Local Conference Call
Magazine Luiza (MGLU3)
1Q24 Earnings Call Transcript
May 10, 2024

Vanessa Papini: Good morning, everybody. Thank you for waiting. Welcome to Magalu's conference call regarding the quarterly results.

For those who need simultaneous translation, click on the 'Interpretation' button via the globe icon at the bottom of the screen and choose your preferred language, English or Portuguese. We would like to inform you that this event is being recorded and will be made available on the Company's IR website, ri.magazineluiza.com.br. The earnings release and presentation are already available in Portuguese and English language. The link to the presentation in English is also available in the chat.

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

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

Now, I would like to give the floor to Fred Trajano, Magalu's CEO. Fred, please take the floor.

Frederico Trajano: Good morning, everybody. Thank you very much for participating in the Magalu Earnings call regarding the results for the first quarter of 2024. Once again, I am here with the entire executive board of the company. And, once again, everyone will be available to answer your questions at the end of our presentation. The first quarter of 2024 was a historic achievement. The numbers speak for themselves.

We had some very significant highlights in a macroeconomic context that is still challenging for all Brazilian retail companies. In this context, with all these circumstances, interest rates still high, although lower than last year, increasing taxes, in short, and all the macro issues widely discussed there, presented in the news, the company presented a significant growth in its EBITDA of 54%, reaching a 7.4% margin in the first quarter, a quarter that had an unfavorable season for retail, any of it, but especially credit-related retail. This 7.4% growth represents an increase of 2.5 percentage points compared to last year's quarter.

At the same time that we increased EBITDA, this 54%, below the EBITDA line, we dropped 39% in financial expenses, even though we still had a scenario of a drop in Selic, an average of 13% high for 11% now in the first quarter. However, we still presented a 39% drop in financial expenses, which meant we were able to demonstrate a positive result of 30 million in net profit in this first quarter. It is worth highlighting that, even in our best years, Magalu never, in a quarter compared to the same quarter in the previous year, made a delta of 600 million reais in LAIR, so the LAIR of this first quarter, profit before taxes, it improved by 600 million reais compared to the same quarter last year. With all these conditions, of course, the macroeconomic situation was worse last year, it is still not ideal, but even with all this difficult context, we see as many companies presenting difficulties in relation to their operations, Magalu managed, with very hard work, with a lot of management discipline, with a lot of discipline in controlling expenses, with a lot of discipline in managing their margin, with a lot of effort, to improve by 600 million reais in a single quarter our LAIR. So, it's a result to be celebrated. We count on the improvement in the scenario, the continuity of our work, and very favorable prospects from now on. Still, we need to stop, recognize and understand clearly what was done and value what was done from the point of view of the results of our work.

In addition to the accounting issue, it is essential to value that one of the great highlights of this quarter, which Roberto Bellissimo will detail in his presentation, was the cash generation. If we consider the 12 months ending in April, in March 2024, our operating cash generation was 2.7 billion, double the same period ending in March 2023. For the first time in a long time, in the first quarter, we managed to close with basically the same cash as at the end of the year. So, we closed the end of last year with R$ 9.1 billion in cash, at the end of this quarter with R$ 9 billion in cash, and in the same period last year, we reduced the company's cash by R$ 3 billion.

It is true that we had a capitalization of R$ 1.250 billion in this period, but we also paid R$ 900 million in bonds, practically maintaining the effect on this cash account at the end. In fact, for many years, the first quarter has not had cash dynamics as positive as the first quarter of 2024, clearly showing that our work has produced undeniable good results in practically all balance sheet accounts. About the debt, we paid off 3 billion reais this year, 1 billion reais practically in the first quarter and the other 2 billion reais now, in April.

It was a question that we answered exhaustively at the end of last year, a source of great comments and concerns. In short, we practically annihilated these concerns with this debt payment. The company's next debt maturity is only at the end of 2025. So, the company no longer has short-term bank debt, and this is also a symbol of remarkable operational evolution, of results, of the company's working capital management.

Anyway, we now have a very favorable capitalization perspective to resume investments and accelerate our projects, which I will detail a little later. From a sales point of view, I wanted to highlight that we still managed to grow, even with a comparison basis from last year. Not sure if you remember, but in the earnings call for the first quarter of last year, I commented that the company started to pay the DIFAL, and we had not passed on this DIFAL in the first quarter of last year, with only around 25% of the DIFAL being transferred.

So, especially Magalu's 1P operation had a strict basis because we had paid the price increase and not passed on the tax increase yet. What increased the tax in a quarter was something around R$ 350 million reais that we had to pass on a quarter because it was R$ 1.5 billion in the year. Which we had to pass on to our prices.

We had to make this pass on, and we did it throughout the year; in the first quarter of this year it was passed on entirely, and this represented an increase in the company's gross margin by 2.6 percentage points, not just the transfer of DIFAL, increase in service revenue as well, which will be detailed by Roberto later on, including the significant increase in insurance sales, and also the increase in the Take Rate of the marketplace, which once again contributed significantly to the rise in earnings, gross margin and EBITDA margin of the company.

There are a series of fronts to improve, and this DIFAL base will cool down over the quarters. We passed on less DIFAL last year in the first quarter and then progressively passed on it. From the second half of the year onwards, we will have a much calmer base to grow mainly our 1P operation. But I wanted to highlight, from a sales point of view, the best physical store performance in the last two and a half years. Next slide, please.

Whenever there is a crisis, the market questions the future of the physical store. Whenever the crisis is over, the physical store proves to be resilient, important not only for the ecosystem as a whole but also as a thriving channel that serves a significant part of the Brazilian population. As I said, physical stores grew this quarter, in Same Store Sales, 9%, which is the best result in the last two and a half years. We grew in market share gain 0.7%. We also feel a gradual macroeconomic improvement, when I said, not yet in its entirety, but a macroeconomic improvement, debt service for individuals, fell from last year to this year, from 8.3% to 7.3% - data from the Central Bank. This frees up space for population to shop. Remembering that, for an extended period after Covid, there was a hangover, people bought a lot in the year of Covid, didn't buy for a long time and now need to replace their products. We already see the beginning of a cycle of improvement.

Another highlight for the physical store, which is an essential structural highlight, with the return of DIFAL, the difference in pricing from the internet to the physical store decreased, because, before we collected less tax in 1P, not only Magalu, but also all companies in the market, physical stores had more difficulty competing with online stores, with the resumption of the DIFAL, the online tax increases, consequently the online price increases, the price difference between online and physical store falls, and the physical store becomes more competitive, and has the advantage of having convenience, physical presence in the location, it is a trend. Now in April, this trend increased significantly, April was a spectacular month for the physical store, showing that this trend that we saw in the fourth quarter, now confirmed even better in the first quarter, continues going forward, we have a position of physical store that no other competitor has, so we have a massive opportunity in this channel, and it has once again shown itself to be resilient. It's important to note and congratulate the entire Magalu physical store operations team, who did a brilliant job and continues to be even better in the second quarter.

Next, please. Let's talk about e-commerce. I've already talked a little about 1P. 1P fell slightly in the quarter, the total was 1% growth, because 3P rose, 1P had this meaning, not only within the parent company Magalu, but also its subsidiaries, Kabum!, Netshoes, Época, all of them had the increase in the DIFAL, they all had to pass on the DIFAL throughout the year, so we had a base in the first quarter of last year without a complete pass on of DIFAL, which made sales a little tricky, but we managed to pass on DIFAL, we managed to significantly increase the margins of our 1P operation across all the group's channels in this first quarter, and we already see 1P recovering growth from April onwards, showing that the main point of growth was not competition, it was the basis of last year's DIFAL.

We are confident that this 1P trend will accelerate from now on. And, I would also like to highlight the growth of the Marketplace, that of all the channels the most significant profitability delta we had was that of the Marketplace. We increased EBITDA by 2.5% about the first quarter of last year. The Marketplace increased more than that – significantly more than that. It is one of the channels that contributed most to our improvement in operating profit, contribution margin. Magalu wants a profitable channel and wants to grow only when it occurs in the high level of profitability.

The stock series grows 39% per year, and it grew 6% this quarter, but it has contributed very significantly to our results. I see that from now on, we have finished the Take Rate pass on in the second quarter of the year. Last year, it will also find an easier 1P starting in the second half and starting here in the second quarter. However, profit growth continues to be the focus at 1P, at the store, and at 3P. We come out of this post-Covid world with a reality for digital companies that has always been correct, that sales growth must necessarily be accompanied by profit growth. Magalu's focus for this year continues to be a profit growth and we have to deliver, sales growth always when it is accompanied by profit growth. preferably when profit growth was more than proportional to sales growth, we want to continue increasing our margins, 7.4% for the first quarter is an achievement, this number of 7.4% EBITDA for the first quarter is the market consensus for the year as a whole, which we delivered in the low season, we want to continue to surprise, especially in this line of our balance sheet which is the operating profit line. But we will grow. We believe that the bases of all channels will soften, and April indicates exactly that.

Next slide. I confirm here about Marketplace. You can see the growth in Take Rate over the quarters, 2021, 2022, 2023 and now 2024, and also in Cash Margin, which is like a contribution margin for 3P in this same period. There has been very significant growth in profitability, a substantial contribution to our EBITDA, the passed on of DIFAL in 1P, and the leverage of Operating Cash from Physical Stores with fearless growth in physical stores. I am highlighting the number of sellers here. We continue to grow in a consolidated manner. We have 350 thousand sellers and more than 138 million offers published on our Marketplace.

I wanted to highlight that despite the fact that we have been terminating many sellers and offers, whenever the standard of these sellers, which will talk about this a little later. We are in the year of Encanta Magalu. The theme for this year is a very significant improvement in our NPS, which is already above the market average, but we want to present exemplary NPS levels for all the group's operations and we have done a lot of significant work with sellers so that they can operate at the same level of NPS as the 1P store, which is around 80, the NPS at 3P is still around 65, it was 57 two years ago, now is at a level of 65. And, we want to take great strides so that the sellers' NPS is at the same level as 1P, which is the NPS of 80, an absolutely high number, a world standard from the point of view of customer satisfaction. This is one of the company's main focuses for this year, so even more than increasing the number of sellers, we are very focused on improving their level of service, already with this high level of profitability that I mentioned.

To improve this level of service and this profitability, one of Magalu's great sustainable competitive differentiators and has always been a competitive differentiator for 1P is a multichannel online operation that has made us the leader in Brazilian 1P e-commerce and that we are replicating this competitive advantage for 3P. It is Magalu's multichannel fulfillment. It is the only truly multichannel fulfillment in the market, that is, 100% of the stocks of sellers that are in our fulfillment operation have the same multichannel benefits as our 1P operation. They are in the same DCs as our own stock merchandise that is our 1P, our DCs are currently more than 20 DCs in Brazil. A large part of them are already available for fulfillment 3P also, since this seller's stock is in the same DC as our 1P, it benefits, for example, from store pickup with free shipping, it benefits from the 1P's NPS service level which is around 80. Like I told you, so as we increase the share of 3P sales in Magalu fulfillment, our NPS will increase, it's the 3P NPS that I said is below 1P, and also the profitability of 3P also, because a multichannel operation has a much lower cost than a standard logistics operation. So we are already at 20%. We launched this service last year. Today, 20% of 3P orders are already in this format. We are going to accelerate a lot, highlighting the Northeast DC which is doing a fantastic job in this sense. We are there with very high service levels there, very high stock turnover too, in short, more than 1 million parts in stock and the operation just growing, that for one year of operation to reach 20% of 3P is a fantastic level, a service level above 95%, so it really is one of the main focuses of the operation, one of its great differences is to enjoy the same multichannel approach as 1P, which provides a range of options for the consumer and a level of service well above the market average at a lower cost as well.

From the point of view of opportunities going forward, I talked a lot about Capex, we are making significant progress on our Magalu Ads platform. We increased seller revenue on the platform by 70%, we continue here with a robust 470 million monthly visits , the tendency is for them to grow from now on in all companies in the ecosystem and we are convinced here that Magalu Ads will be one of the great generators of additional EBITDA margins for the company looking forward and we are placing a significant portion of the company's increase in Capex for the development of the platform and also in OPEX in the development of the team, in expanding the go-to-market team and also in the activity, not only sellers but also big brands. We are excited. It is an agenda that has been successful in digital companies around the world. Recently, we were even benchmarking in India, visiting several companies there that had successful advertising initiatives, this happened everywhere in the world, there is no reason of us not being able to monetize this vast audience of channels like Netshoes, which is the leader in its category, Kabum! which is the leader of its category, at the time which is one of the leaders of its category, of Magalu and of all our content channels which also have a significant audience, so there is no way that this agenda will not be reversed from the point of view in significant returns here for our investments.

The other highlight of the quarter was that we launched the first public products of our Cloud at Rio Summit, we had already pre-launched the Cloud in December. Now, we have these services with several other services here at Magalu Cloud, Object Storage, Túria, which is identity and access management, and ID Magalu, the user authentication solution, all these services launched now, several other services will be launched throughout the year. Today, we already have more than 100 customers using the Cloud service, we are also excited about the additional possibilities of contributing to our future service margins, which was a highlight of this quarter, both for Ads and for Magalu Cloud as well. This is important. We had a significant investment phase. Next slide, please.

I wanted to highlight some of the group's businesses. MagaluBank — we will talk about it later — was an acquired company. It was HubFintech that became MagaluBank. You will see that we have very good results from it. I talked a lot about logistics. Logistics companies today are part of Magalog, which is the logistics company that provides services to our ecosystem.

From a channel point of view, two channels stood out very well in the quarter: Netshoes, which had a fantastic performance in the quarter; the Marketplace already accounts for 44% of Netshoes' sales; and the Marketplace, which had a net profit of R$13 million reais in the first quarter and a significant improvement in working capital.

From April onwards, Netshoes has also accelerated its growth in the high double-digit line, has very favorable prospects, is the market leader, and has 7 million active customers. These are a series of good numbers here in an operation that previously was loss-making, historically, but recently has generated cash and improved results. In short, these are very positive numbers. The same thing happened to Kabum. Kabum had another excellent quarter, 33% Marketplace growth, 31 million in net profit, and had the opening of its first physical store selling OpenBox products, within Tietê's Magalu unit. We are doing some experiences of having physical units of companies in the ecosystem in our stores, mainly in Tietê, but we are thinking about new units in this sense, with this physical store being very successful, an essential way for Kabum to sell products, which are products that have been returned or that had the seal opened, etc., in short, a very successful experience, which I am sure will be another of our initiatives from now on.

Finally, as I said, we are in the year of Encanta Magalu. We had, as I told you, two years very focused on improving results, almost an obsessive focus, exclusively on improving the margin, on increasing efficiency, on reduce costs, improve pricing, and we felt that we needed, this year, after we were successful in this agenda, to return to Magalu's profitability, which has always been our standard here in our management, we decided to focus all our attention this year on improving the level of service.

The company's corporate NPS went from 66 to 73, as I said, an average of 80 for 1P and physical stores, an average of 65 here for 3P. We are improving in all channels, we want to reach with this number close to 80, which is the standard for 1P and stores, this is where we are aiming, but we have already had very significant growth in just a few months of Encanta Magalu. In this process, there are a series of initiatives, there is no silver bullet here, level of service, delivery within the agreed deadline, improving all exchange and cancellation processes in the company's applications and digital channels and in all the group's channels, improve the search, present better offers, make it easier for the customer to find the best offer, have faster delivery, more payment options at the time of checkout conversion, excess management, make it easier for the consumer to exchange password, improving filters and recommendations, and I repeated it, much focus on improving and making our after-sales, which is not easy, enchanting.

A series of initiatives by the company, the company as a whole, all the company's leaders are obsessed with this here, there is no better competitive advantage than having a level of service well above the market average. We already have this in the channels 1P and Store, but we don't want to take it to another level, as I said, on a global level. And we want to bring 3P's service level to that level soon, certainly Fulfillment, but not exclusively, 3P's Multichannel Fulfillment will help us a lot to accelerate this process. And all these improvement initiatives, several development, UX, several improvements on other fronts and business processes, and also the focus, which is always essential for you to improve, are going towards this direction. Now, I'll turn it over to Roberto to detail the results, and then we'll go back to the Q&A.

Roberto Bellissimo: Good morning, everyone. Thank you also for participating in our results call for the first quarter of 2024. I will quickly go through the financial highlights. Fred already commented on R$ 16 billion in total sales, growth of 3%, and increase in online and offline sales. We also highlight here the gross margin of almost 30%, evolving significantly compared to the previous year. Total EBITDA was R$ 688 million, with an EBITDA margin of 7.4% and a net profit of R$ 30 million. It is also worth mentioning that this quarter, we had no non-recurring results, neither revenues nor non-recurring expenses. The accounting net profit was also very similar to the adjusted net profit, and we ended up with 9 billion in total cash this quarter.

On the next slide we show the evolution of the EBITDA margin over the last few quarters again, and highlight here the growth, the main levers, and the increase in service revenue, in this quarter service revenue grew by more than 10%, contributing again to the change in the company's gross margin level, and both Marketplace services overgrew, as well as insurance and credit services in physical stores and also in digital channels, the share of insurance has grown a lot digitally as well.

After the increase in the gross margin of goods with the pass on of DIFAL, we had a fantastic sale, just like on Black Friday at the end of last year, much more rational and much more profitable, we continued to expand fulfillment, gains in market share in stores physical stores with operational leverage and Luizacred's profitability for the second consecutive quarter also showing profit.

On the next slide, we show the evolution of the EBITDA margin by 2.5 percentage points, from 4.9 to 7.4, it is closely associated with the increase in the gross margin, which grew by 2.6 points, and mainly the gross margin sales of products, of merchandise, which rose 2.5 points this quarter, again with the pass on of DIFAL and everything. Here, it is worth highlighting that expenses with general sales and administration were practically stable this quarter, growing only 2%, the same with the growth of the marketplace, which, as you know, pushes expenses up a little, but this is offset in gross margin. Still, here it is also worth highlighting that last year, in this quarter, we had non-recurring expenses in the order of 120 million reais, which we eliminated, so we had operational efficiency here in total, in terms of operating expenses, much higher, extensive compared to last year as well.

On the next slide, we show the evolution of working capital, when we compare over 12 months, the evolution is significant, in the order of 2.1 billion reais from March to March. Here the result of a substantial evolution in the turnover of stocks and the average purchasing period over the last few quarters, as we also said in the previous call, we significantly improved turnover, reduced purchases, ended up with much healthier working capital at the end of last year, and that was also reflected at the beginning of this year, in the comparison between March and December, there is always a seasonality, in this quarter the working capital balance decreased by 700 million, totally related to the supplier account, which decreased by 700 million, due to the seasonality itself it tends to return in the following quarters. Now, when we look at last year, the variation was much greater; this year, the variation was much smaller, which generated a need to anticipate receivables. There is much better cash flow from payments than last year. We will show this later.

It is also worth highlighting that, in addition to turnover and purchasing deadlines, we once again reduced the balance of stocks this quarter to almost 200 million reais and reduced the balance of taxes to be recovered by practically 200 million reais, also in this quarter, contributing to the company's cash generation. When we look at the evolution of financial expenses, the trend is very positive. Also, perhaps in the first quarter we had lower financial expenses than in the fourth quarter of the previous year. This is very emblematic: 50, 60 million less expenses financial resources, and a very positive trend for our results, influenced by the improvement in working capital, the reduction in the CDI and the improvement in the capital structure as a whole.

On the next slide, we show the quarter's cash flow, the best cash flow from operations for the first quarter of our history. The cash flow is balanced despite the variation in working capital. We fully compensated for the variation in working capital with our results and maintained a very solid total cash position.

The capital increase contributed to the debt repayment in January as well. On the next slide, we show the evolution in 12 months. Here, the highlight is the cash flow from operations. As Fred said, this flow of around 2.7 billion is a record for the period, and it is again very associated with the growth in EBITDA, the variation in working capital and the reduction in expenses with prepayment of receivables, which are part of this purchase. On the next slide, we show the cash flow records from quarterly operations, much better than in the first quarters of previous years, and on a 12-month basis the current flow is only compared to the flow of 2020-2021, when we were experiencing the height of the pandemic and the coronavirus. The flow is very positive and very strong for this current period.

On the next slide, we show our net cash position. We also increased our net cash position this quarter, going from R$1.7 billion to R$2.4 billion, that is, we generated almost R$2 billion in cash flow. In the last 12 months, we generated an increase in net cash here, paying debt and maintaining cash at a very high level, remembering again that now our debts are all long-term.

On the next slide, we bring some highlights from MagaluBank, R$25 billion in TPV, also growing, 6%, 8.6 million transactions processed on Pix with our technology, and a profit on subacquiring alone of almost 50 million reais in first quarter, and a series of news here for sellers, the number of digital seller accounts continues to grow, reaching nearly 100 thousand digital seller accounts, the volume transacted is approaching 1 billion. Now, the seller can activate the digital account on the seller's portal and use the digital account services directly on the portal, and take out loans with guarantees as well, a new feature that we have just launched, which will help the product grow significantly in the future.

Finally, speaking of Luizacred, we highlight the reduction in the level of default in a very significant way. NPL over 90 days falling from 10.6% in March last year to 9.4%, also falling about December, which seasonally is not the best period for defaults, we once again managed to do something different, and the coverage ratio increased, we had lower provisions, lower funding costs, we also gained in operational efficiency, we reduced operating expenses, and once again we presented a profit at Luizacred of around 13 million, reversing a result that had been negative by 35 million in the first quarter of last year.

It is also worth mentioning that this month we entered into an agreement with our partner Itaú, a capital contribution to Luizacred in the order of 1 billion reais, 500 million for each partner, this contribution – now that Luizacred is back to making a profit and has prospects very positive in terms of profitability for the coming quarters as well – serves to capitalize Luizacred, preparing it for the next cycle of growth in its business. With that, I finish the financial highlights and hand the floor to Fred for final consideration. Thank you.

Frederico Trajano: Thank you, Beto. We couldn't end this presentation without discussing the great tragedy in Rio Grande do Sul. We have been in the state for 20 years, and we have 107 stores, a DC, a cross-docking operation, and more than 2,000 employees.

We have enormous affection for Rio Grande do Sul and the people of Rio Grande do Sul. We are supportive at this moment, not only supportive but we are taking concrete actions to support the state and its population, such as, first our team, we have 160, of the 2 thousand employees who were most affected, lost their homes or had to leave their homes, all of them are receiving support from our people management team, our social team, in various aspects, taking great care, as always, Magalu takes care of its team, but beyond the team, for the general population of the state, working with donations, mattress donations now for shelters, NGOs, schools, city halls are receiving contributions from Magalu, this operation It tends to continue at full steam, this is the beginning, as needed we will support and respond to requests from local institutions. From an operational point of view, today we only have six stores closed, we have already reopened almost all of them, the daily average of sales there is the same as planned, there was no impact from the point of view of the physical store. From the e-commerce store's point of view, it had a little more. The state participated with 7% of our total GMV. At this moment, e-commerce is feeling a little more, but it tends to normalize in the future.

Still in the context of supporting the local population, our partner, which is Cardiff, decided to expand and include flood coverage for extended warranty and residential assistance insurance sold. We have residential assistance insurance there, it was not expected to warranty coverage, neither in assistance nor in the extended warranty, and we are including these coverages in both products for Rio Grande do Sul, as an exception, we suspended billing and denial at this time, we exempted the card unit from LuizaCred here also for this period. We are absolutely supportive, hoping and working to ensure that the situation there returns as quickly as possible.

With that, I open the floor here so analysts can ask their questions. Once again, as I say, all our executives are available for answers. I will distribute here what I have learned. Thank you very much.

Vanessa Papini: We will now begin our Q&A session. If you have questions, please click on the 'Q&A' icon at the bottom of your screen. Enter your name, company and question language to join the queue.

Upon being announced, you will see a request on your screen to activate your microphone. You must then activate your microphone to ask the question.

Our first question comes from Luiz Guanais from the BTG bank. Luiz, please go ahead.

Luiz Guanais: Good morning, Fred, Beto, Vanessa. I have two questions. First, Fred, you talked a little about the evolution of 3P profitability, and then I wanted to understand a little how we can expect this evolution looking ahead and what would be the main drivers for this evolution, whether via category or new services that you are plugging into the platform.

The second question concerns working capital, which was a highlight of both the fourth and first quarters. What can you comment on the negotiations with suppliers, also in terms of the market? Given the state of some competitors, the market seems to be slightly more positive for this type of negotiation. Thank you.

Frederico Trajano: Good morning, Guanais. Thank you for your question. I'll start answering quickly about marketplace, and then move on to Eduardo. And about working capital, I'll let Fabrício answer your question.

So, as you said and as I discussed at the beginning of my presentation, Guanais, we had an exponential improvement in the marketplace's results. We came out of 2021 with a negative contribution margin, passed the marketplace for a breakeven contribution margin, and started to give very positive results last year. We made several pass on of increases in intake rates and changes in freight policies over the last year, mainly in the first half of the year, as I mentioned to you. In the second half of the year, with this full reality, we increased the margin well, above this 2.5 EBITDA, as I said in the first quarter compared to last year.

Much of the improvement came from the marketplace, not exclusively, but a lot of it came. We have a high margin level from a margin point of view. The possibility today is more significant in ads, of increasing results via ads, looking forward. However, ads is a business that is not just for 3P, it is for 1P too, for all group companies. Still, part of it will be boosted by sellers too. Still, I see that, looking forward, we are already at a high margin level, and I see that in the future now, in addition to ads, the result comes from operational leverage, less operational leverage, but more from sales growth. I don't know if you want to complement it, then I'll pass it on to Fabrício.

Eduardo Galanternick: Hi, Luiz, good morning. Just to complement, ads are undoubtedly one of the main drivers of profitability growth and sales growth. I could also highlight logistics in the sense that we still don't monetize 100% of the full. Today, we are monetizing only heavy products and collection services, so there is a space there. At some point, we will move forward on this. I also think that there are financial services, be it financial services for sellers or even for end consumers, such as increasing service penetration, a work that Mauad is leading at some point. He can complement it, too.

Thank you.

Fabrício Garcia: Good morning, Guanais. I'm Fabrício, thanks for the question. Regarding working capital, we must remember that Magalu is one of the most prominent players in all our suppliers, especially the big ones worldwide.

We certainly have great bargaining power, our partnerships are very strong and consistent, and the moment is certainly favorable for Magalu. We are prioritized by suppliers today, and we are taking advantage and making great negotiations. This reflects a lot on working capital and gross margin, and we will continue working to improve working capital and gross margin and also grow sales. We have been gaining in the market. The moment is very good, and we are very confident that we will maintain this for the rest of the year.

Luiz Guanais: Fantastic, everyone. Thank you for the answers.

Vanessa Papini: Thanks for your question, Luiz. Our next question comes from Irma Sgarz at Goldman Sachs Bank. Irma, please go ahead.

Irma Sgarz: Hello, good morning. Thanks for taking my questions. I have two.

I'm curious about performance between categories, specifically in store operations and 1P. I would like to know if you have seen any categories that stood out, such as white goods, for example. Also, looking ahead, I would like to know a little about how you see the consumer at the moment. Fred, you even commented in your opening speech that demand is still strong, but I wanted to understand how you see this cycle of consumer repositioning. Also, given the deflation in the category, or in some categories, not in all, but in some it brings some challenges to bring growth through volume.

And the second question is just for an update on additional closure plans. I know that you have already closed 23 conventional stores in the first quarter, and I wanted to understand if there are more for the rest of the year. Thank you.

Frederico Trajano: Good morning, Irma. Thank you for your question. I'm going to start the question here with the topic of category mix, I'm going to pass it back to Fabrício.

First of all, store performance in the first quarter, as I said, was the best in the last two and a half years. The last time I saw a store doing like this was during the Corona Voucher era. The performance is very positive, it has an essential microeconomic component, share gain.

I also commented that it's important to highlight that the DIFAL was bad for 1P, but it significantly reduced the price difference between online and physical stores. When you had a 20% difference in the price of merchandise, converting sales in the physical store took much work. This difference is now much smaller and the physical store is again competitive.

The DIFAL was bad news for online e-commerce in general, but it was good news for the store because it reduced this price discrepancy. This is a super important point of good performance. In April, the store had an extraordinary month.

This one is even better than during Covid times, which happened here in April, which was very positive for the store. From a macroeconomic point of view, it has yet to improve as much as it could, but it has already improved. As I said at the beginning of the presentation, data from the Central Bank, debt service, which has already fallen by 100 basis points for individuals, debt service, what individuals pay in interest on their income, is a level around of 7.3% today, well below the 9.3% in 2015, when it was the last crisis we had, and below the 8.3% at the beginning of last year.

It is 200 basis points better than 2015, 100 basis points better than last year. The trend is for this growing forward. It improved a little, but it will improve more throughout the quarter.

We are thinking positive. From the point of view of merchandise mix, precisely because of these factors that I mentioned, all categories are doing well, there is not just one category that is leading. The good side – and Fabrício can talk about this – which is the point he always talks about. Today we have more diversified sales, not just dependent on one category.

And then I can talk about stores too.

Fabrício Garcia: Good morning. Good morning, Irma. Great question.

Fabrício is speaking. Regarding the category that Fred placed, we have performed well in practically all categories, gaining share in all of them. The big highlights for me, which are household appliances, furniture and portables, have performed very well.

We are experiencing deflation a little in laptops, a little in telephony, but this does not influence sales, on the contrary, it actually contributes. The volume we sell, there is deflation, you sell more, and end up compensating in volume. Regarding stores, we are evaluating every quarter, we carry out a thorough evaluation, store by store, of its operational results.

With the growth in sales now, we have improved the results of several of our stores, we have the mission that 100% of the stores are profitable. These 23 that we closed, practically all of them, have a store nearby, so the sales end up being absorbed by another store. It is a trend that large cities, large centers that had 5, 6, 7 stores, have a reduced number of stores, and we are following this trend.

We are looking at this quarter, we may close another operation, but always considering that we will absorb the sales of the store that we closed in another nearby store. This is the scenario for the quarter.

Irma Sgarz: Done, thank you.

Vanessa Papini: Thanks for the question, Irma. Our next question comes from Felipe Reboredo, from Citi. Felipe, please go ahead.

Felipe Reboredo: Good morning, Fred, Beto, the whole team. From Citi, we have two questions. First, we wanted to understand this performance of same store sales stores a little more.

We observed some companies presenting solid results in the Northeast region. I would like to understand whether there was any greater dispersion of this growth between regions, which regions are doing better. And the second point here, I would like to understand if you see even additional space for a relevant reduction in financial expenses throughout the year, given that we should have a SELIC close to this level of 10%.

Thanks, everybody.

Fabrício Garcia: Good morning, Felipe. Fabricio here. Great question.

Regarding the performance of the regions, the Northeast today is one of the highest shares we have in physical stores, it is already a mature region of ours. It grows in line with the other regions. We grow well in all regions.

As I said in the last call, we were doing work, taking advantage of the moment and gaining share in the new regions where we opened more recent stores, which are Rio de Janeiro, Recife Federal and the Center-West. Yes, in these regions, we grow above the others, because our share is smaller, we have a much more fantastic opportunity. We are managing to advance in these regions, which is our strategy.

All regions are growing well, and the regions where we have newer stores. We grow even more. This is the regional scenario. There is no effect of the Northeast leading it.

Roberto Bellissimo: Good morning, Felipe. Thanks also for the question. I will comment on the financial expenses.

We believe so. The trend, you saw on the graph, is a very consistent decline. It is partly associated with CDI. In the first quarter, we still had a CDI of around 11.2%. Expectations have already had an additional cut. The expectation is for a slightly lower CDI. There is still room to reduce these expenses due to the CDI throughout this year.

But, more important than the CDI itself, we are now in a very positive phase. A phase of evolution of cash flow from operations. In terms of seasonality, the second, third and especially the fourth quarter are much more favorable from the point of view of working capital dynamics and cash generation.

It is not a guidance, but due to the trend itself and seasonality, cash generation normally evolves in the coming quarters, combining higher cash generation with a lower CDI and everything we have done to optimize financial expenses here, reduce expenses with advance receivables, make revenue with advance payments from suppliers as well. And one more effect is the growth of the marketplace itself, it has a shorter average sales period, it also has a lower receivables anticipation cost associated with it. As all these factors happen, the tendency is for an additional dilution in financial expenses and in the long term, it is worth remembering that before this increase in interest, our financial expenses fluctuated between 2% and 2.5% of net revenue.

Naturally, during that period, interest rates were falling and were lower than the current level. And we will continue to seek the most excellent possible efficiency in this line from now on too. Thank you, Felipe.

Felipe Reboredo: Super clear, thank you.

Vanessa Papini: Thanks for the question, Felipe. Our next question comes from Nicolas of JP Morgan. Nicolas, please go ahead.

Nicolas Larrain: Thanks for allowing me to ask a question. I had one from Magalu Cloud, you had mentioned in the release that you launched new products and I wanted to understand, get something from you, how the ramp-up of customers has been. Thank you.

André Fatala: Hi, Nicolas. We publicly launched the first services at the Web Summit event last month. Within these services, we have a larger scale one, which is the object storage solution.

And what we are seeing a little about the numbers you mentioned about ramp-up, we are opening up the cloud to some companies that are invited, as we said, in a private preview, where they can use the 12 services that already exist within the cloud. And we already have more than 100 companies using all these services. Other than that, we also have the opening part of these three services that I mentioned, where any user can create their account, do onboarding, enter their credit card and start using the services that are public.

When we look at the total number of active accounts in the cloud, today we have 1,457 accounts that are active. And within them, since the launch we had last month, object storage, for example, there are already almost 200 customers using the service, so adoption is what we expected when we started making these products available to everyone, of having many people starting to experiment. This is the vision we have of other cloud businesses, many developers, also small ones, companies and software developers can start to adopt and use the services already available. And in the case of larger customers, we see that we will start to have a more extraordinary ramp-up as soon as all products are also available to the entire public, which should happen from the second half of the year.

Nicolas Larrain: Thank you, Fatala. Super Clear.

Vanessa Papini: Thanks for the question, Nicolas. Our next question comes from Vinícius Strano of UBS. Vinícius, please go ahead.

Vinicius Strano: Thank you, Vanessa. Good morning, everybody. Thanks for taking my question.
I would like to know how you see credit offers and terms for consumers evolving forward, even considering the contribution that is being made to Luizacred. And if you could also comment on what you have been thinking about in terms of offering additional financial services to what you already work with today. This is the question. Thank you.

Carlos Mauad: Thanks for the question, Vinícius. Obviously, with the improvement in the credit environment, as we have seen in the numbers of the last few quarters, we are reopening here a little, mainly the higher yield products, so that we can start to create acceleration in GMV through credit, mainly in stores, which is a channel that is very dependent on this type of product. And obviously, when we talk here about customer financing mechanisms, with the drop in interest rates we can be a little more flexible and increase the deadline a little to create affordability for our consumers here, given that even this is within the company's purpose of democratizing access.

Everything shows a tendency to make credit more flexible, to eventually increase deadlines to accelerate sales, always with great diligence, given the size of the financial expenses that the company has. But I, personally, am very optimistic with what I have seen here in the recent movements in the credit performance of our structures and I am sure that we will be able to have the next three quarters with openings helping commercial structures and, obviously, performing from your financial point of view. Did I answer your question?

Vinicius Strano: Yes, you did. Thank you, Mauad.

Carlos Mauad: Thank you.

Vanessa Papini: Thanks for the question, Vinícius. Our next question comes from Gustavo Senday, of XP. Gustavo, please go ahead.

Gustavo Senday: Good morning, everyone. Thank you for the questions. I have two.

The first is about fulfillment, which has drawn attention to the greater penetration it has managed to gain here in the marketplace. To find out if there is a target penetration target for the end of the year and how this expansion of Full's representation relates to the improvement in 3P's profitability. My second question is perhaps a little more specific, but with these problems in Rio Grande do Sul, if you feel there is a supply problem for some category, a particular supplier presented some risk in supplying products.

Thank you.

Eduardo Galanternick: Eduardo here. How are you? Thanks for your question.

Regarding Full, yes, we have ambitious goals. We published 19% participation, almost 5 points of evolution compared to the end of last year. We are going to make significant progress in the penetration of Full.

In relation to how this talks to profitability, from a monetization point of view, our public Full monetization table today only reflects charges on heavy products and also on collection services. We still need an official position on whether or not we will change the charge for the second semester. Until July, this is what is in public domain.

But without a doubt, Full contributes in other ways. The Full operation is a product that comes out there and costs approximately 25% less, if not through Full. It increases conversion which generates more results and also works with a better level of service, it has other indirect impacts.

In general, that's it.

Fabrício Garcia: Fabrício here. Obviously Full's operation is not normalized, we have some challenges there. We have a war room set up, we monitor it hour by hour. Currently, we have six closed stores. Three of them were a little more affected.

DCs usually operate, with some difficulty in receiving them, which tends to start to normalize. And we are being very careful because there is demand, people are starting to redo their houses, and we are looking at this with a magnifying glass to be able to return to normal as quickly as possible. But as far as possible, we are taking care of what we can get here.

Gustavo Senday: Perfect. Thanks, everybody.

Vanessa Papini: Thanks for the question, Senday. Our next question comes from Maria Clara of Banco Itaú. Maria Clara, please go ahead.

Maria Clara: Good morning, Fred, Beto, Vanessa. Thank you for the opportunity. I wanted to explore the physical store trend and the potential for operational leverage.

The Same store Sales performance was undoubtedly a positive point in the top-line dynamics. In April, Fred comments that this performance continues to be strong. We know that this is the sales channel that has the highest fixed cost structure, but we have not yet noticed a greater dilution of expenses over the percentage of revenue.

I wanted to ask you to explore this topic a little more. Over the next few quarters, should we already see a dilution of expenses with the physical store performing? Thanks, everybody!

Frederico Trajano: Good morning, Maria Clara. I'm going to start here... Great question.

I'll start the answer, then I'll pass it on to Roberto. In relation to the physical store, what I said was that April is even better than the first quarter. So, substantially better.

We are very satisfied with the performance and with the prospects that it continues at a favorable moment. I'll let you answer about the expense, Beto.

Roberto Bellissimo: Cool! Good morning, Maria Clara. In fact, the physical store channel is the channel with the highest contribution margin and fixed expenses.

It is the channel that has the most operational leverage as sales accelerate. This is already happening. We increased EBITDA this quarter by more than 50% compared to last year.

In part, this comes from all channels, we said, physical stores have greatly improved profitability and in physical stores this has to do with sales growth. In 1P, profitability also increased significantly with the transfer of DIFAL. In the Marketplace too.

So, all channels are evolving a lot and contributing to this growth in EBITDA. Specifically in relation to operating expenses, yes, we had dilution due to the growth of physical stores, but on the other hand, I mentioned a little, the growth of the Marketplace puts some pressure on this specific line, but it more than compensates for this pressure on marketing expenses, logistics especially, at the level of gross margin, which is growing much more than the variation in expenses. This is the diagnosis for the first quarter and going forward as stores continue to grow more and all channels can expand and bring more dilution of fixed expenses to the company, for sure. We have a greater focus.

If you look nominally, expenses only grew 2%, with inflation which was a little higher than that, plus the growth of the Marketplace and everything else. And it's worth remembering again all the effort we made last year in simplifying the entire structure and eliminating non-recurring expenses, which last year had weighed heavily on our results. Indeed, we remain very focused on improving operational efficiency, optimizing fixed expenses and the growth of physical stores will contribute a lot to this as well.

Thank you, Maria Clara.

Maria Clara: Great. Thank you, Fred and Beto.

Vanessa Papini: Thank you for the question, Maria Clara. Our next question comes from Eric Huang of Banco Santander. Eric, please go ahead.

Eric? Let's move on to the next question, then we'll come back to Eric's question. Our next question will come from Alexandre Namioka of Morgan Stanley.

Alexandre, please go ahead.

Alexandre Namioka: Good morning, everyone. Thank you for taking our question. I just wanted to explore two points.

Most of my doubts have already been clarified in the previous questions. The first point is how we have to think or how you are seeing, in fact, the evolution between the channel mix from now on, especially, perhaps, looking more towards the second half, whether we should still continue to see store outperforming the 1P online operation or whether we should start to see a reacceleration. Did the reacceleration of channels benefit yours?

And the other question is related to the income tax part. This quarter, again, you had a benefit related to taxes on injured people, related to the operation, apparently, of Netshoes and KaBum. I'd like to understand whether we should continue to see these benefits in the coming quarters and perhaps understand more in depth what exactly these points are, whether it is more the recognition of annuals related to Netshoes' accumulated losses.

Thank you.

Roberto Bellissimo: Good morning, Alexandre. Thank you for your question. I'll start with the second part and then I'll move on to Fred to talk about the first question.

But, specifically in relation to the second part, in relation to tax credits in the income tax line, you are right, Alexandre. The part that at the end of last year we had recognized deferred income tax and social contribution credits not accounted for by Netshoes and KaBum, especially Netshoes, which had a long history of losses and, therefore, did not account for these deferred credits as it made a profit in the last two years and continues to make a profit. Last year we activated a significant part of these credits from the past and now, this year, we activated the part proportional to the current quarter. Both Netshoes and KaBum contribute positively with tax credits because they had not activated this value in the past and as they are making a profit, now they will activate it.

Next, we must maintain profitability based on, especially these two subsidiaries that are profitable and growing. This value tends to be maintained and another credit that we accounted for is related to the government subsidy. In our case, totally related to investments made in states that have tax incentives.

It is a presumed credit for investments and should also continue at more or less the same level as this quarter, in the order of 15 million per quarter for the next quarters as well. Those were the main points about taxes. Fred, now is with you.

Thank you.

Frederico Trajano: On the issue of trends, I already said it, but I'll reinforce it here now, e-commerce, 1P, had the basis of last year's DIFAL, it had yet to be passed on. As of the third quarter, we already have an almost complete pass on of pricing. As I said, it was R$ 1.5 billion in DIFAL that we had to pass on to the operation throughout the year.

This means increasing 1P prices. This ends up having an effect on growth. It improves the margin, but it also inhibits growth a little.

It is a factor exclusively in relation to this tax issue. The worst base was from the first quarter. It gets better from the second quarter onwards.

The second semester is much calmer. There is an opportunity to resume very good levels of growth. As of the second half of the year, we now continue to want to have the DIFAL fully passed on and reflecting this in the margins, as we saw in the first quarter.

Gradually, second, third, fourth quarter for 1P will be improved. We see the same thing for 3P, which had pass on not from DIFAL, in this case, but from Take Rate, which concluded in the second quarter of last year. The comparisons – from the second quarter onwards – but mainly from the second half of the year, will get better and we will see these channels growing more than they did in the first quarter.

We are very convinced that this will happen. Store. There is an aspect in which we have gained a lot of share, there is an improvement in the macroeconomic aspect for low-income consumers and, as I told you, the DIFAL too, it ends up increasing the competitiveness of physical retail in relation to retail general digital, I'm not just talking about Magalu. All these factors will keep the channel strong.

What I see – and we are channel agnostic – we always say this, is that the three channels tend to improve, as was the case in April, looking forward. We have this perspective. It will be more significant in the second half of the year, because my focus and my request to the team is to continue increasing the EBITDA margin, continue improving EBITDA growth from now on, also controlling financial expenses.

I remain very focused on profit growth for this quarter, but I see that from now on, and as I am seeing in April, the tendency is for it to improve, the comparison will be better over the next few quarters for all channels, except for the physical store, but the comparison is not so easy, it is doing well because it is doing well, but for the other channels the comparison tends to improve.

Alexandre Namioka: Perfect. Thanks, everybody.

Vanessa Papini: Thanks for the questions, Alexandre. Our last question comes from Eric of Banco Santander. Eric?

Eric Huang: Good morning, everyone. I hope you are listening to me now. I have two questions.

One going back to the services side, mainly ads. Please comment a little on the progress, if this has progressed within your expectations, how you have observed feedback, whether from sellers, anyway, and some tools or solutions that you believe can accelerate the level of adhesion for ads.

And one last quick one here, just about conforming shipping. How have you been listening to the latest news, have you been following it more closely, what are you seeing, what do you think could be the results of these latest discussions? Thank you.

Eduardo Galanternick: Good morning, Eric. Eduardo talking about ads. Yes, we have been seeing the evolution, be it on the platform, in all the product development we have done.

Last year, we did much development in relation to the sponsored product and sponsored search systems. We have been seeing growth, whether in advertisers or tickets. We published the ads as a whole, which involves more sponsored products, also involving the entire display and video network, growing 70% in the first quarter.

The feedback is we basically have a council of sellers, a council of advertisers that gives us feedback on the platform. We made a development at the end of last year, which started this year, based on this feedback, which is the sponsored offer product, which is something very relevant for sellers and advertisers in general, which is on the platform. For this year, we have all the focus, as Fred emphasized, whether on product covers, but also on the development of the team, business, ads.

We brought in a new person responsible for the business vertical in January, a person with a lot of market experience, who is structuring your team. We will certainly make a very strong movement in the second half of the go-to-market. We have the Magalu event, Expo Magalu, that will take place, where this should happen in a very visible way for everyone.

Frederico Trajano: Great question. About the issue of conforming remittance, we understand that the moment, the agenda is in the legislative branch and it should be there that the most relevant decisions from now on will be taken. My expectation is that the agenda will move forward, because it is fair, correct.

Ultimately, not only Magalu, but the entire IDV, all retailers represented by IDV are closely monitoring and hoping that justice and equality prevail and that being a foreigner is not a competitive advantage in Brazil, which competes in terms of equality and not with tax advantages for any reason. We remain confident that the agenda will move forward and I understand that it must move forward in the legislative branch.

Eric Huang: Perfect. Thank you for the answers.

Vanessa Papini: We are now closing the Q&A session. I want to give the floor to Frederico Trajano for his final remarks. Fred, please, you can go ahead.

Frederico Trajano: Thank you very much for participating in our results code. Good Friday everyone. Happy mother's day.

Vanessa Papini: Magalu's conference call is now closed. The investor relations team is available to answer any other queries and questions. We appreciate everyone's attendance. Have a nice day.