, to demonstrate. We know that when we demonstrate a product that is close to the client, the conversion is much higher, and offering that to the advertisers, we are certain that it will increase the conversion and return on their investment.

And, following such better use, such better matching of products announced with clients, and the expansion of such to our other channels, to all other platforms of the group.

So, the sequence is more or less the same as you put it, and that is what we are working very hard together with the technology team to execute in the coming months and in the next cycles.

Vinícius Preto - Bank of America

Perfect, thank you.

Operator

Thank you for the question, Vinícius. Our next question is from Vinícius Strano, from UBS bank. Vinicius, please go ahead.

Vinícius Strano - UBS

Hi, good morning everyone, thank you for taking my question. I would like to ask if you have noticed any kind of disparity in the sales performance by region, if you have felt any positive effect on sales due to a few government aids.

And, the second question is regarding the speed of delivery, we notice a significant increase in the 48-hour deliveries. Could you comment a little more on the main drivers for this improvement and how you expect it to evolve from now on, thank you.

Fabrcio Bittar Garcia – VP of Operations

Vinícius, this is Fabrcio speaking, I will answer about the demand of the regions. We are seeing a very linear demand. But this week, with the entry of the aid, we notice that the North/Northeast region tends to grow a little more than the rest of Brazil - but it is quite balanced, the trend with the aid is for the North/Northeast to grow a little more.

Decio Sonohara – Executive Officer of Logistics

Good morning, Decio speaking here, responsible for the logistics, I am going to talk a little about the improvement of the 48h. Logistics has been continuously working on the distribution logistics network, and all that evolution that we made towards 1P, we are moving towards 3P.

And, basically when you say that, I will give you an example here: when you do a fulfillment where the product is inside our distribution center, the promised delivery time and the actual delivery time will appear as if it were a delivery for 1P, the 3P will

appear as a delivery time for 1P, so this provides a lot of security that we will, in fact, have more opportunities to be able to deliver products quickly to the end client. In addition to the ultra-fast delivery network that we have grown a lot with Sode, delivering directly from the seller on the same day, or, at the latest, on the next day.

So, there are several initiatives to improve the network, network optimization, new routes being created so we can actually serve the client increasingly faster.

Vinícius Strano - UBS

Perfect, thank you very much.

Operator

Thank you for the question, Vinícius. Our next question is from Andrew Ruben, from Morgan Stanley. Andrew, please, go ahead.

Andrew Ruben - Morgan Stanley

Hi, thank you. I was hoping if you could talk a bit more about AiQfome. I am interested in what kind of overlap you are seeing between AiQfome users and the rest of the Magalu ecosystem, and then if you have any comments on profitability for the model and how that is trending, thank you.

Fred Trajano - CEO

Good morning Andrew, thank you for the question. Well, we are now basically focusing AiQfome on the growth of the number of cities, that I mentioned we reached 815, and the implementation of the logistics service that we are also using both in the team, but also with great potential for synergy with Sode, which is this ultra-fast delivery.

I think there will be a lot of synergy because the bulk of AiQfome's movement is against the flow of the bulk of Sode's movement for hyperlocal deliveries from the partner Magalu and from Magalu itself, which is more at lunch time, at the end of the day, at the end of week, while we concentrate more in business hours. I think there is a lot of synergy there to keep the delivery personnel busy all day and not just at that peak.

AiQfome is now reaching approximately, as I said, 3 million orders, more focused on increasing GMV. It is available on Magalu's SuperApp through *minapp* in all cities that have AiQfome. The volumes are growing, but there is still a lot of opportunity to

grow further, for the client to buy the product without downloading the AiQfome app, downloading only the Magalu app, and buying through the AiQfome *miniapp*. There is work there, one of the goals to improve the UX even more so that this process is smooth, and one of them is to use MagaluPay as a wallet, which takes away this huge friction of having to type a new card, etc. So, we are working here to make that happen.

But as I said to Luiz Guanais at the beginning, first you have to grow sales, GMV, deliveries, and then increase the matter of overlapping and integration. This is what we are doing.

From the profitability point of view, it is perhaps one of the only food deliveries in the world that give results. So it is a very well-managed company by the founders who are still with us, and it is growing in a very rational way, starting in the countryside and then going to the capitals - which, by the way, was a little bit of what Magalu did with its physical stores, it started in the countryside and then went to the capitals, I think with a very rational profile.

I do not know, do you want to add something on the tech side of AiQfome?

André Fatala – VP of Platform

Alright, Fred. I think the cool part to mention is that we already made the integration of the MagaluPay wallet as you mentioned, so, today, it is already working within the AiQfome *miniapp* within the Magalu SuperApp, which facilitates the payment part, and, also, now we are already working on integrating the VipCommerce marketplaces as a category within AiQfome as well. So, we will have the market category with the entire network, the base that already exists within VipCommerce being available in the experience of both AiQfome's own app, which is its standalone, and will also be reflected in the experience of Magalu's SuperApp.

Operator

Andrew, thank you for the question. Thank you, Andrew. Let us move on to our next question, how is Felipe from Citibank, I think the sound is ok now, Felipe please.

Felipe Reboredo - Citibank

Good morning everyone, I think the sound is ok now, thank you for the opportunity to ask questions. On the Citi side, what we wanted to understand is, first of all, from the working capital point of view, recomposition of suppliers, I think it is very clear here. We would like to understand a little bit about the relationship with the industry,

the way in which suppliers are replenished since the inventory, how do you see the industry's thinking for this 2H in line with this thinking of sales recovery.

And a second topic that we wanted to understand within the marketplace is economics, a little bit from the Magalu partner. We understand that you have to have support mainly from these stores that prospect sellers, we wanted to understand if this a recurring expense, if that partner goes back to that store, and if this brings any additional cost for such operation. Thank you.

Fabício Bittar Garcia – VP of Operations

Well, about the industry's programming, I think the industry today, the supply chain is more regularized. It is also getting ready to have a 2H slightly better than the first, but with no major changes from what has been going on. We do not have any supply problems and we are well prepared for the end of the year.

Only the World cup is a different program, and the industry is well prepared. They make the demand design between, it starts to increase now, in August, and it gradually increases, reaching a peak in October and November. This plan has been in line with the forecast, and it shows us that we should have a very good last quarter, so we are not worried about the industry schedule and product availability, and we also do not have any dollar pressure that could lead to a cost increase, at last, as happened last year.

Regarding the store sellers, we do not have an increase in operating expenses, we use the idle time of the staff. You know that the store has idle time, so they use their idle time to be able to capture the seller, so, we certainly dilute the cost with that, and it is much cheaper for us to capture through the store than otherwise, so it does not generate additional costs.

Felipe Reboredo - Citibank

Very clear, thank you.

Operator

Thank you for the question, Felipe.

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

Fred Trajano - CEO

Well, I wanted to thank you all for participating in our earnings call. If you have any further questions, please contact our IR. Have a great Friday, and have a nice weekend, everyone.

Operator

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