

**CONFERENCE CALL TRANSCRIPT
1Q18 RESULTS
MAY 8, 2018**

Operator:

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

Frederico Trajano - CEO

Good morning everyone and thank you for participating in our call together with our executive board, we will be available to answer any questions you might have at the end of this introduction.

I would like to start discussing a bit on the first quarter, I will speak briefly as our CFO, Roberto Belíssimo will detail the results. In my opinion, this very positive first quarter is a result of three main aspects. First, a winning business model evidenced through all these quarters with consistent, positive results, which we refer to as digital platform with physical points-of-sale and human touch. We are already reaping the benefits for the last few quarters, but especially this first quarter, reaping what we sow over these last 17 years, especially the last two years, when we started implementing the digital transformation strategy. Then, our business model has been reaping the benefits, I think this is a structural aspect which will continue giving good results in the long run, it is not cyclical. This multichannel model, let's say, in other words, a digital platform with physical points-of-sale, or a multichannel marketplace, a model which in my opinion is the most appropriate within the Brazilian economic context, especially retail and e-commerce. We think this is a winning model for growth and to seize the opportunity of e-commerce with profitability.

The second aspect I would like to highlight is the leading role of the across the board team. We recorded a very positive result this first quarter in all the units and departments of the company and our team surpassed the highest level and great focus of energy endeavored last year. As I mentioned in our last conference call and I reinforce, 'the biggest competitor for Magazine Luiza in 2018 will be Magazine Luiza of 2017', the well done work performed by our team last year. I am very happy with our team's performance, I think no team, no area of the company had a mild performance, all of them successfully delivered their indicators, their objectives, managed and led their teams, specially. Obviously, this execution reflected in our results.

And the third aspect, Brazil's economy scenario has improved. Although this is the weakest element of these three factors, and below our initial expectations at the end of last year. I reiterate, below our expectations and of the market, but I cannot fail to mention that inflation is low, interest rate declined, consumer is more confident in relation to the same period last year, and significantly concerning our businesses, more credit offer. Our industry is discretionary, although we have been adding several other categories to our platform, we still have a heavy weight from categories of the discretionary sector, it is highly impacted by the economy trends. Then, when economy slows down, we feel more than the retail average, and when we see a recovery, we also positively feel more than the retail average. This economic cycle now tends to be more positive for our type of retail than other types of retail, as we still have a high share of products with high average ticket and value mutually related to credit. So, I would like to reinforce these three aspects.

Afterwards, Roberto will give you further details on the first quarter results, I would like to reinforce the message I have already conveyed in our last call and in the Message from Management this first quarter release, that this year we will focus on a new strategic cycle concerned with increasing the level of service, with a meaningful ramp up of level of service to our customers and accordingly, a substantial improvement of our active customer base.

We will start adopting a group of 20 indexes in our incentive system with challenging targets aiming at improving the customer service level. This is not a rhetoric, this is a fact. And also, significantly increase the Company's administrative base. In order to make this tangible, improve indexes, such as the NPS, which is an international satisfaction index relating to customer's shopping experience, or customer's experience with product or service, therefore, a substantial increase of NPS. From the logistics viewpoint, the percentage of products delivered within 48 hours, we plan to significantly increase the amount of supply and delivery available within 48 hours, with a delivery time considerably lower than peers' average, therefore, raising experiences to international levels connected with delivery time. Brazil lags behind in this regard, so Magazine Luiza wants to lead the way and offer such service to Brazilian consumers. Concerning the on-time delivery, here in Brazil, logistics computerized systems have not advanced much, but we have been working on this issue, and LogBee acquisition, we will discuss this later, is also concerned with significantly increasing the percentage of products delivered on time. Step up the active customer base, both with new customers and with a percentage of customers with repurchase. We will give more focus on the active customer base than necessarily the total GMV. In our opinion, the base is the indicator which precedes GMV and when we refer to an active customer base, we are looking at the customer lifetime value (CLV), the total customer value carried to present value and not an account of one year only, which is standard here in Brazil, then, this is more sophisticated account that we can comment later in the call.

Other indexes but not least important, although more specific, which was the case of first call resolution at the call center, easy exchange and order cancellation, also level of satisfaction. Finally, a group of 20 indexes was calculated, obviously with high targets of our leaders, from the company's CEO to the store employee, and weighting heavily on our incentive model.

As I mentioned, we have prepared a sophisticated calculation of CLV, we have spent a lot of time in the first quarter defining the trade-offs for us to achieve these service level improvements. You can't make an omelet without breaking the eggs. Therefore, we will invest in supply frequency, improved technologies at the call center, more people working at the stores on a periodic basis. These investments to be made were very carefully calculated, and relied on the assistance of a strategic consulting, without harming value for shareholder in the long run. Although we may face trade-offs in the short term, we will also discuss this later, without giving a guidance, because this is not our policy, we obviously will be informing the market about our investment focused on customer activation at service level, we calculated the amount to be invested in each area so that to achieve these indexes to be implemented more intensively from the second quarter and from second half of the year. The fact of having made a very careful and substantiated calculation to actually verify if these investments would bring value for shareholders, gives us confidence to ramp up investment from this quarter.

I would like to mention few of them, only to make this concept more tangible. The LogBee acquisition obviously is one of them, that we are going to materialize in the second quarter, Décio Sonohara, our logistics officer will give you further details, today it accounts for a good part of our 48-hour deliveries, this is an asset light partner, a 48-hour delivery platform especially applied in the city of São Paulo, it accounts for 90% of deliveries here in São Paulo market and with this acquisition, we are going to expand it to other markets. Décio will provide more information, but this is a good example of investment to improve customer satisfaction level indexes.

Second, obviously is the expansion of our physical point-of-sale in two relevant markets, Goiás and Maranhão, where we had almost null footprint. At the end of our presentation, Fabricio will also discuss this issue.

I would like to remind you that the physical point-of-sale not only helps winning new customers at this base, but also the e-commerce. To the extent that markets which previously did not have the option to buy on the website and pick-up at store without any freight cost, now will have this option at the physical points-of-sale. Our business model, an increase in physical point-of-sale benefits the e-commerce, a virtuous cycle, we are intensifying investments in physical points-of-sale, also adapting stores in order to provide a good level of service with our store project, such as our mini distribution center (DC) that Fabricio may also discuss about it, we opened three of these stores, we also commented on this in our earnings release last week, and we plan to roll-out

100 units during 2018, we can also discuss about this project, but this is another investment within this new strategic cycle we have been stepping up.

I would like to point out the marketplace expansion and growth, which again had a very positive performance, as we have been reporting since last quarter of 2017. Again, I would like to mention that we not only focus on GMV, although this the figure that the market constantly monitors, it has assisted us and is one of the main indexes of this new strategic cycle, in other words, the active customer base, to the extent it is included in categories with higher profile of higher shopping frequency, more recurring shopping categories, which is an issue we need to address here in order to achieve the target of doubling the active customer base over the next two or three years. Then, undoubtedly, the marketplace is essential in this regard. Then, I would say that our strategy not only aims at generating GMV for the company, but also reach customer engagement, causing Magazine Luiza to be more relevant for customer in his everyday life. In our most traditional categories, shopping frequency was very low, then this was an issue to be solved within this digital platform vision, and the marketplace is of great relevant within this strategy. Bearing in mind that we are not going to give up service level. Today, we are the sole company with RA1000 at the Brazilian e-commerce, combining the 1P and 3P experiences, evidencing that our plans to offer a 3P at the same service level of 1P also is not a rhetoric, the Company has several initiatives to increase the number of sellers in our base, but making everyone to observe the service level we always made available over these last 60 years to our customers.

Within this context, I would like to point out that the first quarter already reflects all this work, but a better vision of what we are going to do will be realized over the upcoming quarters, I would say this is a good proxy of the year as a whole, and we are very happy with results, with the validation of model, our performance, but we are far from feeling comfortable. We have been already directing our efforts, our energy to what we believe will provide higher sustainability to our business in the long run, which is making our customer happy, our slogan is 'come and be happy here', also win a greater share and increased number of Brazilian consumers, today we only have 10% of total Brazilian consumers, so there still is a lot of room to grow, also our relevance in the Brazilian consumer market both online and offline.

Now I give the floor to Roberto Bellíssimo who will give you details on the first quarter indexes and then Décio will discuss on the LogBee acquisition and officers and I will be open to answer your questions. Thank you very much.

Roberto Bellíssimo – CFO and IRO

Good morning everyone, thank you for participating in our call, I would like to start on page 4, our highlights, the main highlight was our sales growth of 34%, above a previous strong basis of 24% in the first quarter 2017. Our 34% growth amid a market which according to IBGE grew only 2% in the first months of the year, then, our Market Share gain was extremely high. Brick-and-mortar stores sales climbed 21% and it is

worth mentioning here that the 16% same-store-sales and the 5 p.p. contribution from new stores to this total growth also recorded an outstanding performance. E-commerce grew 65% also over a base of almost 60% in 2017, reaching 35% of our total sales. According to E-bit, the market only grew 11% then, again, we outperformed the market.

Our gross profit decreased 0.8 p.p. basically due to the mix effect, as it has been occurring over the last quarters, the e-commerce has been growing much above the brick-and-mortar stores, but this more than offset in the operating expenses, which again, went down 1 p.p., bringing our SG&A expenses as a whole to a level of 21%, also the lowest level of operating expenses of Magazine Luiza's history. We have been gaining efficiency by diluting fixed expenses. Thus, EBITDA grew by 30% or approximately 300 million, with a margin of 8.3%. We significantly reduced financial expenses, we multiplied net income to R\$147 million, a 150% year-on-year growth. We also heavily focused on cash generation. In the last 12 months, the cash flow from operations reached R\$1 billion.

The working capital also substantially improved by over R\$200 million. In the last 12 months, net debt decreased by R\$1.7 billion, thus, now we record a net cash position and we ended March with a total cash position exceeding R\$2 billion, the best position ever in a first quarter of our history.

On page 5 we will detail investments, I just would like to comment that investments will ramp up over the upcoming quarters. This quarter, in the second quarter we already estimate to open other 30 stores, in line with our Capex plan and with proceeds raised with follow-on last year.

On page 06 we can see the evolution of our quarterly billing. I point out that in the first quarter we already sold more than the fourth quarter last year, which usually is the best quarter for retail, thus, evidencing how we have been spurring growth. E-commerce recorded sales of R\$1.6 billion in the first quarter, much above fourth quarter last year with the Black Friday sales.

On the following slide 07, we can see the gross margin evolution, the operating expenses dilution, especially of general and administrative expenses, thus, evidencing the Company's operational leverage, a very rigid control of expenses, also fixed expenses as a whole, rental expenses, for instance, went up 6% this quarter, compared to the same period last year, basically 4% deriving from new stores and 2% from rental adjustments, slightly below inflation.

The equity accounting still significantly contributed to our results at R\$23 million, basically the same last year's level, 0.6% of our net revenue. Later we will comment on Luizacred. LuizaSeg also delivered a very good result.

EBITDA's quarterly evolution has been very consistent, with a margin of 8.3%, 30% growth, mostly sustained by our sales growth.

On slide 09 you can see that financial expenses decreased by 57%, positioned to a level below 20% of EBITDA, one of our objectives, and if we look at the financial expense in

detail, it basically came from receivables discount, excluding this receivables discount we had financial revenue, which came in line with our net cash position. You can see on the next slide, approximately R\$1.3 billion, here including receivables. When we look at the adjusted working capital, we maintained the inventory turnover in a very healthy level, between 65 and 70 days of turnover, bearing in mind that our e-commerce here has a better turnover than this one, and the more e-commerce grows, since we are a fully integrated multichannel, all distribution centers serve all channels, we continue improving inventory turnover. We also maintain a very healthy average purchase time of 85 days. Then, we have a difference between the average purchase time and inventory turnover of approximately 20 days, which significantly contributes to our cash generation, the more we grow, the more we are also able to generate cash from working capital.

On the next slide we can see how we have been substantially reducing our indebtedness, from R\$1.6 billion to R\$800 million and cash availability increased from R\$1.1 billion to R\$2.1 bi. Net income also grew consistently, net margin increased by 2 p.p., from 2.1% to 4.1%, the highlight here again is ROE and ROIC. ROE reached 29% in the quarter, with a return on capital employed exceeding 30%, approximately 31%, then combining a very accelerated growth with a high return on capital invested.

We will discuss later on Luizacred, which also contributed to such result, Luizacred's total billings stepped up 30%, and especially inside Magazine Luiza, inside our stores, it grew over 50%. Luiza card at the brick-and-mortar stores, for instance, increased by 6 p.p. this quarter against the same quarter last year. Luiza card customer is our most valuable customer, we have been investing in this customer because he is loyal. We also increased the cards base; new cards sales practically doubled compared to last year. We have been improved models and processes as a whole, thus allowing to see during last year and more evident this year, Luizacred and cards base sales growth. Delinquency rates dropped from 8.8% to 7.1% of 90-day non-performing loans. A provisioned portfolio, with a coverage index of approximately 158%, which is also a very comfortable level.

On slide 12, you can see Luizacred's profit quarterly evolution. Year-on-year, profit recorded a slight drop, but basically due to the interest rate drop, especially from revolving credit and payment in arrears, which is good for our customer, he still has money left to buy at Magalu. Despite a sharp interest rate decrease, our performance was in line, you can see that in other quarters when interest rates started going down, result was not so good, but on a quarter-on-quarter basis, Luizacred's results significantly improved. We also recorded a ROE of 27%, also a very interesting return. Now I give the floor to Décio, our logistics officer who will also discuss on LogBee.

Decio Sonohara – Executive Director of Infrastructure

Good morning. Thank you for participating on the call. Yesterday we concluded LogBee acquisition. LogBee has a technology platform which manages deliveries, monitoring and tracking of orders. We can monitor via GPS where driver is, carrier and driver have an app to exactly know which the route is and which are the orders to be delivered. The delivery status has a real time update. It works with an Uber delivery concept, where Uber drivers may collect the orders and deliver them to our customers.

Drivers' selection is very careful, observing Magazine Luiza's standards, we are very concerned with Uber drivers who deliver orders to our customer's house. The company, as Fred mentioned, a light asset which does not have own vehicle to make deliveries, using third parties' vehicles.

We plan integrate technology with Luiza network and over 1,500 carriers, in other words, using Luiza network to also deliver light products and integrate LogBee platform with Magalu Entrega (Delivery), thus, providing an all-service marketplace and deliver 3P products.

Besides LogBee platform which has its operation, which delivers light products, they have been working with us for eight months. LogBee is extremely relevant in our customer express delivery strategy, not only with a 48-hour delivery, but also offering a high level of service within 48 hours. Today, the express delivery in the metropolitan region of São Paulo already accounts for 35% of sales, of orders made, and LogBee already delivers 90% of this volume at the metropolitan region of São Paulo.

Today, the company has the best delivery level of service measured by us, our monitoring and we plan to expand the delivery coverage in the Greater São Paulo to other Brazilian metropolitan regions. In addition, it will be essential for the ship-from-store strategy, i.e., the platform will be of great assistance to pick-up the product at store and delivering it to our customer's home, whenever we have a physical point-of-sale, a store or mini DC.

Finally, LogBee is part of our Fulfillment by Magalu, for us to deliver 1P and more 3P of marketplace.

Frederico Trajano - CEO

Ok. Thank you Décio, Roberto. Now, we would like to open for questions and answers.

Operator:

*Ladies and gentlemen, now we will start the questions and answers session. To make a question, please press *1. To remove a question from the list, press *2. Our first question comes from Richard Cathcart, Bradesco.*

Richard Cathcart - Bradesco

Good morning, everyone. Fred, you mentioned at the beginning and you also commented on the release that now you plan to considerably increase the active

customer base and the shopping frequency of these customers. Maybe this is a difficult question to answer, but which are the most important strategies for you to achieve this objective? And the second question is about the pick-up at store and ship-from-store if you could give us an update on the pick-up at store penetration and the plans for ship-from-store during 2018. Thank you.

Frederico Trajano - CEO

Richard, I will start here with our initiative to increase the active customer base, which delineates the company and involves a series of initiatives, with no silver bullet, especially. But I think we will achieve this objective, first as the company focuses not only looking at GMV, but through the incentive system motivate the team to enhance customer base. Then, customers who buy more frequently, they come back and obviously, expand the customer base winning new customers, otherwise, you feel very comfortable in the previous model which is to sell a high ticket for few customers. Then, I think it is important to have a target which is relevant in your incentive system. Then, we have various strategies. I think the most relevant strategy is to increase the offer of products to customer. Today, our supply base is well established with durable goods with high average ticket. Then, I think within this context, the marketplace is the most relevant strategy. The introduction of sellers who sell products differ from those products which we traditionally we have in 1P, it will necessarily increase and is already increasing the active customer base.

Now I give the floor to Eduardo to discuss a bit about this issue, having in mind that this is not the only initiative, afterwards I will mention other initiatives that we can conquer in this regard, but only for you to understand how the marketplace helps to increment frequency and customer base activation.

Eduardo Galanternick – Executive Director of E-commerce

Richard, thank you for your question. Just complementing what Fred mentioned, in the first quarter we saw a more accelerated growth of our business, those categories referred to as long tail. Then, if business as a whole grew by nearly 64%, in numbers of orders, it grew almost 100% driven by referred categories. This is our great challenge, to raise traffic and relevance in these new categories. Few of them are already operating and starting to gain relevance, as this is the case of Magalu Mercado (market), which in number of units sold already poses great relevance in our business, also the perfumery section we have been working for some time. We have the opportunity of new categories which still are in the early stage but they have the capacity of attracting a different customer to our base, which is the case of books that we started to operate, and fashion in a certain moment. Overall, 30% of our new customers recorded in this first quarter bought an item from the marketplace. If we compare this with 8%, which was nearly our share, we can realize how the

marketplace has been relevant in our customer base and contributing to results and total business growth.

Frederico Trajano – CEO

Other issues, maybe not so relevant as the marketplace and their impact on supply, but not least relevant in this case, I think would be increasing the level of service you can deliver quicker than the market average, with on-time delivery and when customer needs to exchange, you offer a better exchange, these are the indicators which are very high to our target, but certainly customer will be loyal to your ecosystem. If you have a higher card penetration, customer with card is more active than customer without card and increase card penetration is one of the most relevant targets in this new cycle. At last, we have several initiatives and loyalty platforms, we have been analyzing various alternatives...we have the Gold Program, but there are also other programs to be launched and win the customer, thus, encouraging him to take part in our ecosystem. Concerning the pick-up at store, as we mentioned in the earnings release, it accounts for 25% of total, reminding that our figure is not an eligible product, it is out of total that we sell, which is the percentage of pick-up at store. The ship-from-store relies on a light product network, last-mile delivery, from store to customer. LogBee will fit like a glove in this gap we have today. Our last mile is much more suitable today for high-ticket products and ship-from-store especially means: I have more of store inventory of light product rather than heavy product, which in general is the inventory at the distribution center. Thus, LogBee will be of great assistance in expansion, as Décio mentioned, but we consider the figure of 25, which is a number over total sales, again, not over those eligible, very relevant.

Richard Cathcart – Bradesco

That's great, thank you.

Operator:

Our next question comes from Joseph Giordano of JP Morgan.

Joseph Giordano – JP Morgan

Hello, good morning everyone, good morning Fred, Beto. I would like to understand this mix diversification you mentioned, how this has affected, if already affected, the company's repurchase rate. You mentioned customer's NPV, then, I would like to understand if you see an evolution in the repurchase rate, and especially when we look at the app metrics, the app is performing well and more than that, a very relevant issue of result was the same-store sales of 16%. Then, I would like to understand if you can identify a higher correlation between store customer and online customer, I think perhaps the social class changes a bit between the target. I would like to understand if you start seeing any endosymbiosis in this multichannel model. Thank you.

Frederico Trajano – CEO

Joseph, concerning your question if we are seeing higher frequency, yes, Eduardo will give you further details besides those he already explained to elucidate your question, but I think a meaningful increase will occur later, since the percentage of these new categories is still less significant. The marketplace was launched at the end of 2016, let's say one year and a half. We went from 40,000 items available to almost 2 million items available for customers, which is a remarkable figure, but we still have a lot of work ahead of us. I'm not sure if there is any other index to mention, Eduardo.

Eduardo Galanternick – Executive Director of E-commerce

Overall he pointed out two issues which really moved the shopping frequency index. Frequency has been steady over the last years, until 2016, while we did not have the marketplace and not investing in the app. From the moment we invested in the app and in the marketplace, such curve has been continuously growing. Then, month after month, we can see that consumers are buying more and we can see a connection of two points: the app, which actually has a shopping frequency sensitively higher than other platforms, and the marketplace increasingly making part of the consumer's shopping basket.

Frederico Trajano – CEO

Concerning the same-stores sales I will give the floor to Fabrício, but I would like to say that from the second half last year, we have been seeing a very positive performance of the brick-and-mortar stores, a result of the team work as a whole, both of stores operational team and the commercial team, also the credit recovery, we have been significantly increasing the credit limit of Luiza card customers, as well as the number of cards sold. Luiza card has been very relevant to improve brick-and-mortar sales. Now I give the floor to Fabrício who will give you further details on the first quarter same-stores sales.

Fabrício Bittar Garcia – Vice President of Operations

Good morning Joseph, thank you for your question, this is Fabrício speaking. As Fred mentioned, credit has been a very important issue since last year, we have been seeing an increased approval as positive, but I point out here our performance in several categories. The year of 2017 was very good, we gained share in all categories and now in 2018, we have been performing very well in the white goods and mobile devices, we recorded a substantial recovery of furniture category, I think the great highlight up to date is the TV line, which is growing three times more than the market, we are well prepared for the World Cup, we launched a campaign stimulating consumer to exchange his used TV with a new one, we are offering discounts for consumer if he brings his used TV to the store. We have made an agreement with a partner, which provides the telephony exchange, our trade-in, which has been leveraging the

Company's growth. Then, I think TV is the great highlight, but furniture and white goods also have their representativeness. I think we have prepared a very good planning with our suppliers, a very good product availability, as well as credit, we are very assertive in promotions. Then, I think these are the highlights of the stores growth.

Joseph Giordano – JP Morgan

Perfect, thank you very much, good morning.

Operator:

The next question comes from Fábio Monteiro, BTG Pactual.

Fábio Monteiro – BTG Pactual

Good morning everyone. I would like to explore a bit the growth issue. My question is concerned on how we should think in the medium term, we understand still there is a lot of room to e-commerce in relation to retail sales. Certainly, you are one of the companies leading this move. Your e-commerce growth calls our attention, which is above the growing e-commerce sector and you gave various inputs of new categories and increase in the number of orders. My question is: do you think is it possible to grow looking at such long horizon? Do you think is it possible the market would be able to catch sight of companies which are potential winners of this game, a growth of 30, 40, 50% for 10 years? I would like to understand your vision on this issue. Likewise, how do you see your marketplace, you have been highly concerned with service quality, a very good service level has been a priority for the company. I would like to understand how the marketplace can, how much it can represent from e-commerce ahead, thinking on five and even 10 years. Then, finally, these are my two questions, one concerned with the medium and long-term growth if you see a solid evolution and how the marketplace will fit into this context, its representativeness. Thank you.

Frederico Trajano – CEO

Good morning Fábio, thank you for your question. You know we do not provide a guidance, but I will try to answer your question in the best way possible. First, speaking on a more conceptual viewpoint, if it is possible a Brazilian company grow over the next five to 10 years in the e-commerce from 30 to 40%, I would say that in the general context yes, undoubtedly. Today, we have an e-commerce in Brazil with penetration, approximately 5% of total retail, such retail was practically stagnant over the last years, with a very low growth. This penetration is still too low, it is a pressure from medium penetration, but it is still too low in categories which globally are relevant, for instance, such world of clothing manufacturing and fashion. Then, if you make a very careful analysis, there is an enormous potential for e-commerce to grow in Brazil. In think that across-the-board in all categories, inclusive those which already have higher

penetration, which is our most traditional category of durable goods. Then, in my opinion, undoubtedly this figure will be from five to 10, then to 15 and to 20. The e-commerce will significantly grow. We can see a huge opportunity, it would be a mistake for the companies, investors to bet against the secular growth of e-commerce. Magazine, Magalu within this context only has 10% share. Then, our share in e-commerce, even considering all this growth, we still have a share slightly over 10%. Then, there is still a lot of room to gain market share, which will be consolidated if we actually manage to implement this new cycle focused on service level for customer. If we manage to significantly reduce the delivery time, significantly facilitate the exchange or cancellation of customer's order, provide a flawless delivery experience, without delays, etc. and obviously facilitate credit for the online customer, since today this is not so easy as in the store. For customer with credit is easy, but for customer who does not have credit, the e-commerce is not the best option, but the brick-and-mortar store is the best option for him. Then, Luizacred has work to do concerned with e-commerce customer. Then, I think there are several fronts and our omnichannel model now is more focused on providing an international service level standard, and why not even above the international standard, if we execute this model diligently, I think we have conditions to gain market share and become one of the leaders of such secular growth of e-commerce. We have a lot of work, it is not easy, the agenda is complex, we refer to investments in logistics, supply frequency, especially the technological platform, then, broadly expand the team of LuizaLabs and deliveries, but I think this is absolutely feasible and possible... the marketplace is absolutely relevant, because it has a strategic relevance in these categories which are underpenetrated, then, hardly we could make a very expressive e-commerce in 1P with these new categories. Because... these are very new sectors, then the marketplace is extremely essential for future growth, observing there the level of service, which is the standard I mentioned we want to provide to customer. This will not be a marketplace with low service level, we have an ethical issue there, which is the informal economy. We are not going to discard the seller who issues invoices, who pays all the taxes, who registers all employees, who sells a real and not stolen product, we are not going to trade-off our customer service level nor our ethics, finally, we will employ the same quality ethical standards of our 1P to increase the marketplace GMV.

Fábio Monteiro – BTG Pactual

And Fred, just a follow-up, do you think... I mean, there are several trade-offs for the marketplace growth, you've mentioned few of them and I would like to understand, in today's agenda of discussion, which would be the most critical issues, you have the technological challenge of integrating the platform with sellers, you have the sellers' profile which has been filtered, as you said, you have a service level you do not want to diminish. I suppose this is part of the discussion today for the marketplace is

positioned in a level slightly above than it really is, obviously, this is a curve, but only to understand what is in the today's agenda.

Frederico Trajano – CEO

The marketplace is now positioned in a level above the target than we would like to be positioned, but it took time to launch the marketplace. Then, this is only a matter of timing of launch than any difficulty of execution. I think we managed to launch it at the end of 2016, when several other platforms were operating in the market for the past five years. I think our curve of growth is much superior compared to few peers in their early years. Then, the marketplace catch-up... Now, why did we decide to enter later? Because we wanted to be sure that the 1P model, omnichannel, Magazine's omnichannel model was ready to expand to 3P. I wanted our 1P could be profitable for the marketplace were not a godsend. Then, or we run the marketplace at any cost or we do not have a sustainable business model. Therefore, first we made the omnichannel model remain solid, then we were confident to launch 3P, which by the way will "drink water from the same source", in other words, it will take advantage of the same 1P platform, the fulfillment with Magalu Entregas. Then, I think it was a matter of timing in the launch rather than complexity now for expansion. Thus, the marketplace challenges are: first, items sold from 40,000 to 2 million items, the UEX, user experience is very complex. The quality of the technical record, the search, the recommendation, thus, this involves lots of efforts from our big data team, search, more complex algorithms, as today you cannot do this with people, you need the algorithms. Then, the sophistication and investments in systems, such as the machine learning, the structuring, transform non-structure data into structured data, requiring efforts from all our UEX teams, Labs, we have a big challenge ahead. Second, I would say logistics. Obviously investments, such as LogBee, the rollout of Magalu Entregas, the implementation of fulfillment, and expansion with investment in the network, we will open other distribution centers, and expand stores within this concept of shoppable distribution center, store as mini distribution center, we will renovate all the stores so that they may receive a seller's product. This means an investment in fixed assets, but I would say that GMV is included in our plan, it is not so representative today, from 0 to nearly 10% in one year and a half. I think no other channel grew so fast, with a very strong growth of 1P. This does mean that 1P is declining. If our 1P were dropping by 50% our marketplace would stand at 20%, 30% market share, but our 1P is still growing. Then, our metrics is not the marketplace share in total e-commerce, or the e-commerce share in the company's total. Our metrics is an active customer, NPS, also GMV as a result of the aforementioned.

Fábio Monteiro – BTG Pactual

That's great. Thank you very much, Fred.

Operator:

The next question comes from Guilherme Assis, Brasil Plural.

Guilherme Assis – Brasil Plural

Good afternoon everyone, thank you for taking my question. I would like to make two questions. First, Fred, if you could discuss a bit on these stores performance, the operation of these five stores opened, which are the shoppable distribution centers, just for us to have an idea how it works in Magazine Luiza's integrated network. This is one question. Another question is, yesterday, along with results, you announced the LogBee, for me it is clear what LogBee does, its purpose and its rollout. I would like to understand if within this plan of improving the service level for consumers and expand the offer of products, if any part of the platform could derive from an acquisition if you think would make sense to add this to your platform. These are my questions, thank you.

Frederico Trajano – CEO

Well, concerning the first question, thank you Guilherme. Good afternoon, we passed the hour of the noon. Referring to your first question on the stores, we re-inaugurated last week...on Friday, then it's too early to affirm, I would highlight few factors, Fabrício may complement afterwards. First, we have a larger area and well distributed to store products at the store, which would be made available, for instance, by e-commerce, or the products set aside for the pick-up at store. Then, I have a more appropriate and large customer service area that the stores did not have. We had a very high volume, but I think NPS could be better. This customer who bought on the site and picked up at store, or who buys on the site and picks up at store. Similarly, to this physical issue, we have been investing in increased space, better supply equipment, better customer service area for customer who will collect the product, and a series of investments in the technological platform which manages store inventory referred to as Mobile Estoque. Then, we have the inventory count at store to make available products for the pick-up at store, products bought on the site and collected at store, which is store inventory, I do not promise a product not available at store, or because of any robbery, any lack of product, any mistake, anyway... Thus, this is an inventory count digital system. Every system receives the product, it is processed, it is located at store, etc.. There is also a system to check supply, we check the truck quicker to make this inventory available for delivery. Finally, we have several functionalities of this app that we have at the store back office, which have been made available, there the physical part I mentioned. I think Fabrício may give you few highlights, and then we return to your second question...

Fabício Bittar Garcia – Vice President of Operations

That's very well said Guilherme, I think we have been ramping up the store back office, it looks nice, more pleasant, detecting all the issues affecting our NPS which are in the waiting line. We have been working to provide a better experience for our customer at the back office. The store will change a bit reality with higher product assortment, other categories, then we have to prepare our inventory. This has to deal with process review, organization for customer to be quickly served. The warehouse organization has been reviewed. As Fred mentioned, the process digitalization is essential. We need to reach a service level of Retira Loja, Estoque Loja, so that customer may collect in two horas, then, this is our objective, always concerned with consumer.

Guilherme Assis – Brasil Plural

I have a basic doubt, but the customer in a new store like this, unfortunately, I did not have the chance to visit it yet, but customer when he visits a store like this one, we know how a traditional store works and its environment, he visits an area which looks like a distribution center, it can be organized, etc., but is he going to visit an area different from the traditional store, is that correct?

Fabício Bittar Garcia – Vice President of Operations

It is a well-marked area. The store looks very nice, the Pinheiros store was also renovated, you can visit it, this area has a very pleasant visual setting.

Frederico Trajano – CEO

Guilherme, the S9 has a good offer, if you want to buy and pick-up at Pinheiros store, close to Faria Lima, then you can try, this is one of the pilot models. I recommend you enjoying the offer and collect the product at store.

Guilherme Assis – Brasil Plural

I will visit the store, Fred.

Frederico Trajano – CEO

You can visit the store, shop and pick-up at store. And about the second part of your question, our ecosystem has various gaps, referring to the concept of a platform of physical points-of-sale, one of them was occupied by Integra last years, others with LogBee this year, we have a relevant universe of payments to fill in these gaps, or developing internally or acquiring startups. In the logistics universe, there is one or another opportunity which may arise, finally, we are always opened, as we have mentioned during follow-on in our materials, deriving from use of proceeds would be to acquire companies, such as LogBee, likewise Integra last year and this is exactly the plan we have been executing with discipline.

Guilherme Assis – Brasil Plural

Ok, it is clear to me, thank you.

Operator:

The next question comes from Lucas Lagen, Credit Suisse.

Tobias Stingelin – Credit Suisse

Hello, good morning, in fact, this is Tobias speaking. Fred, I have one question, you mentioned in the earnings release, investments in services, also in the conference call you discussed a lot about this issue and you clearly mentioned a new phase. Thus, could we understand that eventually margin may suffer in the short term, and focus will be clearly... not the focus, but I think the outcome would be an acceleration of growth? In other words, can we see a stronger topline, even at the cost of a smaller margin, which I think it makes sense, but was this your message?

Frederico Trajano – CEO

Yes, I think so, I do not want to give you any guidance, but yes, we will invest in OPEX, which has effects on margin, but also in CAPEX to gain this better level of service. Thus, for instance, a higher frequency of product delivery, increased number of people at the distribution centers to process a higher volume of cargo, higher investments in technology, finally, to make DC more efficient, for instance, LogBee acquisition, increased headcount, for instance, at stores to meet peaks and increase NPS. Higher investments in call center platform to step up the first call resolution, and the number of people at the call center, reduce the call waiting, then, we have various metrics of customers. I would like to clarify that I do not have a margin objective, but we have investments already planned for the teams in order to reach these indicators and the trade-off is to increase active customer participation and CLV – customer lifetime value in the long run. Then, this is not a trade-off vision, of OPEX investment concerned with GMV in the short term, this is an OPEX and CAPEX trade-off to ramp up the active customer base, which in the long term will generate value for the company. All the calculations have been carefully made, without the trade-offs we see sometimes in the Internet companies, that sometimes you almost zero your profit to the detriment of growth, but this is not the way, but yes thinking on margin or potential margin gained with high growth, then, we will replicate this in customer activation and especially to significantly increase the level of services in several fronts, we have more than 20 indexes, so this is a high level to achieve. But yes, perhaps the company's margins may change, but everything within a context of return to shareholder. The fact we have been calculating the CLV, this makes such weighting. So, I did not want to make any move to harm value for shareholder, but also I need to make an investment to increase lock-in in our ecosystem and we only manage to do this with an improved level of service and not very high margins.

Tobias Stingelin – Credit Suisse

Perfect, I think it is clear to me. Just taking the opportunity, obviously, you have a series of objectives in the short, medium terms, even with these 20 indexes you have mentioned. If I consider the end of 2019, in other words, within one year, what do you think will be different in consumer's experience? If you had a model, the ideal buy, how does it look like today and within 12 months?

Frederico Trajano – CEO

Most of our deliveries will be made within 48 hours, we will have the doubled number of active customers, we will have an absolutely frictionless exchange process, customer will not face any difficult in case of any problem, if he needs to activate the call center, he will have the best services, we will have a number of categories available for consumer more than we have today. We will have a greater penetration of our credit instruments both at the store and at the e-commerce. I am mentioning only a few of total 20 indexes we have. This is an enormously difficult work, I think there is nobody here, despite positive results, who is in a comfort zone. I particularly wanted everyone to be zero comfort zone. Thus, there are several aspects for customers having recognized us as the best purchase option online and offline in Brazil.

Tobias Stingelin – Credit Suisse

That's great, just only another question, you obviously have targets for the end of this year and then for 2019, how long for this project? I am not sure if there is a definite period, because you want to improve, well, did you make any estimate...?

Frederico Trajano – CEO

I think now this is not a project, this is the era of customer... I think we are talking about a new strategic cycle, because over the last two years, we have laid the groundwork in order to make this possible. Then, we digitalized the store, we launched the marketplace, we consolidated the LuizaLabs, not only the IT took care of the site, but entire company. Today, LuizaLabs develop for entire company. We managed to all teams work in an agile manner, we created our app. Then, I think we have laid the groundwork to now we can have... and obviously improve our structure, reduce our debt, now we have a net cash, no debt, and margins significantly increased, then, now, we manage to execute this within a substantial financial and operational comfort zone. Thus, this is not a product for two or three years, it composes the company's customer centric strategy, and we are not referring to two or two years. This year will be of a great focus to really depart from purely financial indicators to more operational indicators concerned with customer, but it came to stay, it is not only one or two-year adventure.

Tobias Stingelin – Credit Suisse

It's perfect, thank you again.

Operator:

The next question comes from Vinícius Figueiredo, Itaú BBA.

Vinícius Figueiredo – Itaú BBA

Good morning everyone and thank you for taking my question. First, I would like to know if you saw a geographic performance in the brick-and-mortar stores, if you saw any region driving the segment growth up or down. If you could clarify this issue and the second question is about LogBee, how do you see this acquisition helping the company to develop fulfillment? These are my questions, thank you.

Fabrício Bittar Garcia – Vice President of Operations

Hi Vinícius, this is Fabrício speaking. Referring to the same-store sales, we have been recording a well-balanced same-store sales. The northeast region has been performing better, we also have been growing in Brazil's southeast and south regions. Since 2016 the northeast region has been performing well, now, from last year, we have been growing in two regions, but the northeast has been outstanding, but we also recorded a very good performance in the southeast and south regions, also highlighting our online stores, which have been recording a very aggressive growth.

Decio Sonohara – Executive Director of Infrastructure

Vinícius, concerning LogBee, this is a startup already with a platform which delivers within a maximum deadline, when product arrives at the store, it delivers on the same day or on the following day. It came to fully consolidate the company's strategy of offering a level of service, a relevant gain in the level of service for customer, in other words, it is linked to what we want to deliver, an increasingly larger footprint, customers' orders within 48 hours. This is not only LogBee, but we will have to open new distribution centers, we are reinforcing the distribution centers' logistics teams. Thus, level of service not only of delivery, but the offer, we want to be able to offer a larger coverage with 48-hour delivery and a level of service compatible with international players and deliver at customer's house. Then, LogBee, today delivers 1P, basically from Magazine Luiza, it makes 90% of express deliveries in the metropolitan region of São Paulo. We plan to integrate LogBee with Magalu Entregas, then we can offer this service to 3P, to the marketplace sellers' products. We will integrate this platform in order to manage entire Luiza's network (Malha Luiza), over 1,500 micro carriers we have at the company and those exclusively working for Magazine Luiza, so that they can use LogBee platform to assist in the route, in the delivery monitoring via

GPS and even tracking, that is to say, this is a platform, an operation, which will be of great assistance to Fulfillment by, not only in 1P, but also in 3P.

Vinícius Figueiredo – Itaú BBA

It is clear to me, thank you very much.

Operator:

The next question comes from Maria Paula Cantusio – BB Investimento.

Maria Paula Cantusio – BB Investimento

Good morning everyone, congratulations for the results, thank you for taking my question. In fact, I have three questions. First, you mentioned early in the call that the company's sales are still highly focused on discretionary items and you see the possibility of diluting this mix a bit. I would like to know what you have learnt with the sale of the marketplace products at stores and if you plan to position few of these categories inside the company or start operating in 1P and which would be these categories. Then, also early in the call, you said you should increase the supply frequency at store aiming at improving the level of service, I would like to know how this should impact the company's working capital, if you think you can offset this by improving any other line, or the e-commerce growth should assist in such offset. Finally, I would like to know if you could give us an update on the progress of Magalu Pagamentos platform. Thank you.

Frederico Trajano - CEO

Good afternoon Paula, thank you for your question. About your first question... Eduardo, do you want to speak?

Eduardo Galanternick – Executive Director of E-commerce

Paula, this is Eduardo speaking. Concerning the marketplace at store, we launched it at the end of 2017. This first quarter we analyzed its impact on the stores operation, as well as improvements to be made to give support to the store when helping consumer who buys an item at this store. This is not a matter of customer buying an item of marketplace at the store, and then, he has any type of problem and has to solve it by himself. The store has to give him a support, we have been developing this support. We have been expanding this pilot model now in the second quarter, we have been including new stores, raising the number of sellers, developing what it has to be done to give such support. The trend is by the end of the year, all the stores have, they are qualified to sell the marketplace products. Concerning the migration of categories to 1P, we have seen few categories we have decided to start together, then we started from scratch and we included services to 3P and 1P, which is the case of perfumery and Magalu Mercado. This is something we observe all the time, and to the extent we

understand the benefits for the company, we can opt or not to bring it inside. What we see with the new categories we have been launching, such as, books or fashion we plan to introduce, I think the trend is to really focus on 3P or in other categories, such as notion store, pet shop, etc., which are extremely specialized, at this first moment, they probably will stay at 3P.

Frederico Trajano - CEO

Well about supply frequency, I think that necessarily it does not harm working capital, on the contrary, the more this is frequent, the more flow you have in your supply chain and inventory turns over. Then, we have a challenge of synchronize this with industries, but necessarily you do not have an impact on working capital, but yes on the freight cost, you have more truck travels, then I do not foresee an impact on our working capital. We also have been improving the working capital management. Thus, an increased product availability at regional distribution centers may have any impact on working capital. Then, this is a gap, we have a strong concentration of major products in two distribution centers of São Paulo and Minas Gerais, which we need to better distribute this supply in 10 DCs. In a first moment, this can increase inventory, but certainly conversion and sales will grow, thus, partially offsetting this effect, but I do not see relevant changes in our working capital in the short term, I do not foresee a relevant impact.

Roberto Bellíssimo – CFO and IRO

Good afternoon Maria Paula, this is Roberto speaking. Concerning the Magalu Pagamentos, this is one of our main corporate and financial projects, of the marketplace, the Labs, we have been executing a pilot model with a supplier, a seller of our marketplace, and results up to date are very positive, we are estimating a rollout for the upcoming months. At this first stage, we will be able to capture various gains relating to the marketplace, especially fomenting the anticipation of receivables. Today, the anticipation of receivables is very frequent with 1P suppliers and we plan to make this available and we have been building this inside the platform to launch it in a large scale, fully digital, thus, stimulating all our sellers of the marketplace; as most of them are small sellers, adhesion tends to be very high. Then, this first phase is doing very well. We will have a second stage which will go through launch a digital portfolio, offer financial services to the sellers, not only the payment account management, but also probably with a partner of the banking system also offer services, such as, loans, investments and other financial products. Then, I think we have here a huge opportunity to provide better services to our seller, step up his lock-in, also the profitability of the marketplace as a whole, in a medium term, let's say.

Maria Paula Cantusio – BB Investimento

It is clear to me, thank you and good afternoon.

Operator:

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