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**Operator**

Good morning, ladies and gentlemen. Thank you for waiting. Welcome to Magalu's 3Q20 earnings videoconference. This event is being recorded and simultaneously translated, and all participants will be in listen-only mode during the company's presentation. After that, we will open the Q&A session. Please ask your questions by phone. Questions received via webcast will be answered by the IR team after the conference. Now we would like to turn the floor over to Mr. Frederico Trajano, CEO of Magazine Luiza. Please, Mr. Trajano, you may proceed.

**Frederico Trajano – CEO**

Good morning, everyone. Thank you very much for participating in our conference call for the results of the third quarter of 2020. Again, we are conducting a video conference. I am here as usual accompanied by our executive officers to discuss our results. We will be available to answer your questions at the end of the call. In my opinion, results explain for themselves, but at this very beginning, I will point out our highlights. I would like to show you the first slide with a photo, I think it portrays the most challenging period of this pandemic, the closing of our stores. From the second fortnight of March, we closed 100% of our more than 1,100 units.

We removed TVs from the racks, mobile phones from security equipment, we shipped products to distribution centers, even fearing theft and robbery. This is a photo of our manager Marianne, after a hard workday closing the store, she put the Brazilian flag on a TV panel, afraid of what could happen. I think this was a striking moment for all of us, a huge concern for us who took this pandemic very seriously for three months, right? Even more, four, almost five months. Most of our stores remained closed in March, April, May, June, and July. We were gradually opening the stores, I think the second quarter of 2020 reflected us almost as a mono channel. I have been working at this company for nearly 20 years, which always believed in the multichannel model. Thus, we go back one slide, we always believed that the sum of channels was our challenge and during the pandemic, we gradually resumed the stores opening; after a second quarter virtually mono channel, we resumed that model, in my opinion, this means a recognition. In the third quarter, we reopened stores, and then all the benefits of multichannel emerged, which is combining an exponential growth, the growth of a digital company with profitability, which is not always necessarily associated with a digital company.

This quarter, Magalu managed to evidence the power of its model, which has been refined, developed over two decades. In my opinion, this quarter recognized this superior multichannel model.

Significant growth of 80% of total business. Again, we are skeptical about the channel. Obviously, we have been performing well in e-commerce, but we never put aside our physical stores. We always invested, I never defined the e-commerce share over total sales as a target here for my team. The most important is the entire business growth.

Obviously that e-commerce, due to age-long issues, consumer behavior, economies digitalization, is a great growth driver of the company, but not to detriment of the physical store. Thus, business as a whole, grew by 80%, just reminding that we had the worst basis of comparison from the entire market. Then, in 2019, competitors grew 0 or less than 30%, but nobody had a basis for a comparison like us, with a 47% growth last year. We recorded very substantial growth, considering an extremely relevant base. During the first nine months of the year, we managed to sell the same we sold in 12 months last year, taking into account nearly 5 months with our stores fully or partially closed.

We have here a very important issue, for the first time, we recorded a gain share on durable goods categories according to GFK Brazil Retail Report. Durable goods are still the most important categories, although we also gained share in new categories, this is a market of R\$140 billion in Brazil. We recorded a 5.4 p.p. market share this quarter compared to last year. Why did I ask the IR team to mention our market share gain? We cannot hold Corona voucher accountable for our performance, it is in fact helping retailers, also Magalu, but if it helps you, it helps everyone, right? If you gain share, this is because you are really working beyond this macroeconomic crisis, to a certain extent inflated by Corona voucher. Historically, we always gained share during crises. I think Magalu is anti-fragile, to the extent it always quickly gets out of the crisis. Our performance in the third quarter came better than the first quarter, even better than last year's fourth-quarter growth. Magalu, its professionals, and its team are always creating new competencies during crises. This market share gain was impressive, we gained share not only online, but also offline. Many people are leaving the physical store aside, but we firmly

believe in the multichannel model, we think this model is superior and it has evidenced this fact.

Concerning profitability, we managed to reach one of the lowest historical levels of operating expense. We reached 20.3% operating expense, and this is very meaningful. Probably, this is the figure I most celebrate in our results, because it evidences how we managed to grow with operational leverage. When your results derive from the gross margin, higher gross margin, your competitive position is very fragile, isn't it? Because your margin relies on the opportunity. If you manage to increase your profit with a lower gross margin, it means you are very efficient, competitive, you are offering the best price possible for the end consumer. Our gross margin dropped in the quarter, not because we practiced pricing...nobody wants to trigger a price war, the market runs out of supplies, so who has the product, can sell it at high margins, simply because in the mix, we went from 40% last year to 66% e-commerce share and e-commerce margin is lower, but expenses are lower, it bolsters physical stores' cost platform, then, it has commercial leverage.

Thus, lower expenses place us in an interesting competitive position to continue growing, "aggressively", when necessary, this was not the case this quarter, with solid results delivered. The efficiency of this model is the Company's competitive advantage, and again, one of the results that I most celebrate in our balance sheet, such low expense over net revenue. We also have to consider the marketplace which theoretically would even come lower, because GMV is not recorded in net revenue. Referring to GMV, it was a very interesting figure for the Company.

The Company reached an adjusted profit of R\$216 million, 70% higher than in 2019. I do not see global e-commerce operations growing with these rates simultaneously. This is a result we have to celebrate, it represents our team's consistent work that has been performed over the years, with lots of discipline, focus, and again, it is a recognition of our multichannel model. Again, after a quarter of R\$2 billion cash generation in the second quarter, a very positive quarter with a cash generation of R\$884 million, we have a very efficient working capital management, we recorded the best inventory turnover of the past years, 60-day inventory. This is a great efficiency with a lot of foresight our sales planning, supplies planning, a good negotiation with suppliers, previously agreed upon, and then, we recorded cash generation, Beto will explain how this cash generation increase has been consistent over the years.

Now, I would like to explain such growth. We recorded an 18% growth in total store sales, even with various stores closed in July and in early August. Only in September, stores were fully opened, with same-store sales of 7%, even considering this fact. If you look at these like-for-like stores, on the same days, growth came even higher. Then, we celebrate an 18% growth, the store is performing well, and the team is motivated. Another differential was we learned how to sell without a client inside the store, with remote sales launched in the second quarter, and today 30% of sales derived from mobile remote sales, that is to say, sales operator sells to the client through a digital platform, allowing him to sell via any social media, Facebook, Instagram, WhatsApp. This is a lean process, we book this sales operator's remote sale to the store, not to e-commerce since we want to reward the salesman's efforts, this figure is not recorded in e-commerce, but we record these sales in the physical store. Reminding that last year, the physical stores had a good performance.

**Luiz Fernando Rego – Commercial Executive Officer**

Fred, reminding you that this is the physical store's margin and price, right Fred?

**Frederico Trajano – CEO**

Exactly, margin with physical store's margin, good point.

We also recorded a significant growth in e-commerce, which soared 148% compared to last year. This is a small shrinkage in relation to the second quarter, but reminding that Netshoes was included in our base in the third quarter last year. Then, this base, excluding this Netshoes effect, growth came virtually in line with the second quarter, despite the opening of stores, the e-commerce did not slow down. The e-commerce team, Edu will explain later, is doing an excellent job, with 1P excellent results. I would like to point out we are growing 148% compared to 96% e-commerce growth last year. The e-commerce growth was outstanding in the third quarter of 2019. Then, recording a 150% growth over 96% is an accomplishment of the e-commerce team. Despite the reopening of stores, this team made fantastic work this quarter.

I would like to highlight 1P growth, which this year came above our expectations early in the year. Looking ahead, we can see a greater growth opportunity of 3P in the Marketplace, but with this pandemic, several businesses are running out of stock, they did not prepare themselves for economic recovery and post-Corona voucher, I think we developed good planning, we received inventory, we were well prepared, we have logistics superior to the market, concerning delivery terms, we managed to gain share in 1P e-commerce and become Brazil's 1P e-commerce leading company. This is the second consecutive quarter we are recording positive 1P results. I believe that over the upcoming years, 3P is prone to grow proportionally higher than 1P. I celebrate this result, which evidences we are performing well in 3P, 1P, physical store. Again, we are skeptical on the channel, we want to perform well across all activities.

Again, I highlight the 145% growth, amidst the Brazilian Postal Service strike during the quarter. On top of 145% GMV growth, our sellers base increased by 250%. Other categories also surged, we have been focusing on 3P in long-tail categories, average ticket and it not only will add GMV to the Company but will also add shopping frequency. We also focus on 3P to add higher utilization frequency to Magalu, greater shopping recurrence from customers, thus, the focus of 3P to long-tail categories, even because in high-average ticket categories, Magalu already leads in 1P. Then, 3P has to complement not only with GMV but also shopping frequency, new categories, stickiness to our super app.

This is the work that Edu's and Leandro's teams and all marketplace team have been outstandingly doing, bolstered these last two quarters by "Parceiro Magalu" (Magalu Partner), which is that platform we launched in early pandemic to assist small analog sellers to become digitalized. This has been adding lots of new sellers for the first time online, thanks to the "Parceiro Magalu" platform. Along with the traditional e-commerce platform, we have been doing well, I believe that looking ahead, over the next years, 3P will become the Company's great driver of growth. We have increasingly improved our services, our platform to address such market.

Well, I would like to highlight our Super App: 75% of 3Q20 sales came from mobile, especially from the Super App. We recorded 30 million visitors across our apps, especially Magalu, a very expressive figure. According to the Super App concept, besides the long-tail issue, new categories, I will discuss later on the market, but all categories we offer made consumers look at our Super App as a one-stop-shop. We also created a digital account within the context of Super App, the MagaluPay basically in July, in less than three months, we reached 2 million clients with accounts opened in the Super App, a great success. Our competitive advantage here in MagaluPay in relation to the market is we do not have another app for MagaluPay, it is embedded in the retail app, generating, following the wave of Chinese apps. Chinese largest payment apps grew, as this is the case of Alibaba's Taobao, Tencent's WeChat Pay, they grew inside these apps, then became external apps, but this initial traction emerged from the app. We are a single app, which is natively combined with Super App, thus, a wise decision. The figure of two million accounts created within such a short time helps the context and client returns. This is a virtuous cycle, the client enters the app to also make transactions in his account, he is integrated with the app, the cashback, frictionless. I believe we have made the right decision by doing this way, we want to grow. It does not mean that tomorrow we cannot have another app for MagaluPay, but until we gain traction, critical mass, we will invest in this Super App concept. We saw a very interesting evolution of Super App, highlighting MagaluPay.

I would like to highlight those new categories are important for us. We saw great performances of Netshoes, Zattini, and Époça Cosméticos, companies acquired last year. I would like to point out here our organic and inorganic moves. During the pandemic, we launched the supermarket line, in an attempt of assisting the population who did not want to go to the supermarket and trying to shop online. We sold more than 5 million items this quarter. This is the category with the most items sold in Magalu, it has been stimulating the dark store model, we have been using our hundreds, thousands of stores, our 1,100 stores, most of them today have market inventory for the dark store format. Client buys, we quickly deliver the market product, logistics is our expertise, as well as e-commerce, and we are expanding this knowledge to a new category, this model to 1P, which means market, and significantly grew organically. I am very happy with the market performance this quarter. I am confident that it will bring joy in the future, it has been contributing more than with GMV in terms of higher shopping frequency. This is a great strategic challenge, one of the greatest of Magalu, and undoubtedly, the market is one of the categories that will highly contribute within this context.

Now, concerning our logistics. Logbee was a startup we acquired two years ago. When we acquired Logbee, it made 2% of deliveries in São Paulo, two years later, it makes 50% of Magalu's deliveries in the country. With all this exponential growth, it evidences how we managed to acquire a startup with very good technology and made it boom inside our ecosystem. This is extremely positive, it helped us a lot increasing orders share within 24 hours. In September, nearly 44% of Magalu's orders, were delivered within one day. This is Brazil's quicker delivery, with an excellent level of service that I will discuss later, then, we are very happy with results. This figure still represents 1P, we have a great challenge to make this quick delivery happen for 3P too, later I will also discuss acquisitions, our priority in the future will be 3P. 1P has a high level of service, difficult to exceed.

Now, discussing on 3P, it advanced in the third quarter. Today, nearly 30% of products sold at our platform, we collect and they go through our managed network, anyway, this figure seems to increase looking ahead, we have more than 1,200 sellers in cross-docking and 240 qualified stores, for instance, the client buys a product from the marketplace online, he can pick up the product at the store. Now, we are trying to replicate this logistics differential, which is a great competitive advantage for us at 1P with store multichannel, we want to replicate this to 3P. This is a great challenge for the company over the next quarters. We could see an advance in the second and third quarters, with significant evolutions compared to 2019, but we are only starting. I think we have here a great potential, we made two acquisitions, we will make others, also investments in technology, so that our partners have the same benefits of Magalu with its operations, in terms of speed and low-cost

delivery, you also saw the SG&A. From now on, the Company will be very focused on this issue of making available our logistics to 3P. We could see an evolution in this regard, but opportunities are still high. These figures were not bigger in the third quarter because 1P growth was so meaningful that part of the capacity we had planned for 3P, was absorbed this quarter. From now on, demand will have greater predictability, nobody expected that e-commerce would accelerate the curve amidst the pandemic. Undoubtedly, we will have greater predictability and manage to make a more accurate investment to also evolve our term and cost of delivery for our sellers, as well.

I would like to highlight I was very clear in our last conference call, also in few interviews that we had slightly lost our excellence in the level of service in the second quarter, even because we were not expecting e-commerce to grow 150% in the second quarter. I think the pandemic made all the Brazilian consumers exclusively rely on e-commerce to buy the products we sell, anyway, in a certain moment, we ended losing the RA1000 seal in the second quarter, but we managed to recover this seal in the third quarter, even with a substantial growth of e-commerce this third quarter, a reason of celebration for us. Today, we are the single company of *ReclameAqui* that reports 1P and 3P figures together, therefore, the single company that manages to have an RA of 1P and 3P together. The level of service in Brazil undoubtedly pertains to Magalu, we do not want to lose this seal anymore. We will make a great effort to continue serving, not only delivering quickly but within the term agreed with the consumer.

Then, for me, we have a reason to celebrate, I think we now we will be well prepared for Black Friday, we have made lots of investments, we hired over 3,000 people to work in our operations, both call center and distribution centers. We also made investments to increase our fleet, the acquisitions we have been doing aiming at achieving a high level of service in the fourth quarter. Obviously, our expectations in terms of sales are even greater than the third quarter, we need to ensure a successful Black Friday. I believe that we are one of the best companies that provides a good level of services during Black Friday for our consumers.

I would like to end this cycle of third-quarter results, again affirming that our results consolidate the multichannel model. Our digital transformation was a success at Magalu, now our next step is sharing this with the market. We will set up a digital ecosystem that can help small and medium-sized retailers become digitalized. Create digital inclusion for Brazil, I cannot see social inclusion without digital inclusion. We acquired several companies during this third quarter, the last conference call I mentioned that we could acquire different businesses. Our strategy has three key pillars in any acquisition. First is valuation, an economic and financial pillar, it has to make sense, the company has a discounted cash flow, Magalu assesses the companies' potential to add to our ecosystem, we have a financial discipline here. Second, we conduct technical due diligence, Fatale's staff evaluates the entire team, the technical skills of the programming team, capacity, technological architecture quality. Then, if they do not approve, we do not buy it. Third, these people believe in our values, people who like people, thinking out of the box, with simplicity, with the client as a priority. We had the privilege of finding fantastic entrepreneurs in all the companies acquired, most of them now compose our Magalu team and are here with us to assist in the digitalization of Brazil's retail. I will quickly discuss each of these pillars, and then, I will turn the floor to Beto.

As I mentioned, I would like to point out that we are strongly focused on expanding logistics to our sellers, and we made two acquisitions with this purpose. GFL is a logistics operator which already mostly operates our collections, 30% of sellers collection. It is an amazing work, a very young company that significantly increased with level of service. It already increased by 50% the capacity of Logbee, boosting the capacity we had for the courier, it is a company that will help us speed up growth from now on, in the Southeast and South regions, now, also expanding in the Northeast region. Then, we believe that this team will potentialize the growth capacity of our network and provide a high level of service to our seller. Sinlog is a technological platform used by GFL, we always acquire a technology company. It has other 30 logistics operators using the Sinlog platform, anyway, it helps this logistics operator working very efficiently, both from the fiscal viewpoint, basic issues, but also routing and tracking. This is a system, a fantastic team that has been added to our logistics efforts. I am very excited about these companies, I am confident that they will deliver results in the fourth quarter, and considerably next year.

I would like to mention two acquisitions within the context of Magalu as a Service. Stoq, one of the most interesting POS companies in the market, with 250 million transactions in 2019, the SaaS model assists the small and medium-sized retailers to sell at his physical store and online, also integrated into app order, this model address the use of retail to complement Magalu Partner proposal. Stoq has a team avid for developing store POS solutions. The idea here at Magalu is for Stoq to also become our POS solution in the future. Today, we work with a third party, our plan is working with Stoq because its system is very consistent with our platform, we also want to persuade our sellers, especially the analog sellers to use Stoq, since the integration between Magalu Partner and our system becomes even more natural. ComSchool is a business school focused on e-commerce, obviously, the focus here is to sell courses. We started selling online courses at our digital platforms of GoKursos, it is an educational company, we also plan to sell our courses from ComSchool, inside the app. I believe this is a very interesting segment for the Super App, the sale of educational courses, but ComSchool will also help our sellers manage their businesses and grow, both inside the Magalu platform and outside. In my opinion, digital inclusion requires you to have

the gadget, connection, and knowledge, and ComSchool covers our third pillar, i.e., knowledge. This is a fantastic team, which will help thousands of people to become digitalized in Brazil, an interesting step of Magalu.

Within the Super App concept, we acquired AiQFome, one of Brazil's four largest food delivery apps, very focused on inland cities, less known in São Paulo and Rio de Janeiro, but very strong in inland Brazilian cities. It covers 350 Brazilian cities, it should reach 600 cities by the year-end, with an annualized GMV of R\$700 million, which is a substantial figure for a platform that is lesser-known in capital cities. The great secret here is 3 times the monthly frequency. AiQFome was acquired within the context of being integrated into our Super App and expand our shopping monthly frequency. I believe this frequency can significantly increase, also contribute to Magalu's overall frequency. The incredible team of Maringá joined Magalu, and undoubtedly we will significantly increase the number of cities, conducting a very aggressive and positive expansion. AiQFome is financially balanced, I am aware that hits market is a red ocean, but it has a franchise model, allowing them to grow on a sustainable basis. Another highlight, we scarcely acquire operations that cannot deliver future results, and AiQFome has this discipline we look at entrepreneurs.

Lastly, concerning all acquisitions of "Tem no Magalu" (Everything You Can Find At Magalu), Estante Virtual was acquired early in the year, a super important category, books. Netshoes has been growing with favorable results, we managed within one year to reach its breakeven, evidencing that we managed to conduct a positive integration. Época Cosméticos recorded a three-digit growth during the pandemic, being positioned both in Época channel and inside Magalu. I am very happy with these companies' results, which are highly contributing to "Tem no Magalu" this year, along with the market, making us to be recognized not only in durable goods but also in other categories. We will discuss later on several actions concerning these new categories, but for me, this advance is super important concerning what we have been doing within this context.

Well, this is basically an ecosystem, I always refer to it as a puzzle, we select pieces fitting together in this puzzle. At first, they may seem disconnected, but all of them play their role inside our ecosystem. Anyway, we are managing to have a very robust model. I always say that one and one is more than two, at our arithmetic, these companies benefit from our ecosystem and their ecosystem. This synergy is very positive, I am confident that we will reap most of these benefits in the future, but it is always important to plant seeds right now.

Now let's discuss other figures, we reopened stores, we inaugurated nine stores in the Federal District in August, 65 Marisa kiosks in the third quarter, we already have 116 mobile phone kiosks at Marisa, we strongly resumed our expansion plan to also accelerate next year, since our multichannel model is a winner. We want to continue growing in new markets, other states, cities. We will continue advancing within such a context.

I also would like to highlight financial matters, Magalu was recognized by GPTW as the best retail company to work for. For the past 20 years we have been ranked among the Top 10, ranked second in Brazil, despite retail going through the pandemic, with stores closed, in my opinion, this is an amazing accomplishment. We really have a team who loves working at the company, they share Magalu's values, they are proving to be very resilient and anti-fragile during a crisis or non-crisis. Often, the investor does not value this cultural issue, but I am confident this is the secret of our success and I am very happy with that. Today, Glassdoor ranks us with the highest scores, 4.5, 4.4, I think it is out of date. A very strong figure, our employees' anonymous evaluation, evidencing that people like working at this is the company and their desire to contribute to Brazil's digitalization through Magalu.

Our brand also grew exponentially, several polling institutes considered us one of the top brands during the pandemic. A brand with a sensibility that carried out several innovations, the Magalu Partner, the violence button, report of violence against women, the "Não Demita" (Do not Dismiss) in the early pandemic, donations from Magalu's controlling family. This was really a 360° management, and consumer values these actions. Magalu won the status of Brazil's most valuable retail brand for the first time, in BrandZ's history. We reached 1 million followers at TikTok within three months, the first retail brand to launch it in Brazil, this is an impressive figure. Lu has more than 20 million followers on social media, thus, we really have a very powerful brand, our digital influencer has a very significant weight, highly contributing to brand building in this new century.

I would like to conclude this first part, mentioning a program that rocked social media, our Trainee program. I commented in our management letter, last month, we launched the Trainee program, which focuses on correcting a problem, today, 54% of Magalu's employees are afro-descendants, brown-skinned, and only 16% of our leaders are afro-descendants. For me, this is an issue to be solved...

**Operator**

Please, wait a minute. Magalu audio conference call will return soon. Please wait. In a few seconds, we will return with the Magalu audio conference.

We returned, Fred, you are connected. Sorry Beto, you may proceed.

**Roberto Bellissimo – Chief Financial and Investor Relations Officer**

Good morning everyone. Thank you for participating in our video conference.

I will quickly discuss here our financial highlights, could you show the slide, please. Fred already discussed sales growth, right? We recorded total sales of R\$12 billion, a very robust cash generation, and a net income of R\$216 million. I only would like to reinforce here the net income, the operating income before taxes, which grew by 115%. In 2019, we had an interest on equity, this year, we did not record it, then, operating income significantly surged. Only reiterating here, our gross margin dropped due to e-commerce growth, which is fully related to change in channels, e-commerce took a leap, representing 2/3 of our sales, but we significantly diluted our operating expenses, Fred mentioned, general and administrative expenses reached their lowest historical level, less than 3 percentage points, a few years ago was 5 percentage points, the team gained lots of efficiencies. We diluted financial expenses, we diluted depreciation and profit increased, more than double of income before taxes, a very solid result.

Let's move to the next slide to discuss working capital, also a highlight in the quarter. You can see from June to September, we improved working capital by over R\$200 million, inventory turnover recorded 60, 70 days in July, August, and September, we reinforced inventories, already being prepared for year-end sales. Even so, we ended the quarter with the position in September at approximately 70, 75 days and a shopping average term of around 80 days, also a very healthy shopping average term. We maintained the coverage of suppliers and inventories, but we improved working capital as a whole, we improved the accounts receivable, tax recovery, all the accounts of short-term operational assets and liabilities. Thus, you can see on the slide that we evolved the adjusted net cash position in the quarter from R\$5.8 billion to R\$5.9 billion, then, we generated R\$100 million net cash, and operational cash generation of nearly R\$900 million, this quarter, we paid over R\$300 million dividends, we bought back shares totaling R\$200 million, we invested more than R\$150 million in the quarter, also we made acquisitions. In the quarter, we generated R\$100 million net cash, from R\$900 million operational cash.

On the next slide, you can see the last twelve month-history. In the last 12 months, we recorded an operational cash generation of R\$2.7 billion, the highest cash generation of our history. We invested, we raised funds, we paid interest rates, leasing, we conducted a follow-on, we bought back shares, we paid dividends, we also recorded the highest cash position of R\$7.6 billion in a quarter. This is a very solid capital structure.

On the next slide, you can see this evolution has been consistent over the past three, four years, we managed to grow with profitability, cash generation, we reinforce our model.

Let's move to the next slide to discuss Luizacred which was also a highlight in the quarter. In the second quarter, we had squeezed the cards base, as stores were closed. In the second quarter, we basically focused on collection. In the third quarter, we changed the focus from collection to sales, we stabilized the card base at 5 million, and this quarter we resumed growth, selling cards at a very rapid pace, very similar to last year. From now on, we should see card base growth, Luizacred's billing also declined in the second quarter, but resumed growth in the third quarter, with the market reopening and higher sale of cards, issue of new cards. Billings also resumed growth, which is super important for Luizacred and retail, in the medium and long terms.

On the next slide, we discuss another highlight, Luizacred's results. Receivables have been outstanding, as we already mentioned in the second quarter. Today, we are receiving more than we were receiving early in the year. The Covid voucher has been contributing, but despite this fact, we significantly improved, involving all stores in the collection process, credit and collection centers also played an essential role. We have been receiving much more, thus, delinquency tumbled, NPL over 90 days, for instance, this quarter fell one point and short-term NPL also dropped another point. Long-term NPL is virtually accrued, the short-term NPL requires higher provisions. As we improved such a short-term overdue portfolio to its lowest historical level, 1.8% of the total portfolio, we had to make fewer provisions this year, and Luizacred's posted record results in the third quarter of R\$118 million and R\$152 million in 9M20. If you remind, last year we have made much more provisions under IFRS than under BR GAAP, as we were growing, also the card base, then last year, we recorded income under BR GAAP greater than under IFRS. This year, it is the opposite, because provisions were already recorded last year. Now, we recovered growth, we should also see growth in card base, billing bases, and delinquency at a better level, on the back of all this gain we saw these last quarters.

I think these were Luizacred's key highlights. Now, I turn the floor to Fred.

**Frederico Trajano – CEO**

Well, we will start the Q&A session. I only would like to quickly comment on our projections for the 4<sup>th</sup> quarter and 2021. Obviously, this is qualitative, the Company does not provide guidance.

We are well prepared for the fourth quarter, as I mentioned, with climbing capacity. Most of the hiring will be recorded in the fourth quarter, thus, part of these 3,000 people hired in September. A robust team to perform a high level of service in the fourth quarter. I believe any shrinkage in relation to the third quarter will occur in the fourth quarter not due to stock-out, as we are well-stocked, with solid schedules of products for the fourth quarter, as I already mentioned in previous weeks, but due to Corona voucher, which went from R\$600 to R\$300, then, I believe that any shrinkage should occur this fourth quarter, but not meaningful. I believe e-commerce will remain strong, above the market, also physical stores will grow, despite this drop of Corona voucher, as consumers will earn the 13<sup>th</sup> salary, which also represents a relevant impact, and will boost Black Friday and year-end.

In November, we launched an everyday off-price strategy. We offer a very cheap 50-inch LG TV, if the consumer is interested, he buys it. This off-price is not offered on Friday, but we will also have a strong Friday both at e-commerce and physical stores. I am very confident with November and December, but obviously, compared to the third quarter, we should see any slowdown, since the Corona voucher decreased from R\$600 to R\$300.

The year 2021 is a question mark. Brazilian economists have models difficult to be validated for the next year. I hope to see an economic acceleration. I would like to remind everyone that in the first and second quarters next year we will have a favorable comparison, since we closed stores in March 2020, which affected sales results and bottom line in the first quarter. Basis of comparison is more favorable for the quarter, in the event of any slower demand due to Corona voucher decrease, we are not sure if this will materialize or not, at least, the first and second quarters next year will have a basis of comparison reasonably positive in a certain way, even partially offsetting the Corona voucher drop, which is a concern of retailers. We have physical stores, which are relevant for our results, hopefully, their full potential could be seen in the first quarter next year. Yes, we can see any type of deterioration in demand in the first or second quarter next year, but we have a positive basis of comparison that should also be taken into account.

These are my final comments, now we open the question & answer session. Thank you very much.

**Operator**

Ladies and gentlemen, now we will initiate the question and answer session. To make a question via telephone, please, press \*1 or send the question via chat. Our first question comes from Mr. Robert Ford, Bank of America.

**Robert Ford – Bank of America**

Good morning everyone and congratulations on your results. Fred, how should we consider your cost structure and operational leverage from now on? Referring to recent acquisitions, you have consolidation expenses, what should we consider concerning when we will see the impacts especially in the case of advertising additions, please. Thank you.

**Frederico Trajano – CEO**

Well Bob, our model as you can see here, it has high operational leverage. Then, always when we grow at the proportion we have been growing, fixed costs are diluted. My fixed salary is the same as last year. Then, when the company grows 80%, my salary base is diluted, correct? Also all executive officers, office occupation costs, we have significant fixed cost leverage. We continue hiring people, variables remain, but you have an important leverage base. We also want to increase physical stores, improve our share in the business. As you open other stores, we also manage to dilute costs; when the truck delivers the store product, it also delivers the e-commerce product. The e-commerce cost is marginal, to the extent we open stores in states we are not present, for instance, I am not affirming we will open stores, but in Rio de Janeiro, Espírito Santo, if I have stores in these regions, I already have the truck route, I will decrease that marginal cost of delivery to those markets. 3P has been significantly contributing to our business, when we look at expenses, we cannot look at net revenue, we need to look at GMV, and have a better comparison. I believe that 3P will grow considerably, then, we will have to look at this index in the future. Specifically referring to the fourth quarter, our expenses should slightly increase, since most of the hiring took place at the end of September. Then, the fourth quarter will include these 3,000 other employees, then, expenses should increase, but with very high operational leverage, much more efficient than last year. I believe in our multichannel model, to the extent if other stores are opened, we will continue diluting e-commerce costs in that places we deliver without these benefits, synergies from ship-from-store, store-pick-up, and delivery in the same route of truck that delivers store sale.

**Robert Ford – Bank of America**

Fred, and new transitory benefits of rental, salaries in the period?

**Frederico Trajano – CEO**

Sorry, Bob, I could not understand.

**Roberto Ford – Bank of America**

If you had transitory benefits of rental, salary.

**Frederico Trajano – CEO**

This quarter no.

**Robert Ford – Bank of America**

Ok, and referring to recent acquisitions, especially advertising acquisitions.

**Frederico Trajano – CEO**

These recent 8 acquisitions, most of them are startups, asset-light businesses, especially technology companies, then, they add very little fixed or variable cost to the company. These businesses have the potential to generate gains with the platform model. The logistics operators grow according to our volume or gain share internally, advertising will add top-line revenue to our business, which reaches margins higher than retail, advertising is a business with higher margins, costs are the same, then, I think it will not impact expenses, it would impact contribution margin looking ahead. We maintain our acquisitions, Bob, focusing on asset-light business. We can look at an asset-heavy business, but we have been prioritizing our strategy, i.e., business that will build our digital platform, not like in the past, acquiring physical retail chains in other locations.

**Robert Ford – Bank of America**

Thank you very much, Fred. Again, congratulations.

**Frederico Trajano - CEO**

Thank you, Bob. Thank you for your question.

**Operator**

Our next question comes from Mr. Luiz Guanais, BTG Pactual.

**Luiz Guanais – BTG Pactual**

Good afternoon Fred, Beto. I have two questions. Fred, you commented about growth drivers for 2021. If you could discuss more growth in new categories, you have been mentioning cosmetics, clothing, and supermarkets, if you could comment on this issue. Also services growth, what should we expect for next year? Considering all the acquisitions you have been made over the past months. My second question referring to acquisitions, what would you consider to complement your ecosystem in terms of services for the next quarters, Fred. Thank you.

**Frederico Trajano – CEO**

Luiz, for the next year, undoubtedly the boom, I am not only referring to 2021, ok? I am also referring to next years, I think we are reaching the level of penetration of developed countries in durable goods. We made good work here in Brazil, in durable goods penetration. When you look at other categories, at the same time, their penetration is very low. You take fashion, beauty, food, other categories that have very low penetration in Brazil, then the great growth opportunities are these categories. Obviously, our efforts and investments have been mainly, not exclusively, focused on continually investing in our own category that makes us a leader in the market, and it is our cash call, we need to continue investing in it, but with a greater focus on these new categories. I am very confident that Netshoes sporting goods and Zattini fashion, and Época will continue significantly growing. Recently, we hired Mrs. Silvia Machado, former Arezzo's CEO to head our fashion & beauty department. She is a top executive officer, she is setting up a team to join the fantastic team of Cris from Época and Zatt team, she will head these two areas. Zatt was not a focus of Netshoes, but I think the addressable market is huge, fashion penetration in Brazil is very low and has a considerable path of growth in e-commerce, then, this will be a focus. Another line inside our structure, but organic for the time being, is the supermarket. As I mentioned, we performed well in markets, the key category in unit sales. We will continue heavily investing in this model, a successful category. Then, fashion, market, beauty, sporting goods will continue. These new categories will significantly contribute to growth in the future, both in 1P and 3P, looking ahead. Reminding that HubSales, the F2C business, we acquired it is very focused on fashion. HubSales today is located in the city of Franca, the footwear hub in the state of São Paulo, but we will position it in new footwear hubs and make available footwear manufacturer or direct sale clothing to end consumer. HubSales' focus inside Silvia's team strategy is super important, we can see a great growth opportunity in 3P. [...] also, it can become a POS for multibrand, offer these products in our platform. I am highly confident in fashion, beauty, and supermarket. Book is also an interesting category, but its size is not so representative like others, but we will continue significantly investing in it. The Estante Virtual we want to consolidate it in our site, it digitalizes 6,000 secondhand book stores, we will continue believing in this segment. We do not

have a preferred category, we need to invest in all of them, but undoubtedly, the largest markets are beauty, fashion, consumer goods, and food. These are the markets we will enter strongly in the future. Now, [...] Luiz, they are not only GMV growth drivers, we also should consider shopping frequency. In my opinion, the Brazilian investor does not look at it, only GMV top line and for a digital operation, frequency is super important. For me, even if these categories do not deliver a GMV proportionally high, they will bring higher shopping frequency [...] to our operation. These are strategically relevant to the company.

**Luiz Guanais – BTG Pactual**

Perfect Fred. And just a follow-up on services, referring to shopping frequency, as you mentioned, services are also a relevant driver, whether concerning payments, logistics. How do you see the evolution of this portfolio, also considering new M&A movements over the next quarters.

**Frederico Trajano - CEO**

Then, you have services and financial services. I think in the short term, the financial service on its own, to add results to our balance sheet is Magalu Pagamentos. We launched this business this year, we already transacted R\$4.5 billion in the first nine months of the year and R\$2 billion in the third quarter. Reminding that last year, these receivables had a partner, Stone, but this year we created our sub-acquirer, Magalu Pagamentos. Thus, we anticipate the seller's receivables, earning very solid revenues. This tends to grow significantly since 3P will increase, anyway, Magalu Pagamentos' penetration and the use of anticipated revenue, this is short term. I think other services, we mentioned here [...], MagaluPay, which will also record fees and commissions. This tends to generate advertising, in the very short term, I am very confident with Magalu Pagamentos. From the logistics viewpoint, we will generate revenue, fulfillment at least, as cross-docking to the seller, but we are not looking at profitability here. I think concerning logistics, more than earning money, besides the cost for the seller, we want to offer the same level of service we have in 1P. Although it will increase our Take-Rate it will not generate profit in the bottom line in the short term. I think this financial component is super important. I think in relation to the future, undoubtedly, we did not make any major acquisition. I think this is a segment that necessarily has opportunities that we can analyze, also new categories in the market, we did not make any movement. Even fashion, we acquired Zattini, but it is a smaller operation inside Netshoes, more focused on sports. Again, don't be surprised [...]. I also mention here, inclusive of traditional categories, we can also make investments to consolidate our leadership. Then, acquisitions will vary, again, I repeat, don't be surprised with the Company, but have in mind: the Company will follow its strategy of becoming the Brazilian retail operational system, its strategic five pillars, but this has a broad magnitude.

**Luiz Guanais – BTG Pactual**

Excellent, Fred. Thank you.

**Operator**

Our next question comes from Joseph Giordano, Banco J.P. Morgan. Please, Mr. Giordano, you may proceed.

**Joseph Giordano – J.P. Morgan**

Hello, good morning everyone, good morning Fred, Beto. Thank you for taking my question. I would like to discuss the M&A topic. You mentioned food would be vertical. You already operate with consumer goods with a very strong footprint, even any type of non-perishable food, you manage to buy beer, with excellent service at the platform, as well as home products. I would like to understand, considering this evolution of another retail ecosystem you have been building, if it would make sense include food retail in bricks and mortar stores or *do* you think in a partnership model, perhaps a local partnership, even because it is difficult to find a player who would save your problem nationwide? Second, only discussing a bit on payment, we have MagaluPay with software [...] I would like to understand how could we think the Company's cashback strategy in the short and medium terms? This because, for me, it does not seem a sustainable strategy in the long run, but I would like to understand how do you see this as a factor of activation of this platform over time, if today, the focus would be the seller and not non-bank clients? Thank you, Fred.

**Frederico Trajano - CEO**

Joseph, it is very difficult to comment on acquisitions. Again, since the aspect is extensive and the content is very strategic, it is difficult here to give you a clue. We are not opposed to a brick-and-mortar store, e-commerce, we operate any type of channel. Perhaps we may consider strategic actions to expand our presence in new categories, whatever they are, both purely digital operations, and omnichannel operations. Anyway, options are opened, it has to make sense for a specific asset, we cannot respond generically within this context, but there is a possibility, we would look at two things, it is also part of our range of options. We are very focused on 3P at the platform, then, you see these eight acquisitions, all of them have more or less the same characteristic, they are digital platforms, asset-light to potentialize our growth. It does not mean we cannot do other things, but the focus is here. The Company wants to become a digital platform, the Brazilian retail's operational system, then, most of our acquisitions will continue following this trend. It does not mean we cannot make other acquisitions, but the

focus is what I mentioned. Sorry, about the other question. Is it about MagaluPay? I think we have two million users with accounts opened 30 million people in MAU. Two is too little, but our priority now is increasing the base, we will endeavor all the efforts to increase this base, I think we have lower acquisition cost since the account is built into the app, then, this is a frictionless operation, much less cash to activate the account. Two million within three months, this is an impressive figure. We will add new features to this wallet to differentiate the product. Cashback is important since instead of giving a discount, I am giving cashback, then, I cannot understand why this is not sustainable, at least, in our accounts. Maybe someone in the market adopts aggressive, less smart actions. Magalu always makes calculations. Over the past years, our figures [...] have been figures of a very rational company concerned with growth. We are not going to change now, because we are entering in fintech, we did not do it in e-commerce, why should I do the same for fintech? I think we need to continue disciplined, understanding, but it is strategic for us to have a significant and large payment, we will be investing in it. Probably, sometimes, in the short term, you make more expensive investments, but you will reap the benefits, millions and millions of people daily using your super app in the future, then any benefit we will gain from our investments, undoubtedly.

**Joseph Giordano – J.P. Morgan**

Perfect. Only a follow-up here on competition, Fred. There are lots of businesses capitalized in this industry, perhaps new entrants in 1P. How do you see the evolution of this competitive environment, especially now, when economic stimulus becomes smaller? We can see the certain economic stimulus, for instance, the 13th salary and the “Bolsa Família” (Family Allowance), but perhaps this economic stimulus will slow down. Then, how do you see the evolution of the competitive environment, especially concerning 1P?

**Frederico Trajano – CEO**

I think Joseph, well, I am not sure, we must have recorded all our conference calls, they can be seen on our IR website. I think this quarter I will complete 20 quarters as CEO. During these 20 quarters, people ask me about competition. The fact is always “competition has been more aggressive, with more cash, any competitor conducted a follow-on”, then, Magalu comes from a highly competitive segment. Our DNA comes from the physical retail of durable goods, we always saw hundreds of competitors. Dozens of strong competitors, even companies bigger than us, and Magalu has been doing a great job, every day, with an efficient strategy, consistent model, disciplined capital structure, respecting its employees and clients. For this reason, I think we managed to gain a 5.4% share when everybody was super aggressive in e-commerce. I strongly believe in our capacity to compete, we are very competitive. When you have such low expenses like ours, and cash generation, a business model like this, competition is hard. You need to act all the time because competing with a company as much efficient as we are, you will need fund-raising, if you do not generate cash, you don’t have [...], difficult to compete. High level of service, then, I respect all my competitors, but our priority is not competition, but our end client. This is what we have been working for.

**Joseph Giordano – J.P. Morgan**

Perfect, thank you, Fred.

**Operator**

Our next question comes from Irma Sgarz, Goldman Sachs.

**Irma Sgarz – Goldman Sachs**

Good morning, thank you for this opportunity. I would like to discuss again the supermarket category. Which are the greatest challenges you have been facing in this super important category, as you mentioned, concerning shopping frequency, but obviously, this category is not so easy to execute, then, I would like to hear from you, what should be done to bring manufacturers selling directly in your platform, or perhaps, you may consider this is not interesting, or probably you already have this model. Concerning assortment, I realized you are now offering fresh products, such as fruits and vegetables. Which would be the next steps for this category inside the supermarket? I mean, it is difficult to approach fresh products. Thank you.

**Frederico Trajano – CEO**

Hi Irma, thank you for your question. I will try to delegate a bit here, how questions were more strategic I ended up answering them, but I will try to delegate here to the management, Rego could you help me answer this question? Rego is aware of our daily activities, then, I will add my comments.

**Luiz Fernando Rego – Commercial Executive Officer**

Speaking of difficulties of this category, today we are creating a startup, right? We managed to sign all the contracts with our major suppliers, we literally created from March onwards, a startup. Today, month by month, we have been learning, now we have another size. I believe in this category, and next year, it should grow.

**Frederico Trajano – CEO**

I think the difficulty of this category, in the market as a whole, is the cost of delivery since the ticket is low. You always have a high cost of delivery; we use the dark store model. As we have this product at stores, we manage its ship-from-store, which is an interesting differential for us, we manage to operate more competitively within this context. Obviously, we have to make significant changes in our store infrastructure, as we have inventory in the mezzanine, and the product is heavy, then we have a structural issue in the store's mezzanine. We are dealing with the difficulties of a startup, but it fitted well in the model and has been extremely important, from the viewpoint of unit growth, also balanced. We are not making investments, we do not have a big cash burn in this category, I think it will become a sustainable and strategic sector for the company.

**Irma Sgarz – Goldman Sachs**

Perfect, thank you. Concerning fruits and vegetables, the category with products that most require refrigeration. Thank you.

**Frederico Trajano – CEO**

We still do not have a definitive answer to this question. We are still analyzing this category. It is important, the FLC, but our current infrastructure requires adjustments, so now, we are not focusing now on fruits and vegetables.

**Irma Sgarz – Goldman Sachs**

Right, thank you.

**Operator**

Our next question comes from Mr. Gabriel Simões, Itaú BBA. Mr. Gabriel, you may proceed.

**Gabriel Simões – Itaú BBA**

Thank you for taking my question. You reported a significant growth in MagaluPay in the quarter, which is already integrated into the main app. You already mentioned your plans for an open platform. Now, we have Pix assisting consumers with digital payments and how to use the QR codes. I would like to understand, do you believe we can approach the supper app models we see in China? If the answer is yes, I would like to understand the structural differences you expect from formats here and there, if the answer is no, which factor do you believe is decisive there that we do not have here so that this move occurs similarly? Thank you.

**Frederico Trajano – CEO**

Well, the Super App was our idea, anyway, undoubtedly slightly inspired by the Chinese model, as you do not have super apps with the same Chinese characteristics in the United States, this Chinese model did not work out in all countries. We believe there is a great possibility for this model to succeed in Brazil. This will be an attempt, but we don't know if we will make it. Within this context, if you offer the frequency of utilization to the app, I already mentioned here the food delivery, AiQFome, also new categories we have been offering with a long-tail perspective, the market has this perspective of more frequent shopping, making client to always use the supper app, but of course, payment is an interesting component. Luizacred's penetration in physical stores was 50%, from decades we have been the operator of payment, consumer credit. We have solid expertise concerning consumer credit to partner, we have here a team who has been doing this job for a long time, I am confident that we will manage to bring this expertise to the digital world as well, why should not we have robust penetrations in App, financial products, as we have in a physical store. If I have Luizacred's 50% penetration in physical stores, which is consumer credit, why we cannot conquer this to our app's 30 million monthly users? So, I am confident, we have hard work ahead within this context, lots of decisions to be made, but we believe this is possible, and Pix, it levels the game. It facilitates new entrants to participate in the Brazilian financial system and to enter under equal conditions with those already established in the market. I will not give details on our strategy, but I can affirm we have the expertise. We brought Robson here to Fatala's team to do such work, Robson Dantas is an important hiring in the year, I am confident that we will become a relevant player.

**Gabriel Simões – Itaú BBA**

Perfect Fred. Thank you.

**Operator**

Our next question comes from Mrs. Daniela Bretthauer, Eleven.

**Daniela Bretthauer – Eleven Financial**

Good morning everyone, congratulations on your results. Various aspects of my question were already answered, then I would like to explore two issues. First, I would like to discuss again the cashback policy, if it makes sense, now that you are developing quickly, expanding you financial services platform, MagaluPay, if it makes sense or not maintaining partnerships, such as Méliuz, Dotz, if everything will be included in your Super App, this is my first question. Second, I would like to explore with Beto a few aspects of Luizacred, its results were really amazing.

**Frederico Trajano – CEO**

Ok, thank you for your question, Dani. Edu, could you help me answering about the cashback and our partners?

**Eduardo Galanternick – E-commerce Executive Officer**

Hi Dani, thank you for your question. Referring to cashback, undoubtedly, we highly invest in our platform, we see Méliuz, Dotz, and other partners as a source of acquisition. We seek to bring new clients through these channels. Reminding that any order is concluded in our platform, we do not list our catalog in absolutely any other platform to conclude the order. Then, we see these opportunities as a source of media, equivalent to other vehicles we have, and always looking in terms of investment yield and acquisition cost, this is how we see it. The strategy of cashback, retention, and loyalty will always be part of our platform.

**Daniela Bretthauer – Eleven Financial**

Ok, I understood. Then, the ROIC of this investment that you analyze, as a long-term strategy.

**Eduardo Galanternick – E-commerce Executive Officer**

Correct.

**Daniela Bretthauer – Eleven Financial**

Thank you, Edu. I have a question for Beto, in fact, Luizacred's results were a positive surprise, but Beto, what really surprised me was revenue from financial intermediation, it dropped 36%, but expenses tumbled 78%, thus, boosting Luizacred's results. My question is, ok I understood you mentioned season, provision, older versus new, but concerning the fourth quarter and onwards, will Luizacred's results be similar to the level seen in the third quarter? As we will have a profitability structural change if the third quarter is a new reality, referring to Luizacred, correct? It really multiplied profit by five, so, how can we project Luizacred from now on?

**Frederico Trajano – CEO**

Beto, you are on mute.

**Roberto Bellissimo – Chief Financial and Investor Relations Officer**

Good afternoon, Dani. Thank you for your question. This quarter meant a change of level, then, it will not be necessarily the same next quarters. But putting into context what you mentioned, Dani, revenue from financial intermediation, for instance, came lower because, during this period, we entered into less financing, refinancing, and loans. It was a more conservative period from the credit viewpoint; clients with cash, they contracted less revolving credit, smaller invoice installments, less payment in arrears. Then, revenue from late payment decreased, accordingly, interest income came lower, and the quality of portfolio significantly improved. When you mentioned that expense declined, net expenses, fees, and commissions increased, it has been growing, and it will improve with card base growth, as we already mentioned, also billings. The trend looking ahead is that the base will gradually inflate, also billings. If billings grow, fees and commissions also increase, accordingly, generating more refinancing, financing, loans and bringing more financial intermediation. I think these were cycles, and now, the trend is these lines growing again, with the level of provisions not exactly the same as this quarter, which again, was a change of level. We significantly improved that expectation of losses established last year, and it changed on account of a new reality. Now, we should record provisions again due to such growth. We have been increasing estimates for credit limit granted, higher provisions for performing portfolios, but we believe the level of provisions will be lower than last year, I mean, this is a new situation, the "new normal", also new level of profitability. Yes, we should resume growth, we are very optimistic, confident with Luizacred's results, and how much it contributes to retail, and increasingly to e-commerce, also.

**Daniela Bretthauer – Eleven Financial**

Thank you, I understood.

**Roberto Belissimo – Chief Financial and Investor Relations Officer**

Ok Dani, thank you.

**Operator**

Our next question comes from the English room, Mr. Andrew Ruben, Morgan Stanley. Please, you may proceed.

**Andrew Ruben – Morgan Stanley**

Hi, Andrew from Morgan Stanley, thanks for the question. Two items here. First, on physical stores, can you talk about how you are thinking about the growth pipeline for 2021. And then second, on the marketplace, what kind of view do you have in terms of the marketplace supply? What kind of visibility do you have for seller inventories heading into the fourth quarter?

Thank you.

**Frederico Trajano – CEO**

Thank you for your question. I will ask Fabrício to answer the first part of your question and then I will answer about the marketplace.

**Fabrício Bittar Garcia – Chief Operations and Commercial Officer**

First, good morning and thank you for your question. Concerning the growth pipeline, we should open a few stores this year. We should end the year with 45 stores opened, one hundred of Marisa's kiosks. Next year, we should keep the pace of openings, we are analyzing if we enter into any new market or not, we should complement the Federal District, as well as the opening of Marisa's kiosks, to total approximately 250.

**Frederico Trajano – CEO**

Thank you, Fabrício. Complementing the answer to your question about the marketplace. I think the market runs out of stock, overall, small and medium-sized businesses are struggling more than large business within this context of the supply, but our 3P operation offsets this by adding new sellers and new items, new SKUs, and obviously improving search, the entire process of findability inside our app. I do not see anything adversely affecting 3P for the fourth quarter. Yes, individually, if you look at same-seller-sales, you would have any type of stockout negative effect, but as it is adding much more sellers, business is growing, I think it does not have a material impact on 3P growth, we also have the slowdown in the fourth quarter, as I mentioned before, but we continue optimistic, I think most of our growth comes from 3P and these sellers.

**Operator**

Our next question comes from Mr. Gabriel Disseli, Santander.

**Gabriel – Santander**

Good morning, I know you have already explained a lot here, I only have few doubts. I know you have already mentioned competitiveness, but various players are anticipating Black Friday, including Magalu. Does this fact change your strategy during Black Friday or not? What should we expect in terms of inventory? Do you still see stockout or not and what should we expect from inventory for the next quarter, taking into account that it considerably increased?

**Frederico Trajano – CEO**

I think this year, everyone planned an extended Black Friday, I think it was even suggested by EDV or Retail Development Study. EDV's recommendation was to avoid an excessive concentration on Friday, although, I think we will see good sales performance during the month, also on Friday. I think the market expects November to be strong and try not to concentrate only on Friday. We can see very positive dynamics of demand. November began strong and strategy has been prudent, less aggressive than others. Everyone thinks as there is no product left in the market, it does not make sense to conduct unreasonable promotions. You have real promotions, but not at unreasonable prices. Prices are real since Black Friday is regulated. If you make a complaint at PROCON concerning Black Friday, the Consumer Protection and Defense Program will be tough on companies. I think we do not have to worry about competitiveness, again, we will see the fourth quarter with Corona voucher lower than in the third quarter, but excluding this fact, we estimate a very positive quarter, at least, for well-prepared Magalu. We recorded R\$5 billion inventory, but I do not celebrate much, as we do not like working with high coverage, our inventory has a great turnover. We are always receiving goods with high turnover. Then, we are well supplied, scheduled, with very good planning along with our suppliers. There are few lines with any kind of stockout, we've got prepared for most of them to record an optimum fourth quarter, also first quarter next year. We developed effective planning, we maintain an excellent relationship with our suppliers, of course, one or other product is missing, the market demand has been high, but I do not see any serious risk for quarter's results.

**Gabriel – Santander**

Ok, I understood. Thank you very much.

**Frederico Trajano – CEO**

Thank you for your question.

**Operator**

Our next question comes from Mr. Victor Saragiotto, Credit Suisse.

**Victor Saragiotto – Credit Suisse**

Good morning everyone, congratulations on your results. I would like to understand the dynamics of 1P and 3P, Fred. Over the last quarters, we saw 3P advancing compared to 1P growth. 1P was like the "ugly duckling", not for you, but other market

players, competitors investing in 3P, now, actually everyone is doing the opposite. Concerning 1P, players who were not participating in 1P, now enter into 1P, players who were slowing down 1P, now are accelerating 1P, which has been surprising. I would like to understand what happened, which were the setbacks of operating the marketplace in the third quarter? I understand for next year, it will be difficult to foresee the market growth, but how should we think about the mix in terms of the channel. Should we still consider a very strong 1P?

**Frederico Trajano – CEO**

Thank you very much Victor for your question, I already commented on this topic. First, Magalu is a company with very balanced results. We are performing well, we do not expand e-commerce to detriment of the physical store, our 1P is very profitable, then we do not need to increase 3P to detriment of 1P. These three channels recorded exceptional performance in the third quarter. 3P and 1P performed well, 1P was exceptional, 3P also performed well, as I mentioned we grew by 145%, much more than key marketplaces in the market, we went from 11,000 to 40,000 sellers, and operation has increasingly improved. Not only the 3P faces setbacks but 1P also faces its setbacks, nothing exceptional. What happened this year, with the pandemic...

**Operator**

Ladies and gentlemen, please remain connected.

**Frederico Trajano – CEO**

The market ran out of stock, then, in my opinion, we saw a disproportional share gain of 1P. Looking ahead, I believe 3P will again record growth, this is a great growth lever, but again, we do not have a share target for 3P, 1P, physical store, we are skeptical on the channel, we want to grow across all channels. Looking at the market trend and opportunities, for the upcoming years, we will see 3P growth rather than 1P and stronger than a physical store, as new categories will be seen, and scalability of this business. You cannot consider only one quarter to project several years ahead.

**Operator**

We now end the question and answer session. I would like to offer the floor to Mr. Frederico Trajano, for this final considerations. Please, Mr. Frederico, you may proceed.

**Frederico Trajano - CEO**

Again, I would like to thank your participation in our video conference. Our calls have been extensive, with lots of information. For the next quarters, we are very confident in relation to our company. When you consider everything we have gone through, such a complex, difficult situation, and we managed to overcome challenges, this only increases our confidence. We know there is a lot still to be done, hard work and lots of improvements to be implemented in our operation. Lastly, I trust my team very much, I am very grateful for the efforts endeavored by all executives, employees, and co-workers of Magalu, for delivering such positive result in a quarter full of challenges. Thank you all, have a nice week.

**Operator**

Magalu's conference call is closed. We thank your participation and have a nice afternoon.