CONFERENCE CALL TRANSCRIPT

2Q16 Results

August 4, 2016

Operator:

Ladies and gentlemen, thank you for waiting and welcome to the Magazine Luiza conference call on 2Q16 results.

Participants are only listening to the conference during the Company's presentation. Then we will be starting the Q&A session, to provide further instructions. If you need any assistance, enter *0 during the conference to ask for an operator.

Now I would like to give the floor to Mr. Frederico Trajano, CEO of Magazine Luiza. Mr. Frederico, you may proceed.

Frederico Trajano:

Good morning to all. Thank you for taking part in our results call. I am here today accompanied by our officers Roberto Bellissimo, Fabricio Garcia, Eduardo Galanternick, Marcelo Ferreira and Décio Sonohara, who will be available to answer questions after our results presentation.

Speaking of numbers, it is unnecessary to mention that 1H16 presented one of the most troubled political and economic scenarios in the history of our country. This instability negatively affected two of the most important indexes concerning Brazilian retail: the consumer confidence index and the unemployment rate.

Our segment, which is highly influenced by these indicators, dropped by 10%, according to IBGE, in the first five months of 2015. The only thing that we cannot say in this context is that we were caught by surprise. We knew exactly that we would face a difficult scenario in 2016.

So our team worked hard on four fronts of a great plan to face the 2016 crisis. These fronts are: market share gain without loss of profitability; implementation of our digital transformation strategy; strict control of administrative expenses and sales; and cash generation control and improvement. I will go into detail for each one, then Roberto Bellissimo will talk numbers further in the call.

As to the first front, share gain with maintenance of profitability is unnecessary. If the “economy cake” is shrinking, we have to try to grab a bigger slice.

So the focus from the Company’s revenue and sales point of view was to gain market share. Our challenge was to create this market share gain without losing our gross margin, our profitability, which is not an easy job.

We worked alongside McKinsey and carried out a detailed survey of share gain opportunities. We carried out a survey, category by category, store to store, to evaluate where we had granular opportunities, share gain micro-opportunities, and we set up an activation plan to be able to absorb these share gain opportunities store to store, category by category, with granular efforts of local marketing as well as pricing.

Result: in 1H, including 2Q, we gained share in all relevant categories of our business. We gained share in white goods, telephone sets, computers, furniture and image. In all relevant categories, we presented significant share gains in a similar context.

Without a doubt, 1Q revenue highlight was our e-commerce. We have already talked a lot about this, because it is a 16-year project. We are the only truly multi-channel operation in the market. All digital sales channels share the same back office, logistics and financial operating platform as the physical stores.

With this, our e-commerce operation has some advantages over the peer players model. We have a great cost advantage and, consequently, a major price competitiveness. Due to our lower costs, we are able to charge lower prices online as well. We also have a higher level of service than the market average, because we can use logistics of physical stores to meet lower delivery times and costs than those players who do not have a variety of stores and the logistic network of physical stores as a differential to meet e-commerce sales.

This year, this differential was marked by the crisis and the decrease of market irrationality, as a result of which market prices were more sustainable in the long run. This is the rule of the game we have always strived for. And finally it did. Today, there is more rational pricing in the market and online, and we have benefited from it.

In 1H16, e-commerce grew 30% against last year, a very significant result and well above market average.

During this period, I also highlight a number of actions we took, regarding e-commerce, especially the work we did for mobile. There is a large audience migrating from PC to mobile, and we made a series of investments alongside our business staff and our laboratory staff, Luizalabs Development.

We made a number of improvements, especially in the launch of our new app, our new sales app. With that, since the audience accounts for over 40% of the total digital audience, conversion, traffic and obviously sales rates grew in this period, which also really helped to drive e-commerce sales growth in 1Q16 and 2Q16.

I would also like to highlight, also in the digital front, the implementation of important projects that will supporting this sales growth in 2H and in the years ahead.

Our market place operation has been online since June, with some retailers and sellers already operating on that platform, and we are ready to climb this platform. We can talk more about this in the Q&A at the end of the presentation.

Our project for buying online and picking up in store is being fully rolled out. We have dozens of stores with this functionality, with a surprisingly large degree of support from customers, and we will eventually have over 50% of stores operating in this format. We are very confident that we will go through this rollout.

These two projects help both in sales and reducing expenses, mainly concerning logistics in the event of picking up in stores, once we take advantage of a truck that is already going to the store, so we have no additional delivery cost.

But as significant as sales growth have been, it would not be enough to generate our 29% increase in EBITDA, because with a two-digit inflation rate, in an inflation-indexed economy, where all of our costs, lease and employment contract are pegged to inflation, the Company had to go through a very hard, very detailed, very disciplined work to control our expenses.

We worked with another consulting service company, Galeazzi, on that front and launched two projects: zero-based budgeting and matrix management of expenses. We worked in ten account and expenses packages, including lease, freight, overtime, electricity, several expenses packages that we worked this year, and with a lot of effort from all the areas, a lot of involvement from all the teams that took park in these projects, we were able to record a 2% nominal decrease in our expenses this quarter, even in an inflationary scenario by 10%. We were also able to show SG&A dilution, which makes me very happy because it was a very difficult work to implement.

Finally, we worked hard to improve our cash management, focusing on stretching purchase terms, implementing the open to buy method for granular management of inventories and adopting a conservative approach to CAPEX investments.

I will now give the floor to Roberto Bellissimo who will provide better details of our numbers.

Roberto Bellissimo:

Good morning to all. Thank you for being a part of our conference. We start on page two, with this quarter's main highlights. Starting with sales, we grew almost 5%, with an increase in gross margin of 1.2 p.p., in line with our growth expectation while maintaining profitability.

E-commerce grew nearly 34%, reaching over than R$570 million in revenues and approximately 23% of our revenues. It is a very important operation in the Company's total revenues.

Operating expenses decreased 2% in nominal terms. So, in spite of inflation and increased taxes on payroll, we reduced expenses in nominal and percentage terms. In percentage terms, dilution reached 0.8 p.p..

With all this, we managed to increase EBITDA by nearly 29%, reaching R$163 million, a 7.6% margin and a R$10 million net profit, with a 0.5% margin.

As to the capital structure, a major highlight was the decrease of net indebtedness level by almost R$350 million in 12 months. It was a significant decrease in June against June last year. With EBITDA growth, we were also able to decrease leverage from a net debt/EBITDA ration from 2x to 1.5x.

An important point for this debt reduction was the improvement in working capital. We have managed to operate with very consistent working capital levels since the end of last year. When we compare the performance of the current working capital with the previous year, we also have a significant development directly reflected in the indebtedness level.

As to cash generation, due to EBITDA growth and improved working capital, we had an operating cash flow of nearly R$100 million in the quarter, well above the investment level, for example.

Last but not least, LuizaCred. It posted R$25 million income in the quarter, a fairly high ROE of approximately 18%, and all with improvements in default indicators, as we will detail a little further on.

On page three, we show the number of stores' evolution. In 12 months, we opened 25 stores. In the half-year, we opened one, but we already have approximately 15 contracted stores scheduled to open in 2H, most of them located in the Northeast.

When we look at our investment level, we invested R$ 50 million in 1H, an investment level lower than last year, mainly in new stores, in which we should invest a little more in 2H, and in renovations. When we look at technology and logistics, we increased investments in line with our strategic planning.

On the next page, number four, we show some of our gross revenue evolution. For the second consecutive quarter, we grew at a slightly higher pace than 1Q, almost 5%. In the year as a whole, we have an almost 4% growth this half-year. IBGE has reported a drop for the sector of approximately 10% in May, which is the latest data; a 4% increase against a 10% decrease. IBGE data also includes e-commerce, so it is a very significant market share gain.

It was more significant in e-commerce, which grew 34% in the quarter and over 30% in the half-year, against e-commerce eBit data of approximately 5% in the half-year. The difference in e-commerce was huge.

In physical stores, we had an approximate 4% drop in the same store concept, but we also gained significant market share in physical stores. Our basis for comparison was still relatively high for physical stores because despite the 15% drop in 2Q15, this drop was against our figures for 2014 where we posted over 20% growth.

In 2014, we enjoyed the World Cup and over 20% same store sales growth in 1H, so the basis for 2Q concerning physical stores was still relatively high. Even with this 4% drop, we gained significant market share in physical stores too.

Speaking now about gross profit, on the next slide, we increased the gross margin again, by 1.2 p.p.. It is worth mentioning here that we are comparing 'oranges with oranges'. We reclassified last year's numbers, payroll tax relief, from taxes to expenses, to enable comparison.

Without the effect of last year's payroll tax relief, we increased the gross margin by 1.2 p.p., highlighting a better sales mix, higher shares of the smartphone category, freight collection and assembly, which we started mid-2Q15, favoring the margin of categories such as white goods and furniture. As Frederick said, a less irrational environment in e-commerce, increasing margin and our e-commerce channel. It was a consistent margin increase in almost all categories and all channels.

As to operating expenses, we reduced SG&A as a whole in nominal terms by approximately 2%, which accounts for a 0.8 p.p. dilution on net revenue.

And we did this despite the payroll tax relief, which eventually increased social costs, given the 10% salary increase under the collective bargaining agreement, as well as a still relatively high inflation over a fixed cost basis, which, as you know, is significantly high in retail.

In order to increase revenues and further reduce costs, we have certainly made a great effort, and we credit ZBB with a lot of the work and matrix management of expenses.

As to investment and equity income, we showed that LuizaCred and Luizaseg's profit contributed a little less than last year, but still accounted for 0.7% of net sales and were positive results against 2H15. Later on, we will be talking a little more about this, especially LuizaCred.

On the next page, we achieved a 7.8% recurring EBITDA margin, one of the highest EBITDA margins achieved in recent years, with a 27% growth, again supported by small sales growth, but a large increase in gross margin and dilution of operating expenses.

On the next slide, talking a little about the financial results, we also showed an increase in financial expenses, but fully associated with the CDI growth rate and sales growth. Luiza Card's share grew; even with the small decrease in physical stores. This is a sign of our customers' loyalty.

This growth has a small impact on factoring cost and, due to e-commerce growth, third-party's credit card share also increased a little in our total mix. This is why the level of receivables discounts was a little higher, with a higher CDI rate quarter-on-quarter.

The good thing is that the CDI decrease trend is becoming clearer to the whole market. So these lines are likely to benefit as CDI rate begins to decrease.

When we looked at the indebtedness, we showed a significant reduction from a level of R$1.2 billion to a level of R$850 million, a R$ 350 million reduction in 12 months. We have reduced considerably since the end of last year and we have maintained this reduction. And again, leverage dropped from 2x to 1.5x, and much of it was associated with the need to reduced working capital.

This quarter, we managed to maintain the inventory turnover in line with the previous year and increase the average shopping time, doing a very thorough job as well as evaluating the turnover by category and supplier. We were able to increase suppliers' balance so that today our suppliers fund our inventory. We were also able to reduce taxes recoverable, accounts receivable and other working capital accounts as a whole, which were essential for the improvement of working capital and indebtedness profile.

Finally, on the next slide, we will discuss net income. A R$5 million evolution in 1Q, and R$10 million in 2Q. They are still relatively low, mainly due to financial expense and the level of interest rates in Brazil, but at least it is a positive trend against last year, and a perspective in interest rates decrease also exists.

As to LuizaCred, we highlight total sales growth. Luiza Card grew, both within Magazine's stores and outside of them. It is a great sign of the level of our card basis activation.

Direct Consumer Credit (CDC) continued to drop, increasing to 58%, in line with our more conservative policy, but much of this was offset by Losango growth, which accounts for almost 5% of our sales in physical stores.

We showed a small overview of our portfolio in arrears, and it is important to highlight that 1H usually shows an upward trend. Last year, there was an increase in 1H from 10.4% to 11%, a 60 p.p. increase. This year, the long-term indicator dropped 100 p.p., from 12.7% to 11.7%, reflecting this trend, the best mix in the portfolio and the trend for conservatism in credit approval. And the short-term default, also for the quarter, is very low. 3.9%, which is also a leading default indicator.

Finally, we show a bit of LuizaCred profit in two charts, one of the net income and the other of operating income. It is clear here, particularly in operating income, that throughout last year, there was a quarter to quarter decrease, especially with rising defaults, which has begun to reverse.

Operating income of these two quarters was almost R$50 million, similar to 2Q15. Not quite in the same level as 1Q15, as the default level is still a little higher, but the trend is positive as well.

It is worth noting that there was an increase in tax burden, from 40% to 45% over this operating profit. Even with rising unemployment rate and this whole crisis in the economy, LuizaCred has been quite resilient. It went from a R$180 million profit at the height of 2014 to R$120 million last year. This year, in 1H, it already reached a R$ 50 million profit, with a very positive default profile and a ROE of almost 19%.

These are the main financial highlights. I will now give the floor to Frederico. Thank you.

Frederico Trajano:

Thank you, Roberto. To conclude, we believe that, the trend for 2H, although still very low, is a slight recovery in economic confidence levels and, therefore, a consequential recovery in consumption.

The lower USD scenario can be reflected in lower prices and more consumption, but despite. Despite this, we will maintain our focus on previously described projects and on the implementation of our strategy to turn us into a digital company with physical points and warmth.

With this, we close our initial presentation and open the Q&A session.

Guilherme Assis, Brasil Plural:

Good morning. Thank you for taking my question. I actually have two. One is about the excellent e-commerce performance. We have been following what is going on with the competitors. I would like to know what your perspective is.

There is a competitor in disruption, which I will not even mention the name, but they went through management turnover and fraud problems, so they are trying to relocate themselves, with even a change in the corporate structure. And another also had problems with suppliers. We learned about this on the 1Q results call and it seems that it continues to slightly affect the Company.

So we see a scenario in which two major competitors had issues. I would like to know your impression on dynamics, considering this. Have there been a truce in price war? Do you think this is sustainable? And is this growth that you are presenting sustainable in the medium and long-term? As you mentioned in the release, the market grew by 5% and you have grown by 30%. Do you think it is possible to maintain this? Or is the competitive environment going to become more difficult? How long does this take? This is one question.

The second question is: you also had a very high gross margin. You explained some of your gains, there is the matter of collection of delivery and assembly fees, but there is also a less mentioned effect, the technology innovation law, [*MP do Bem]* issue. I would like to understand this impact and about the 120 p.p. you gained.

I would like to know if you think this makes sense, because according to my calculations, approximately 30% of smartphones and tech products sales benefited from technology innovation law. The exemption would be about 10% of the revenue, resulting in a 3 p.p. impact in your margin. Is this calculation a fair assumption? What is the outlook for the technology innovation law?

On the call for the competitor's results last week, they said that they hope to achieve this injunction as well. I would like to understand if you think this trend concerns everyone loosing the benefit. I would like to have a perspective on that. Those are my questions. Thank you.

Frederico Trajano:

Thank you for your questions, Guilherme. I'll try to answer them, and maybe Eduardo and Roberto will add other information. Regarding your first question, I do not like to talk specifically about the competition because I think each one has its own specific status. I'd rather talk about our operation and about a theory that I have been defending for some time concerning the rationality of companies' economic management.

For a long time, there has been a situation concerning Internet competitors operating with very low margins that were not enough to pay for the expenses or return on capital. They were operations growing a lot, with high levels of loss, and I would always tell you in meetings and calls that it was an unsustainable situation in the long run.

The Internet and the digital era will revolutionize many things, except for companies' financial management. Shareholder investing in stocks want to make money. They want pay dividends and want the stocks to rise. This does not happen if the operation destroys cash.

We even see Rocket Internet out there being pressured to be profitable. This is a global concern.

Amazon had a very good result last quarter. There is a trend worldwide for online operations that used to be loss-making becoming profitable. They now have to play by the rules, which is selling at the right price, not giving free shipping when it is not possible. This is the rationality rule.

This is an invertible trend, from my opinion. I also hope the market does not continue to encourage operations that destroy value and cash.

In this sense, we have always played the rule of the rationality game, so we are benefiting from this issue. But I want to emphasize that we have a structural benefit of the e-commerce operation because of our multi-channel operation.

The fact that our operations share fixed costs, as described earlier, in logistics, information technology, and even back office - we do not have two CFOs, we have one, we do not have two CEOs, just one - all for retail that, whether online or not, has a low margin, is important. I also think this gives the Company a clear strategic advantage.

And with that I am indeed comfortable to continue to grow above the market, as we do. If you look at the last five years, we grew above the market.

Just one thing, Guilherme, the e-commerce basis in 1H15 was low. The e-commerce basis in 2H is higher, so I do not know if we can maintain the 30% growth, but we will fight for this. We are very confident and the operation is going very well. Even in July it went well, and we tend to have good months ahead.

But there us the issue of comparison, since the 1H15 basis was better than 2H, which is the opposite for physical stores. The physical stores basis in 2H is more favorable than 1H, so we tend to balance this growth, but in general, we continue to operate with a higher growth.

Guilherme Assis:

Just exploring, I understand the issue of not specifically mentioning the competition, but what I wanted to understand market dynamics better. You talked about outside trends, but by trying to see what is happening in Brazil, I think there was a disruption of competition in 1H. After 1H, if you evaluate each competitor in the market as a whole, do you think this trend of less competition for price is becoming common or not? How do you see this?

Frederico Trajano:

As I said, I see that there is an irreversible trend. I see that fewer competitors will price below the cost they pay to suppliers, which happened a lot in the past.

I really feel this is an irreversible trend. Maybe in a month or another, there is a policy change, but the short, medium and long-term trend in my view is irreversible through rationality, which is good for Magazine and all for the competition as well, because both our shareholders and the competition's want sustainable and profitable businesses.

Guilherme Assis:

Alright. Thank you.

Frederico Trajano:

As to the second point, I will let Roberto speak. We do not give disclosure regarding our mix or out market share, especially because it might be a very strategic information. Therefore, I will not go into detail about the share of telephone sets in our mix in general.

What I can say, and I would like to reinforce it, is that Brazil has one of the highest tax burdens in the world. It already did last year, and there has been a number of increases from last year to this year. I think managers have a fiduciary duty to defend shareholders and customers' interest, and we can do this two ways: legally and institutionally.

Legally concerns questioning the increase that we consider unconstitutional, with solid theories, techniques, first-rate offices; and institutionally concerns class representative agencies, such as IDV [Retail Development Index]. It is about fighting against absurd increases, asking the government for more efficient management of expenses etc.

There was a series of tax increases this year: EC [Constitutional Amendment] 87, the end of PIS/COFINS of technology innovation law, a number of ICMS tax increases in several states. It also happened in Sao Paulo last week. Anyway, a huge amount of tax increases, most of which do not include a legal argument that could technically be defended. There is nothing we can do but accept it.

When there is a plausible or technical theory that went through the audit committee compliance and was approved by the Board, we work both legally and technically with leading offices and we have the obligation to move forward with the process. That is exactly what we did in this particular case, and this preliminary stage was successful.

There are several companies that have been successful in the preliminary stage. I do not like to mention names, but I will speak of Abinee, an agency that is applying this theory in all their operations as strategically fits them.

So we will not disclose amounts. We did not do this in 1H and I cannot do it via call now, but I want to explain the rationality behind it and emphasize that we go through all theories, not only this, with the Company's strict control, governance processes and compliance .

Roberto Bellissimo:

Good morning, Guilherme. Just complementing, the margin to disclosed is entirely comparable with the last year's gross margin, once there was no PIS / COFINS last year or this year. We adjusted to effect of increased taxes on payroll.

So the 1.2 p.p. margin increase has no PIS / COFINS effect. Therefore, it is a result of all that we have said, as the best mix, freight, assembly, e-commerce channel etc. And as Frederico said, we do not comment on mix or PIS / COFINS benefit amount, neither last year nor this year.

As to expectation, it is favorable. We included in the explanatory note that our internal and external legal advisors' opinion is that chances of loss are possible but remote, So the chance for success is more favorable. We will continue monitoring everything and informing the development market.

Guilherme Assis:

OK, but the issue question I would like to understand is that today, you have an advantage that not all competitors have. So in some way, this helps your margin. I did a quick price search and you are charging for a smartphone the same as the competition, which is very empirical. So your margin is higher because you are not paying taxes.

What I think would be important to understand, at least through the information that exists today that you will be able to maintain the benefit... It would also be correct I infer that this benefit should be extended to everyone, so this advantage tends to drop and there should be an impact on future margin.

This is the most important thing to know going forward. With the situation as it is today, it seems that there is a difference between market players and I think this is not sustainable. I imagine that either everyone loses or everyone wins, and there must be an impact on the margin. Is this your understanding?

Frederico Trajano:

As I said in my initial statement, Magazine gained share in all categories in 1H. White goods, image, information technology, furniture and telephone sets. All categories.

We had a very good performance of e-commerce, which does not benefit either of the question; and as you yourself said, the pricing policy is no different from market prices policy, nor should be, because it is still a thesis in the evaluation process, so we can not do anything until we have a final decision of the process. But as we gained share in all categories, I believe that 1H performance is due to the Company's good general management.

Also regarding 1H, we had a significant expenses decrease, which has nothing to do with any tax item. I also wanted to stress that I do not know all the tax market theories. I know in some states, e-commerce may have benefits that we do not, such as Rio de Janeiro and Bahia. The Northeast has competitors with great benefits in taxes even more representative than ICMS. We do have this now but we may in the future.

So it is very difficult to make a prediction of what might happen. Each retailer has tax plannings. Some have advantages that others do not. I imagine and I hope that the whole market wins the theory. Several companies are gaining and applying the theory, as I have already told you. This is good for the market as a whole, for all consumers. I really hope that all companies are able to defend their theories when they are legally correct and when they go through procedures in court.

I cannot predict what is going to happen tomorrow, so I am in no condition to have an answer right now. Let's see what will happen to the market. But I hope that everyone can defend their theories technically, correctly, and that what is unconstitutional will not be approved.

Guilherme Assis:

OK. Thank you, Frederico.

Maria Paulo Cantusio, BB Investimentos:

Good morning to all. Thank you for taking my question. I would like to go further into the e-commerce growth issue. In the release, you mentioned the opening of the market place operation this quarter, with approximately ten sellers, if I'm not mistaken. What we have seen, and I do not know if it is a coincidence, but operations with a more evolved market place have failed to provide a growth as high as you.

When we search for some type of product, the range of items is huge, but filtering tools are not as efficient. I believe they still need some adjustment. Also, the delivery term issue has increased. This has always been an idea supported by all retailers, of trying to reduce the freight time. Today, we search for a type of product and sometimes it takes up to 60 days to be delivered. Complaints concerning suppliers have also increased.

In short, do you think that maybe some of your e-commerce growth is the result of some kind of migration from other websites to Magazine Luiza because of poor service due to the market place? Are you are working on these market place operation bottlenecks so that we do not see an e-commerce slowdown later on? That is basically it. Thank you.

Eduardo Galanternick:

Maria, thank you for the question. We believe that market place is a complementary strategy. We do not believe we will have a loss, or sales growth slowdown due to including partners within our sales basis.

Once we keep our conditions under competition, our volumes with the industry and our multi-channel strategy, which will bring benefits and cost, we expect to continue with a strong performance in sales growth of our own products.

Market place is to complement an additional assortment and situations that may lead to a rupture or purchasing opportunity for customers, and even more options of prices and delivery etc.

So we do not see market place as a future that will hurt our own sales. I cannot say if there is sales migration from the competition and whether market place is hurt their sales. I think they could provide more explanations about this, but, in our view, it is totally complementary.

Maria Paula Cantusio:

Thank you, Eduardo. And how you are dealing with new sellers registration in order to ensure that the quality is the same, both in service and delivery?

Eduardo Galanternick:

Within our strategy, we have a great concern for our brand. We are very careful when choosing our partners, both from a documentary and from a business history point of view regarding the company.

We also understand that in situations where we have hybrid products, as we call it, which are products that both we and our partners have, they will have the option to always buy it in our conditions and they will not suffer because of this. As to products that we do not have in our assortment, that come from our partners, long periods end, obviously, and that sale conversion is adjusted.

Our concern is having, within our market place, responsible and reliable partners, that provide proper attention to our customer. These types of partners will naturally have competitive terms; maybe not as competitive as ours, because of our structure, but they are in competition.

Maria Paula Cantusio:

Finally, Eduardo, at what pace do you intend the market place operation to grow? Do you have a target for the amount of sellers for the end of the year?

Eduardo Galanternick:

We cannot give you a target. We finished the first stage, platform stabilization, which is already changing. We already integrated SAC and e-commerce platforms, such as BTEC. Now we will be entering an expansion stage, as it says so in our release.

Our expectation is to be very solid and consistent, and reach several sellers by the end of the year.

Maria Paula Cantusio:

OK, Eduardo. Thank you.

Irma Sgarz, Goldman Sachs:

Good morning. Thank you and congratulations on the results. I have three very quick questions. First, I would like to understand if your focus will be on closing partnerships with large networks or if you are looking at smaller companies, joining the Simples tax regime, which might have other advantages in competitive prices. We see a different way for each company, some of them trying to close partnerships with major retailers with no specific operations or traffic, and, on the other hand, other market place companies capturing midsize companies. I would like to know your sales team focus.

Also, if you can talk a little about the fee structure for these sellers. If you can comment on the take rate that you charge them, and on any options to offer additional services to integrate to these sellers' offers.

The third question is to know your opinion on investment needs, not only for this year but in the medium term. We see some different strategies, some are asset light models and others are more vertical, investing in technological platforms, but also actually native when it comes to last mile delivery. Those are my three questions. Thank you very much.

Frederico Trajano:

Good morning, Irma. I will try to answer and Eduardo can add anything if he wants to. About strategic focus, we do not want to exclude anyone from the market place, but the future's big market is small.

It is very difficult to persuade the competition to put a product on your platform. Many have asked us to put a product into existing platforms but we never accepted it, because everyone wants to dominate this market. From a strategic point of view, the right thing is to focus on small companies.

There are thousands of retailers making online sales in Brazil, who are starting to enter the digital world and Magazine Luiza's focus is specifically on this market.

We think it will dramatically increase the number of companies, even offline, that migrate to online in the future, or that are starting their e-commerce. And since we went from offline to the online, we know the hurdles in this process very well. We want to share this experience, this knowledge, and we think we can help very small companies enter the market place.

So although we definitely do not want to exclude anyone, our focus is on small companies. So much so that we chose the Company's President, Luiza Trajano, as the market place poster girl, because for many years, she has had great representation giving lectures to small companies retailers and has a very strong name. She herself is Magazine Luiza's market place poster girl. We are excited! She is also personally very excited about the market place project.

When it comes to fees, the fee structure is very complex. It is difficult to give a very objective answer because it depends on the category and the level of services we want in the market place.

What we are trying to do is the following: first thing: when assembling our market place project, we were very thorough in trying to reduce all process costs, because we know that as a retailer, it is hard to make money on the Internet, and we wanted did not want our sellers to pay an expensive fee.

So we made a huge effort. The trend is that we have very competitive fees against the market, preferably less, with no income loss.

As you know, both market place and e-commerce need to be profitable, and there is potential for very good results because they are economics markets among the best. We try to be very competitive, below the market average, when it comes to fees.

And more than that, we want to launch a flexible fee structure, which is already in practice, in which the retailer, the seller chooses a simpler fee, which can be 6%, 5%, depending on the category - up to 15% if he wants to include financing, 10x without interest if he wants to include media that he will buy. Or we'll buy the media for him, in the more distant future, but fulfillment is something we will also discuss. We can use our stores for him to deliver goods and the consumer picks them up. He would obviously have to pay a fee for this.

So it's a competitive fee structure, with enough flexibility. This is the market place strategy accordingly.

To address your last question, Irma, from the CAPEX point of view, it is already happening in 1H, but we have a strategy that in the future, great proportion of our CAPEX in comparison to the past, is in logistics and technology. Technology is applied to logistics when we talk about it.

So basically, a big investment will be assigned to platforms, automation, implementation of our digital projects, because the vast majority is focused on technology. So yes, the future business trend is to be asset light.

But we will not stop opening stores. We will continue opening stores with a lot of discipline, with a very low square meter operation cost, strategically located, since we believe that the store is a distribution point, in addition to being a selling point, due to in-store picking solution. For us, the store is important because it has a competitive advantage even against e-commerce, when it comes to product delivery.

I said that by the end of this year 50% of the stores will have in-store picking solution. By the end of next year, we want 100% of the stores to have it. Every store we open will obviously have this functionality, this differential compared to the competition, which has no physical store. This can leverage this advantage.

But to answer objectively, yes, the Company tends to be asset light.

Irma Sgarz:

Thank you very much.

Luiz Cesta, Banco Votorantim:

Good morning. I would like you to talk a little more about the expenses. We saw a great evolution this quarter with all initiatives with your partners. What can we expect in in terms of additional gains? Do you think we can continue to expect these expenses levels nominally close to previous quarters until this is annualized, or is there going to be an improvement in the margin? I would like you talk a little more about your projects and what to expect in the future in terms of expenses. Thank you.

Roberto Bellissimo:

Good morning, Luiz. We cannot offer any expectations about the evolution of expenses. As we have already said, the matrix management of expenses has worked very well. There is a very strong discipline to monitor all expenses, to render all package managers accounts against all business units managers, Southeast, Northeast, e-commerce etc.

This matrix management of expenses has worked very well. Every month, we would stop for basically a whole day to review all expenses, discuss all plans of action to correct any deviations, exchange best practices, analyze not only the average, but study stores that are better than the average and the ones that are below, the ones above the budget and the ones below, try to improve the productivity of all stores, check expenses etc.

What we can say is that we are still focused very much on that. We have a zero-based budget for the year and we are following it very thoroughly, in line with this expectation. We will continue working to improve, to gain efficiency and, in the year as a whole, for costs to reach dilution and, possibly, to nominally reduce expenses as well. This is our goal. Reducing in both percentage and nominal terms.

As a result of the reduced expenses, we have gained productivity, raised high sales by sellers and employees in stores, implemented ZBB, made an adjustment on administrative expenses in both offices and distribution centers.

There are several projects in the projects underway in the Company for digitalization of physical stores; we have already said that in more than half the stores, sellers are assisting our customers with mobile phones, and this speeds up the service time from 40 minutes in the past to five minutes. Now we have higher productivity without losing service levels.

We changed the marketing strategy. We are more focused on regional marketing and social media. Our marketing expenses have also reached dilution. Our logistics is already very efficient for the sector, integrating both stores and e-commerce, but there are a number of projects within logistics to make it less expensive and to leverage these synergies. One of them is picking purchases up in store, which has had quite a successful initial operation.

We are also negotiating logistics contracts, lease agreements, and all other expenses that are part of the matrix management: as Frederico has said, lease, credit card, electricity, overtime, turnover etc.

So without any guidance on expected expenses in nominal terms, we can say that we are very focused on continuing this optimization process, efficiency gains without jeopardizing sales or service, but gaining efficiency, and the digitalization of physical stores will also help a lot.

Luiz Cesta:

OK. Thank you, Roberto.

Operator:

The Q&A session is now closed. I would like to give the floor to Mr. Frederico Trajano for his closing remarks.

Frederico Trajano:

I would like to thank you all for participating in this call. Thank you very much and good day to all.

Operator:

Magazine Luiza’s conference call is now closed. Thank you all for your participation and have a good day.