

## **CONFERENCE CALL TRANSCRIPT**

### **1Q20 RESULTS**

**26 MAY 2020**

#### **Operator**

*Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Magazine Luiza's conference call, referring to the first quarter of 2020 results. At this time all participants are connected in a listen-only mode. Afterwards, we will have a question-and-answer session when further instructions for you to participate will be given. If you need any assistance during the call, please ask an operator for help by pressing \*0. Now we would like to turn the floor over to Mr. Frederico Trajano, CEO of Magazine Luiza. Mr. Trajano, you may proceed.*

#### **Frederico Trajano - CEO**

Good morning, everyone. Thank you very much for participating in the results conference call. We have a very atypical situation for this call; we are in the middle of a pandemic, an international situation, and here in Brazil it is extremely delicate. We are holding the call at the end of May, one month after the publication of our original results. After all, this gave us some time for better preparing information we produced for you, as well as for having a slightly clearer view on our situation.

We have a different call format, a webcast instead of a call, with better audiovisual resources, which we will try to apply here, and I hope the videos will work and our presentation is good. As always, this is a differential; we are holding a webcast remotely. Our executive directors are all attending the call from their homes. They are also available for all questions if there is time. We will try to do it in a very objective way, so we can address all questions. Once again, thank you for your participation and interest.

First, I would like to say, as I show this slide, that I believe our company has taken the situation very seriously since the beginning, even from the beginning of March. I believe that even before, in February, our vision on the pandemic issue was limited to the disruption of the supply chain in China; this was the vision in February. But right after March, since the Carnival holiday, we already understood a pandemic was coming and it would be serious, as it was already hitting Europe. We really faced this whole situation with absolute seriousness.

So I think we made important decisions; we cancelled an event for three thousand people we were going to hold in Campinas, gathering all leaders, e-commerce people, store managers, regional managers, the event was fully paid and we cancelled it, we were worried about it.

We already started to analyze the home office matter, so we all started to work from home from the second half of the month. We decided to close the stores sooner; my point here is that the company took the situation very seriously since the very beginning, and tried to adjust to this new reality.

So we set up a new management model, activated a digital crisis management module and created 12 Committees for the strategic fronts we defined: if there will really be a lockdown, continuous social isolation, what do we have to do, what do we have to adjust here? This video I am playing shows that sailing is not about the wind, sailing is about the sailor, because you do not control the wind, you control your sails, and the way you will adjust. You can even sail against the wind if you adjust your sails correctly, but you have to gather the whole crew, have a good reading of the area and its status, and we are in the middle of a storm, the wind is coming from every direction. You need to adjust your sails in order to go on.

And that is what we did, we gathered the crew together, which is not an easy task, by the way; the crew that I have on this boat is fantastic, wonderful people who share the culture, who are absolutely competent, committed to the business, to the company, and very talented, with very special knowledge to deal with this specific storm. Digital knowledge is very relevant to overcome this challenge.

So we organized ourselves; all these committees had transformational objectives and goals, all meaningful goals; we had to make some very quick adjustments, with a management routine to follow up on these goals, with clear accountability of leaders and very fast decisions. I am certainly going to talk about it several times here, always with a cash-preserving vision; we had some short-term decisions to make, and about human lives, which I am going to approach briefly.

Between the end of March, during the last week of March and throughout April, this management reorganization led us to several absolutely intense actions, making fast decisions that would take us much longer to make, and this was an evolution in terms of delivery of new platforms, features, very intense sail adjustments and compression; I am using JK's motto here, since the beginning of April I already gave an interview to Folha talking about this, 50 weeks in 5. So we managed to solve many issues; our focus on the end of March, on April's issue about whether or not closing the stores, having the team work from home, which we will turn strategically. If we do not have the Retira Loja, we are going to ship from store, defining which category will be relevant to the consumer. I think there is a relevant date, the Government of São Paulo ruled out the lockdown on the 18<sup>th</sup>, I think, and on the 20<sup>th</sup>, we already had a free shipping movie for the market category at Globo. A week later we already had a movie at Globo, when all the stores in Brazil were closed, launching a platform, the Parceiro

Magalu, which allowed closed stores to sell online. The freelancers who were locked in their homes could also sell online.

So we had many significant deliveries in very short time, 50 weeks out of 5. These first five weeks meant house tidying, security protocol definition, security infrastructure definition and implementation. So many issues came up with very strong progress, an important adjustment in our sails at this stormy moment, winds coming from every direction, which culminated in the month of May; I am going to talk about many things here in this presentation. In fact, the most relevant issue is by far this number.

Until May 20, we are growing 46%, including 1P, 3P, with 60% of the physical stores closed. We are growing 46% compared to last year. I think this number expresses, in a quite objective, clear and definite way, the quality of work done by this team in the middle of this storm, and how much these sails were adjusted at the end of March, early April, obviously coming from a preparation of many years of investments in digital technologies, in team culture and management format, in order to have a very strong team. We are not only reaping the fruit of these five weeks of work, but of a whole history. You cannot make a difference overnight, this is a very good job, but in fact we are the results of this work done at the end of March and April, and we are growing 46%.

I would like to emphasize a few things about that number. First, the number was audited and comes from our accounting department. You cannot withdraw this number, it comes from the accounting area; I made a point mainly of GMV, a number that is not audited by the accounting area, I insisted on having it confirmed by KPMG in order to avoid any issues, discussions. This number is this number.

Second, we did not change last year's number, which is the one we reported last year, a high number, a high basis of comparison. Our comparison basis is very high; we have been growing for a long time. This is a higher number, Magalu as a whole, higher than before the pandemic. So with 60% of the stores closed, we reported GMV growth of around 35% in the first quarter. We are growing now in May and everything indicates that we are going to end May, it is still a few days away, but the numbers are very good, with stronger growth compared to the pre-pandemic period. I think we had the ability to adjust and speed up with the headwind, which I think is proof of that ability.

I think the important thing about this number, there is no hand goal here, is that we are not trading off here either, as I said. So we are not achieving this growth by releasing many sellers who do not issue sales invoices; on the contrary, we are strict about the issuing of sales invoices. Even the Parceiro Magalu, the small ones, are required to have digital certification, we are even helping them to get digital certification, the A1 Certificate to be able to issue electronic invoices. So here we make no concessions. I think at this time of pandemic, when we will heavily migrate from

off-line to online retail, governments will be much more attentive to the issue of tax evasion. Therefore, having a formal electronic retail network is everyone's responsibility, including the platforms, which cannot wash their hands and avoid responsibilities. Here you do not have that concession.

The most important for me is that we are managing to achieve growth respecting our employees' lives, health and safety. So we only accelerated after we had the safety protocols, made all investments to ensure that our DCs employees, our partners, the stores that reopened as of April 20 were working with absolute safety. I want my team here to work under safer conditions inside our working facilities than outside. So this is very important for me, there was no concession here, no trade off.

I have been speaking very often about it, and will even publish an article this week, probably on our LinkedIn or Midion, maybe even on the newspaper, that digital transformation is the only way to reconcile economic development and to preserve people's health. I think this issue is a great example, it should even inspire other people and companies, because we are not doing trade-offs, we are not making concessions, we think we can reconcile these two things today, as they are very antagonized, through digital technology. Digital technology can bring you economic activity; the countries with more relevant digital participation managed to do it and suffered lower impact from the crisis, they are recovering better. Did not shown encouraging data regarding economic recovery. So I think this is an important point that I believe businesses agree on.

You could say, but it is only for big, structured companies such as Magalu. No, through Parceiro Magalu we are making this available to small and medium retailers as well, because we strongly advocate digital inclusion. In a crisis, you need to have guiding principles because you make decisions every day, and these decisions sometimes do not go through that decision-making protocol, the traditional decision-making process. You need to have principles. And those principles need to guide your daily decisions.

So we adopted some principles from the beginning. First and foremost, we will not disregard health and safety; we will take care of the health of our employees and customers. But this is not only a protocol for governance compliance, to exempt us from any legal responsibility afterwards. No. It is about a health and safety protocol, health and safety infrastructure in practice. So that is what we wanted to do, and I am going to talk a little bit about it here with you guys, although it is never the topic when talking to investors, I think you should be aware of that. For example, Amazon had significant operational disruptions because I think in the beginning its security protocols in the United States were not ready, so there were some situations there on its DCs that we are trying to avoid as much as possible. Maybe it is not up to them, maybe when the crisis is very serious it is very hard for you not to have people

infected, because they are not infected at their work environment, but outside it. You have to make sure that work environment is safe for people. We are always measuring whether Magalu's people are safe working at the DCs, in stores, or in any other face-to-face situation.

The second is preservation of cash, so we first wanted to preserve cash, obviously if there is no company, there is no job. Thus, by preserving cash we preserve jobs. I will talk a little bit about it, how we entered this crisis with a strong cash position, but I would not want to enter a crisis with a lot of cash and be caught off-guard. So we worked as if we did not have cash in this crisis, preserving cash, adjusting to preserve cash, and not letting this excess cash make us less focused, less attentive. So we kind of hid cash, a good account, and worked as if we did not have cash, worked on our expenses, our whole austerity package and contract renegotiation as if we did not have cash. Also because we raised that money last year with investors to make investments, to make company acquisitions, to expand the company and not to spend in a crisis. So I guess that was a point. It obviously leaves us in a very comfortable situation.

This is slide number 5. I joke that if Magalu goes bankrupt before we run out of cash, as we still have cash for long time, we would hold on for two years with closed stores with the cash we have now. So this is absolutely safe, but we would rather reinforce it, so when the wind is favorable again for us to readjust the sails, and we have capacity to use this cash in a very smart way to consolidate the market and put us in a comfortable leadership position in the markets where we operate.

Another point is job maintenance. For such, we receive strong support from the Federal Government, with the MP which we obviously fought for via EDV, which by the way did a fantastic job in the development of the work, we worked together with the government. I think one of the things that works very well in the government programs is the new MP, which allowed the suspension of employment contracts and reduction of working hours. We have used it extensively, with a lot of support for our teams. So we are going to talk a little bit more about that. Obviously, operational continuity and acceleration, radicalization of digitalization were already part of our strategy. The company is already a digital company, but now we are in a cycle where we want to digitalize Brazilian retail, we want to be the operating system of Brazilian retail. So we got to speed up these issues with the pandemic. I am going to carry on.

Now we are going to slide 6. First, we talked about health and safety. Then we defined the security protocol at the DCs, because the stores practically closed on March 20. So the stores were closed, and 20,000 people left on vacation, everyone was home, safe. We had time to work on the security protocols of the stores and infrastructure. So we worked on infrastructure and security protocols at DCs. Hospital cleaning, I will show

you a video where you will see what the market is doing. Use of masks and alcohol gel in the beginning, temperature measurement. Temperature measurement not only when the employee enters the DC; we started measuring temperature before the employee took transportation to go to the DC. This kind of care, details that we started to apply, with monitoring and auditing to see if these issues are being monitored, as sometimes the guy takes off his mask and is reported. So we are struggling to monitor these issues. The same thing with stores that were reopen, some as of April 20, under strict reopening criteria. Some places where stores can be reopen, and I will talk about this later, are not open, because we believe that the municipal decision, the government of that specific place, was not appropriate. So at least for our standards, the decision was not adequate, so we do not think it is safe to open the shop yet, either for the aware or for... it is not safe. But obviously we put infrastructure there for all these temperature measurement issues. Also, regarding the security infrastructure issues that we are talking about, we are investing more and more to ensure the security of the teams.

We gave a lot of support for employees, home office; we released a series of questions, we anticipated the meal voucher, the 13<sup>th</sup> salary, reduced the sales target right at the beginning, created a telemedicine channel to avoid employees having to travel unnecessarily to the hospital. But if they had to travel unnecessarily to the health unit, if they could do it via telemedicine, we are giving it away for free to our 35,000 employees now. More than 2,000 consultations last month, and this has been avoided, because some cases that we followed were not people who got ill working, but because they were away, in some cases our employees were infected by COVID when going to the hospital, taking routine exams. I am not saying that you do not have to take exams, for God's sake, I think that you obviously have to go if necessary, even telemedicine will direct you to the hospital if you have any symptoms; but if it is not necessary, it is safer not to do it, as the bill is very high.

We have been there since the beginning, our data and analytics team produced information on risk scores since the beginning of April, per municipality, to make sure which stores could open, and which could not. Because there were some opening decrees there at the beginning of April. And we were not sure about opening the stores, so we created our own risk score, with the death rate per thousand inhabitants, infection rate per one million inhabitants; all these issues that we were evaluating, growth, occupation of ICUs, the situation of our partners, which are the HMOs that take care of us there, health plans that serve our population. So we got a lot of information from our team in order to be able to decide whether or not open, whether or not this was safe. So we finally got this risk score; today I see that even Rio Grande do Sul is developing a very similar score for resumption, by the way a fantastic work made by the State Government, which is following the same path. We at last opened

some stores, but we use this score to make sure we are opening in places where stores are not open.

I am going to show you a logistics video now just to make it a little bit tangible how our security standards are there on the DC, so you can see a little bit.

[video display]

A little bit still on store reopening; today, May 26<sup>th</sup>, 40% of our stores reopened. About 420 stores are reopening. In addition, we are moderately optimistic about the openings, as I said; we spoke in the management report about something I am calling here a natural geographical hedge, so to speak.

We historical characteristics, places where we prefer to open physical points, the vast majority of our stores are in small towns. So when you look at the map of COVID, I am on slide 8 now, you will see that most COVID deaths and cases, especially deaths, are in larger cities. Around 70% of deaths are in cities with more than 400,000 inhabitants and almost 50% in cities with more than 1 million and 400,000 inhabitants. Also, we have a distribution of stores, our footprint of stores, where 70% of stores are in cities with less than 400 thousand inhabitants. In addition, 90% of those stores are in cities with less than 1.4 million inhabitants. In addition, there are very few stores in shopping malls, 90% of our stores are street stores. So, we have a characteristic in our stores distribution, our installed store complex, which provides us with some optimism about having a good portion of these stores reopen already in June, and almost or probably all in the next quarter with the isolation measures. From what I have seen, like in Rio Grande do Sul, I think that São Paulo is in the same line, the government will release the smaller cities first. Besides being important from the sales viewpoint, these stores are also profitable, they are interesting squares from a profit-generating viewpoint. We will talk a little more about that with Humberto later.

As I told you, I am now on slide number 9; as for preservation of cash and jobs, austerity is the watchword. Again, we are entering this crisis with cash, a comfortable business situation. But we have entered it as if there were no cash, an austere and frugal mindset.

So we implemented several measures, then reinforced our cash position, issued debentures with a fantastic rate of 1.5%, CDI plus 1.5%, one of the best rates negotiated, obviously our cash position allowed us to raise at a low cost. In addition, we carried out a large number of receivables discount in order to strengthen our cash flow. We can even carry out new trades, I think, although there is an optimism now regarding reopening, there is still a risk that I cannot state, although I have not seen elsewhere in the world, that The Hammer and The Dance, that you can open, then increases in cases you close.

Moreover, remembering that Brazil is one of the only countries in the world that will reopen commerce while Covid cases are still growing. So I think there is a very delicate situation there, and we have to be very attentive to it, so I am not yet optimistic about pandemic control in Brazil; on the contrary, I am still very attentive about it.

We always negotiated and carried out postponements in a very serious attitude towards our suppliers of direct and indirect material; we have renegotiated expenses, and postponed some payments cordially negotiated there with our partners, which have recognized this now. I am sure you will recognize it because you saw that we acted properly. Moreover, we particularly supported the small ones, so we did not postpone the smallest suppliers in the chain; we even anticipated payments for small carriers that provide services and are part of Luiza Network, and offered loans to this team. In addition, even for the small sellers, we launched the Parceiro Magalu with subsidized rates, 3.99% take rate, and you know it is very low. But there is no profit from tragedy here, which is something we wanted to avoid.

We used MP 936 for most of the team, so many people there got into that government MP, and we made good use of it. We conducted a very detailed capacity study so as not to make any mistakes either for more or for less. In addition, I think we are benefiting from this right government measure, and so are our employees. This helps us to somehow reduce, equate, when you lose 80% from annually in April, the turnover of your stores, if you did not have the MP, it would be very hard to secure jobs. Therefore, it was fundamental in this sense, and I congratulate the government for this measure that we managed to implement with success.

And we set an example, I am negotiating a contract, we are reducing working hours of base employees; you have to set an example, so my salary was reduced by 80%, the salary of VP Fabrício Garcia was reduced by 80%, the directors' salaries went down by 50%, as well as the salaries of company advisors, showing that we have to set an example.

And I think everyone in the company somehow had some kind of contribution, even if it is a 10% reduction in working hours, even for high-demand teams, and I thank them very much for this understanding, for heading in the same direction as everyone on the boat, even if they are working, sometimes they have a job offer elsewhere, the e-commerce staff, Labs is still in high demand, they here holding firm with the company, thinking about the whole, the collective, and not only the individual. Partners were very engaged, so we have some properties that we rent from our holding company, which were the first to decide to reduce the rental of these properties. I am also very grateful for that. And they are socially engaged. Magazine Luiza is making some contributions through the controlling family to sellers, small suppliers, their employees, with several benefits. And for society, the controlling family has made a



point of taking it out of their pocket. So I think that this is proof of the serious governance that this company has with regard to all aspects that concern governance.

Now let us talk about digital; it took me a while to get to the main topic you would like to approach. Therefore, we, the company that digitalized Magalu, concluded this cycle some time ago in my mind, and started the cycle two years ago to digitalize Brazilian retail. You have seen this screen here for at least two years. What we have done now is we radicalized, accelerated many projects in our strategy. So there was exponential growth, especially in 3P. And here I wanted to highlight 1P, which is super important, physical store billing is very important, but we want to be the operating system of Brazilian retail, we want to be a platform that will digitalize the whole retail network. I think the countries with high digitalization had platforms that could strongly contribute to the acceleration of this digital inclusion. I am on page 13, I took a jump here, and then I will come back. Sorry.

So we have very fast exponential growth, new categories, we have kind of radicalized new categories as well, even entering categories that were not foreseen this year, which was the market issue. Superapp, which I think is what delivers everything to the end consumer. The Entrega Mais Rápida, and what I call Magalu ao Seu Serviço, several services that we provided only and exclusively for our 1P that we are doing for 3P too, for sellers. Therefore, payments, deliveries and other services, invoicing, backoffice, we are doing a lot; we are packaging well all our technology and making it available for sellers. We obviously want to become the best solution, the one that helps the most. Not only the seller who is already selling online, but also the analog.

Going back to slide number 12, one characteristic seen in countries hit by the pandemic, and of course China is the most emblematic case, is that you see there is a little change in profile, in shopping behavior, and also in which channel the purchase was drifting from. So if you look at China today you will see that, for example, you have some sectors in the post-pandemic period that are recovering very strongly, both online and off-line. The food sector was very resilient in the crisis and is still strong. That is the case in China. Same thing for drinks and house care, which consists of those hygiene and cleaning products. So all there on a very strong level both online and off-line, one axis here is off-line growth, and the other axis is online growth. And telephony too, communication products, telephony, tablets, etc. and so on; this product became almost as important as food, it lags behind food products, along with drinks, but these communication products went through a very big boom, because people are home, and need to connect and finally, these elements, these products had a boom, we have seen they represent an important factor. So not only in the e-commerce but also in new stores, which are recording a positive performance.

Some other products such as beauty and electronics, other than mobile phones and appliances, are showing recovery in China, mainly in the online segment. This is where growth is taking place, especially online growth. The point is, one way or another, what I wanted to show with this slide is that the electronics and consumer goods and food categories are doing very well; they are resilient, it is natural that they are reinforced. Overall growth in these categories is mainly driven by digitalization. So I guess that is something I wanted to go over, providing some context, then we can talk more about that in the questions and answers session.

On page 14, talking about category, as we talked about food, we soon realize that there would be very large demand for online purchases of consumer goods. What did we do? We exponentially accelerated all our market deliveries. It was not the focus category of the company for this year, but we decided to do it; the year was about the Tem no Magalu, but Tem no Magalu was mainly based on sporting goods, fashion and beauty products, and we gave a very big boost to basic necessities, from food basket and drinks to hygiene products, diapers, we are one of the largest online sellers of diapers and soap for washing clothes in Brazil today. This category already records the highest number of purchases, and generates most individual purchases in the month. This category is highly strategic for Magalu when it comes to the DAU. We talk a lot about monthly results, all users, in the app, but the focus of any Superapp is the DAU, the daily user. It is a number we do not disclose yet, but the number of daily customers has grown a lot in our app and certainly in the market, because we are only at the beginning of the journey, there is still a lot to do, although this is the currently the fastest growing category in Magalu, which has been providing a strong contribution.

This is not yet a profitable category; it is a category where we are working to achieve a break-even point, but it plays a very important strategic role for us in terms of use frequency, MAU growth, DAU growth. It is one of the main KPIs since the beginning of the year, and it is going to be a dead end, not only for the pandemic, but we will keep investing very heavily in these categories. In some cases like Pão de Açúcar, maybe even Carrefour, which have good online shopping experience. You have Rappi working in 17 out of 5,500 Brazilian cities. But in Brazilian interior, in the smaller cities, delivery of online products can take 15 days, with a feel rate of 70%. A very bad experience, we want to use our digital capacity to enter these categories, both in 1P, buying product and putting this product in our store, which is the ship from store, dark store model we are implementing.

We are placing products in 600 market stores in the warehouses of these stores in order to be able to deliver the same day, applying the dark store model using our own store and space, and via 3P, through the Parceiro Magalu. We did not achieve it yet,

but intend to digitalize the small retailer, besides acting as an operating system of food retail and payment support with logistics in the future. Those are the plans.

This category is here to stay, it is the beginning of a long journey, a marathon, and we will be very engaged and use most of our resources, our cash power, and the digital capacity of our business team, of Labs, to make this happen.

We established important partnerships, I am dealing top-to-top with most companies. We established partnerships with AmBev, Coca-Cola through its distributors, and are often speaking with Heineken, Reckitt, P&G, Unilever, Nivea, L'Oréal, Johnson & Johnson, Kimberly, Ypê, and Diageo, so we closed good partnerships, we are with the best brands there, it is a very selective 1P assortment, with higher tickets, which we think is the right thing in the chain. Finally, with relevant programs and simultaneous partnerships, a long-term proposal, feeling a lot the opening of the teams. We want to come here to add, to provide good services, in a very sustainable way.

As for the rest of the assortment, finally, Netshoes is doing very, surprisingly well, because the fashion line, sports products suffered a little in other places in the world. Marcio and the team did an outstanding job in this crisis. After April and a reorganization of the house, May was a very good month, which strongly contributed to our growth, with good margins.

We managed to close very important deals with Adidas. Through this partnership, we can now sell via marketplace premium products of these brands, Adidas, Mizuno, and actual Asics, brands that are complementing the Netshoes portfolio.

Zattini is doing very well too. It had the winter collection that went well. The fashion category in Brazil as a whole is suffering, but people still have to buy something, and they do it online. As Zattini is relevant in the online segment, it is growing strongly; we established several partnerships with Pernambucanas, Marisa, Besni, Anacapri, VR, Hering and several brands there that are part of the Zattini portfolio. Those that allow both Netshoes and Zattini are in the Minimundos da Magalu. So, whenever our partner allows it, obviously all this is always negotiated, they are also in Mundos do Superapp do Magalu. They have their own apps, but when the brands allow it, they are also in the same catalog and are integrated in Mundo do Magalu.

In addition, Época is a hit, it is doing very well; it is our cosmetics e-commerce, growing 150%; we published this number. With several relevant brands, it is the largest portfolio on the Internet today, and is very global. This is a good surprise for me, although the team is very good; it is really a fantastic growth, men and women obviously did not lose their vanity due to isolation. Those who need to buy are avoiding offline purchases and are buying online today.

I am going to show a video we are launching with a very strong campaign; we took strong advantage of our cash to spend on marketing too, to make investments in branding, to make these categories known. Everybody says, how are you going to be recognized, a company that for 60 years has sold household appliances, in other categories? So we are making strong efforts to build these new categories. There is a video at Magalu that is launching a pretty cool jingle. I just wanted to show you guys, so you can get an idea of what kind of campaign it is. Obviously there is a huge digital campaign in addition to this video, but I think it manages to make our positioning very tangible.

Very good, it is a short video just to give a... enjoy the webcast. Obviously all these worlds are in our Superapp. So we keep hitting Superapp, and today 70% of Magalu's sales come from the mobile channel. GMV from Magalu on the mobile channel.

MAU grew 111% compared to last year, it is already 21 million. As I said, the DAU posts strong growth, it is also very important, a 26-million installed base. This 21 million number also comes from the Netshoes and Zattini application, but we are investing in Magalu's growth.

The most relevant number is GMV, and not the MAU or the DAU; you have to sell, if I want to spend my cash to have 50 million MAU, I will do it. We always do accounting, audience and installation; we look at one star rating, bouncing. I put a number to support the path we are following, but what is important is to have 45% or 200% growth, not necessarily in the MAU. These numbers should not become more important than they are.

As for faster delivery, I think the crisis "clicked" in us. I believe we felt too comfortable with Retira Loja. About 40% of the customers purchased online and went to the store to get the product. With the crisis, the stores closed, and until then we would get authorization to open the Retira Loja. But we thought that to contribute to social isolation we could even make the Retira Loja available, negotiate it with the mayor: the client will just pick up the product here, I will deliver it to him at the store's door, like in a drive-thru. But I said, look, it is best to deliver it to the consumer's home. So, let us take advantage of this crisis, and then we had an important strategic redefinition, and we took advantage of the crisis to accelerate the ship from store, which is having the product in the store, the customer buys it, I deliver it the next day, possibly on the same day, which is our dream, and we will achieve it.

So we slightly shifted the focus from increasing the Retira Loja for Netshoes products to our own products, from 40 to more, to deliver to the consumer's home. The Retira Loja is still a cheaper option for Magalu, but ship from store is much cheaper than sending it to the DC. From an economic view, when we had the stores closed, I lost this option that was very cheap for me. So the truck was already taking the product to

the store and so on. So, what did we do? We said: look, come on... and then we started shipping the product from the DC to the customer's home paying a much higher fee, for 100% of online sales, it was growing a lot. The logistics bill was very high.

As we said: let us turn everything to ship from store and enable the stores to actually work as DCs, not just for pickup from the store, but also for delivery from the store. So we took Logbee, created an exponential growth plan with Logbee. In 2018, when we bought Logbee, it was a one-city store, and we started to operate in more than 600 stores that account for 90% of our cities there. Today, we are doing a significant portion of it, we are approaching 20% of the ship from store, wanting to get there. It is still a long way to go for the 40% of Retira Loja. Tomorrow we will enable both, there will be the ship from store and the Retira Loja, but our logistics chain will be mostly hyper local. We want the 1P and 3P merchandise in the future, but let us talk about the 1P first, so as not to get confused, getting closer to the customer. For our whole area of supply intelligence, we want to avoid excessive travel of the merchandise. Because the less it travels, the lower the cost. So I need to have the right product in the right store, when you buy it I deliver it to you close to your home. On the same day or the next. This is our focus today.

So here is Logbee, with over 600 stores. We built an entire system to make this happen. With all the systematization there, the store is working as a DC, so the stockist there is like a lecturer, he picks up the product, he receives the product, he beeps the product, there he goes to the storage, he has to count the stock all the time, he has to manage the whole stock, the customer buys, he already picks up the product, he already orders the delivery. After all this on track, there were many deliveries from Labs to make this happen. It is much harder to do this in practice than it seems. And the hardest thing, I would say, which is now our challenge, is to have the right product, the right supply for those stores, which is what we are working very hard to do right now, to put the product in those stores and in the right DCs that serve those stores, so we can raise this level from almost 20 to a higher number from ship from store. Remembering that Retira Loja was 40%. Altogether, they are expected to account for more than half of our sales, for sure.

So, today you see that Logbee is 60% of our 1P courier sales. The Luiza Network accounts for 90%. We depend very little on carriers in the market, the carriers are handling very high volumes due to growth of e-commerce, and some are breaking. So it is very important to have your own network at this moment, you have some security. Unfortunately, I depend on...I mean, fortunately, we have our own network, but unfortunately for the market some carriers are handling very high volumes, without capacity to meet demand. Some locations like Rio de Janeiro, for example, have

serious problems with the postal service and delivery terms due to COVID, several employees had to leave. The postal service is carrying out a heroic service, I think they are going very well, the new management is highly competent and efficient. But some locations do not rely only upon the postal service, which depends on the market context, and had strong evolution. Therefore, the postal service is facing trouble in Rio, in Pernambuco, other carriers in São Paulo. So it is good to have your own network, but obviously, we still depend on third-party carriers, which are important partners.

I even wanted to use Logbee for 3P; we will see we are at 20%, Logbee and Luiza Network at 20% of the total for 3P. But 1P has grown so much that it has absorbed this additional capacity that we are putting from Logbee and Luiza Network. We grew from 0.3 to almost 20% in a short time, let us say in a couple of years we launched the mode, it is already at 20% of the total, we want to further expand Logbee and Luiza Network to get a bigger share of 3P. That previous number, I am on page 21 now, the previous number was the 1P number, so we also want our own network to have a bigger share in the total of 3P, and we are working to achieve that.

We call Magalu Serviços. Magalu Entregas 80%, but sometimes I pick up the product, the seller ships the Magalu Entregas directly with third parties and not with our own network. Now, from Magalu Entregas, of the total 3P that we pass through our network of 20%, we want to grow with it, and we just do not grow more because we grew a lot in 1P. 1P is growing 200% now in May. So it is practically absorbing all the additional capacity that we are building at Logbee and Luiza Network. Anyway, we have a very big commitment and are going to accelerate this investment so we can also provide the seller with our own network that is very efficient and cheap. Finally, if we need to continue relying upon third parties, we will also continue.

As for physical stores, I wanted to talk a little bit about their performance. It is on 22. We already had our more than 10,000 salespeople enabled with mobile sales, with the company's own equipment, a system absolutely integrated to our stocks, and integrated with payroll, with all the issues, and we only enabled it to use mobile remote sales. So we have sales of products and services, they are integrated into all social networks. I have vendors doing fantastic numbers with the mobile remote sales, and finally, I will not give many details here, but there are vendors selling R\$ 600 thousand per month, one from Recife, one from Franca selling almost R\$ 300 thousand per month, so we have significant sales here. Mobile sales go into the store, it does not go into e-commerce. Here at Magalu our rationale focuses on the person who originates the sale. So in this case it is the store team that is originating the sale.

In this mode it is necessary to work with margins that are closer to the store than e-commerce, as you are paying the salesperson cost. Therefore, if you work with the e-commerce margin paying the salesperson, you have a lower result. So we believe that

it will help us to sell more in the physical store, we book in the physical store, the model is more in the physical store than on the website, so we are separating the fields. In addition, all remote mobile sales go to the physical store and not to the website; the project is evolving very well and speeding up. Today we have around two thousand people selling; we will increase a lot in June. In addition, as people are leaving the MP they are coming in, we want to guarantee that they will have a good salary too, and sell at least about R\$40, R\$50 thousand per month there, on average, obviously there are those who are outliers, to earn a good salary and have bigger gains than they would be earning. I will not take them out of the MP to sell remotely and not earn the same money. But the project is going well, with several deliveries that we will show ahead.

On slide 23, I wanted to talk about the results of the physical stores that reopened. We are having an even surprising result. In those physical stores, although open, we only have 40%, 60% less physical stores open than last year, we only have 55% of sales below last year, and the number we reported in the management report. It means that we are having the same positive store sales from those stores in relation to last year, low single digits for those stores, but we are having a surprisingly good result there, given all restrictions, with people afraid to go out on the street, but we are selling well. I cannot say whether this is a long-term trend, but we started to reopen in May and since the end of June, and had very good results.

We are avoiding excessive campaigns which can bring agglomeration to the store. We open quietly, very carefully, with all infrastructure, security protocols. But they are doing very well; the team is working very well. Finally, I believe that, as I said in the natural hedge part, we will have more stores reopen in June. I do not need to say how important they are, both for our result, as it generates a positive contribution, and for the website in terms of Retira Loja, which we are implementing, as we are sure that this will not generate inconvenience for customers. We are also rolling out the Retira Loja. Ship from Store, these stores were already operating before, but without the presence of customers.

Finally, I wanted to close my presentation by talking about the market; I think the big highlight of the company's results in the first quarter and April and May was our partners, the sellers; we further advanced in this matter, because sellers we were approaching until the end of March were already digitalized, so there are 5 million retailers in Brazil, of which only 50 thousand sold online. We were looking into those 50 thousand sellers. We decided in the pandemic to accelerate an important project, which was the iPDV, we changed to Parceiro Magalu, to help the small and medium retailers that had their stores closed, so they could sell online; we developed a very easy, frictionless system, but we obviously required the seller, in this case, to have a

CNPJ (corporate taxpayers' ID) valid for more than three months, and all negative certificates. So we really did a fantastic job there. In one day, the person gets to go up to his/her shop if he/she has everything regularized, otherwise he/she needs more time. There are some sellers still going through the regularization process and we are helping with that at closed Commercial Meetings that issued the certificate so the seller can sell online. We were able to carry out the process on a digital basis. More than 20 thousand CNPJs that registered in the platform last month. And the platform also has the former Magazine e Você, which is a self-employed person who wants to sell a product, and this is different, the Parceiro Magalu Pessoa Física, where you can sell the product, set up your own store, sell and earn a commission, and it is also increasing exponentially. Over 300 thousand people on this new platform, all very simple, very easy to use, helping two segments of the population that were absolutely devastated, with great difficulty to survive economically amid social isolation generated by this pandemic.

Again, I strongly believe that digital transformation is a way to reconcile economic activity with respect for the government's social isolation measures. I think these two things can be reconciled, and digital is a key to that.

I will show a video of a Parceiro Magalu to more clearly show how it helped; I received these videos on a daily basis, in addition to testimonials, and this has filled us with pride, because part of our purpose is to bring access to many, which is the privilege of a few, and generate digital inclusion.

[video display]

"My name is Vicente, I am 68, I am a micro-entrepreneur in Uberlândia, MG, and one of the owners of Puranata and we work here, myself, my wife Tania, my son and 3 other employees. Before Covid 19, our activities were quite intense in terms of sales, because we attended most of the buffets, restaurants, snack bars and pizzerias in the city. My sales dropped by 90%. Today we have recovered around 30% to 40% of sales, and this tool has helped a lot because it is immeasurable. I would not imagine that what has been happening here would be possible. I was watching TV, saw the Parceiro Magalu advertisement. My son did some research, registered with us and it is working. This is something that really means a lot, I did not imagine that. But it was through my son, who opened my eyes and said: dad, your partners are practically standing still, so we have to create this sales alternative - and it is working. They are navigating with the greatest ease, there is no difficulty in the operation, the system is very simple and comfortable to work with - and practical, especially. The order arrived, it was packed, sent by mail, and it is very easy to handle. To small and micro-entrepreneurs, I would recommend, yes, the Parceiro Magalu. It is a very easy and dynamic sales platform and has really contributed to my business".



Human Resources just complained that my presentation is taking too long, so I am going to try to speed it up. To finish my presentation, I would like to point, also as a milestone we had in April, is, as you know, the announcement that we launched our Magalu Pagamentos last year. We became a sub-buyer, which used to be a partner of ours, so we got this portfolio, and in April we already generated R\$ 500 million of TPV, which went through the platform of Magalu Pagamentos and already accredits us, and obviously, we automatically filed an application with BACEN to become a payment institution, to be able to launch new financial services. In the future we will obviously tell you what these services will be. Most of our sellers are anticipating the receivables on the platform, and this is generating increased take rate for the company or revenue from the anticipation. We have the take rate, or the seller can anticipate, in both cases, this increases our revenue, this helps the market to improving its economics, which is an important way for us to grow the market revenue, which will be in fact a great generator of results for the company in the future.

We believe that the result of the company, its profit, its value, will strongly derive from the market's growth, which has intrinsically very positive economics; I do not understand pure market platforms that do not give results, because they should provide high profit, especially the more mature ones. But in our case we strongly believe that with this platform we will finally have economics of payments, additional services generated by delivery and the take rate for sale generation. We believe that in the future this will bring joy into our market from a cash generation viewpoint, and this is why the payments platform is so important. Now I will let Beto talk about the seller's FDIC.

On slide 27, we see that our market grew far more than average market growth. E-commerce as a whole is growing far above the market, but our 3P is particularly shining. Therefore, we see that it grew in the first quarter by 185%, the number of SKUs of 170%, helping Tem no Magalu, and sellers grew 430%. Thus, without a hand goal, with every seller issuing a sales receipt, without giving up our care about the reputé of these companies. There is also the fact that they have to work formally, seeking to maintain the level of service. There was a drop in the level of service in April and March, mainly because there is still dependence on third party carriers, and some of them unfortunately had problems with this additional capacity. This was not due to incompetence, but to the new people, strong volume increase sometimes unplanned. Despite this, we wish to significantly improve market service levels. From a growth viewpoint, our market growth is obviously strong, far bigger than shown by market publications.

This is our strategy, our digital platform. It is a digital company for a digital platform, an ecosystem, the operating system of Brazilian retail. So this is the focus of the company,

we have already digitized Magalu, now we want to digitize retail, and we will do this through our Magalu Serviços, market platform.

We already talked about growth; I am not talking about growth anymore. We grew e-commerce to 138% in April, and 230% in May. Such growth, on slide 28, of 73% from the first quarter comes on top of 50% growth from the first quarter of 2019, in addition to 65% growth from the first quarter of 2018. We did not have a weak base, our base is high, but we have multiplied our e-commerce six-fold in the last six years. If you take the published revenue of all major players in the market and add up their GMV, take the share of each one in relation to that sum, you will see those who are or are not gaining market share in e-commerce. So only Magalu has been gaining share in the last few years.

If you consider the top four players in Brazilian e-commerce, I think it easy to calculate, add the GMV published, avoid republications, and you will see the players that are or are not gaining share. It is very simple to calculate. Take the first quarter, add GMV from all players' e-commerce, take the first quarter of last year, do the same thing, and from two, three years ago, and you can see those which are growing above average, gaining share; it becomes clearer, more objective information, without narratives that are not concrete and real.

I will finish my presentation by speaking about the donations on page 30. In fact, the company, the Garcia and Trajano family supported society, buying respirators, mattresses, heart monitors for Emílio Ribas Hospital, Santa Casa de Franca, and donating to NGO Amigos Do Bem. Now we are working with tablets with zero profit, zero interest for the students of the Public Education System of the State of São Paulo. A procedure we are carrying out for the NGO Jair Ribeiro, who created this action, and we are embracing the cause, donating to teachers too. The donations to teachers are still underway; we launched this plan for students because we wanted them the public network students to have the same conditions as the private network students. We helped more than 38 institutions in ten states, and will probably expand; the family will increase the volume of donations. Therefore, we think that solidarity came with the crisis, and it is not going to come back. We are very happy to be able to contribute in some way and want to intensify these contributions.

To finish my presentation and turn the floor over to Beto, again I apologize for being a little late, but there is a lot of new stuff, 50 weeks in 5, I cannot do it in 30 minutes. We have been recognized as one of the brands most valued by customers, more recognized by the client, dealing well with the crisis, with several different studies published, we are either the first or one of the top three. We are not looking into this, but in fact we are very happy with this recognition, we think that what the companies are doing now will be recorded in people's affective memory, and they will certainly

be, and are increasingly socially aware, and will be shopping based on this affective memory, valuing companies that are doing the right thing, or at least trying to do.

Not only will we get it right, we are sure to have made several mistakes, we have many challenges that Beto will pass on to you. But we are trying to do the right thing. Thank you and I am sorry Beto, for taking so long.

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

Good morning, everyone. Thank you for attending our first conference call. I will try to go faster to buy some time. Starting on the highlight slide on page 29, we talked a lot about sales. Our total sales grew 34%, reaching R\$7.7 billion. With the temporary closure of the stores, we estimate to have lost approximately R\$500 million in sales.

Our same store sales were -4.5%; revenues would probably be around 8%, it was at this rate, and we lost 10, 15 days of sales with closed stores. This represents 8%, from 8% last year. So, we have high growth also in physical stores. Marketplace, e-commerce and marketplace are super highlights.

As for EBITDA, we had already spoken, we continue investing in service level, logistics, service and new customers acquisition, in search of much higher growth, as we spoke in the last annual letter too. In EBITDA we have a little of this effect of increasing expenses due to all this increase in service level, the incorporation of Netshoes, which we have not yet integrated and will do so over time. In addition, mainly this quarter, the temporary closure of the physical stores. Our dynamic results in the physical stores is in a way that the physical stores already have a very high gross margin, much above our average. In e-commerce, the average is much lower. Physical stores have a high gross margin, but have high fixed expenses too. When you close the stores in the middle of the month, at the end of the month, there is not much to do, most expenses were already contracted, are already in place. So, if you make this estimate of lost sales, gross margin and some variable expenses that may represent a very high contribution margin in the physical stores. We estimate that EBITDA would grow by more than R\$100 million. Without that, adjusted EBITDA was R\$274 million, our margin fell from 8.9 to 5.2, and probably would have grown 1.5 to 2 percentage points without the temporary closure of stores.

We then diluted financial expenses. We had a net profit of R\$31 million, and adjusted a loss of R\$8 million. In terms of capital structure, just to reinforce as well, we have a net cash position of almost R\$4 billion. It is certainly one of the best capital structures in the market today. On top of that, when we add up total cash and receivables and the recent issuing, we have a position of R\$5.4 billion. So, we have very high liquidity there, and a very solid capital structure.

I will go quickly through the next slides. On the next slide, we show very fast growth in the number of active users; we reached 21 million, as we already mentioned. A number also growing very fast in the active customer base, we reached 26 million active customers, growing 43% compared from last year. The number of e-commerce customers almost doubled compared to last year. Therefore, we see several very positive numbers there.

In terms of physical stores, we opened almost 200 physical stores in the last twelve months. Therefore, growth is also much accelerated. We invested more than R\$100 million in the last three months of the year, also growing 31% compared to last year.

Then we show the evolution of sales and quarterly, then you can see that this quarter, even with all this we sold R\$2 billion more than the same quarter last year. If it were not for the closing of the stores, it would be R\$2 billion and a half more in sales than last year. It is a very high growth. The e-commerce also, a very high growth, we have already highlighted a lot, 73% for the market that according to Ebit grew 23%, 24%, we grew three times the market.

This is the evolution of gross profit. Our gross margin decreased by 0.9 percentage points, due to the increased participation of e-commerce; again, we work online with the lower margin. Closure of physical stores had some impact on these numbers, if physical stores had sold more R\$500 million, gross margin would have been higher. The same reasoning applies to expenses; if they had been lower, it would not be possible to dilute expenses this quarter. We were posting growth in the equity pickup line; but in this quarter profit totaled R\$5 million from LuizaCred, which resulted in equity pickup of R\$2 million less the negative result from LuizaSeg. We will talk more about LuizaCred ahead.

The next slide shows the quarterly evolution of EBITDA and all factors that we have already commented, which greatly influenced EBITDA. After talking a little bit about financial results, we diluted financial expenses, 0.5 percentage points. If you take away the IFRS 16, this interest income from leasing operations, the drop is 1.8 percentage points to 1 percentage point, resulting in very low financial expense. Reflecting the company's capital structure and the fall in that too, it is an anticipation of receivables. This represents less financial income, so to speak.

Now let us talk a little bit about working capital, I will explain a little here. We had a variation, from -R\$1.8 billion to R\$500 million, so it had a variation of R\$2.3 billion, which was totally associated with a reduction in the balance of suppliers and an increase in stocks. So, what did we do? Note that in the last quarter as, working capital, as we sold a lot in the last quarter, it always dropped a lot, and it reached -R\$1.8 bi, and there is a supplier payment carried out in the next quarter; we decreased the balance of suppliers by R\$1.8 billion this quarter. So, we had a cash drop due to

this reason, but from now on, the balance of accounts payable is much lower, we are only with R\$4 billion of accounts payable to suppliers, with R\$4 billion in stock. Therefore, this quarter ends with a balanced relationship. While normally the balance of suppliers is R\$500 million, R\$1 billion, which is higher than the stock balance.

In this sense, this R\$500 million working capital position would normally be less R\$500 million of working capital, as it was in March last year. So, this R\$1 billion variation is basically associated with the increase in inventories that we strategically had. Since the beginning of the year, we started to estimate a supply risk, and decided to increase the stock level by about R\$500 million. In the last days of March, we also stopped selling around R\$500 million. So, all this contributed to an increase in the level of stocks, for R\$1 billion, and our turnover went from 70 to 90 days, which is not our normal level, our normal level is to rotate the stocks in 70 days.

Then it has already started to happen, another advantage is that our entire stock is multichannel. So with growth in e-commerce it is already selling many products from the DCs, from our turnover, it is already improving a lot. I am talking about very low suppliers because we paid many suppliers in the first quarter. Therefore, we are already generating high cash, including the variation in working capital, which is already contributing this quarter and will strongly contribute in the next quarters as well, probably by the end the year it will reach a similar position compared to last year.

This means that working capital is seasonal, and we made this investment strategically, taking advantage of a situation, we were able to build up stocks with low cost, low dollar cost. We used the capital. Since we have very good capital levels, we have high liquidity, the CDI is very low, and why not making this type of investment and it is certainly helping the sales that we are making this quarter already. The adjusted net cash variation is very proportional to the working capital variation that I have already explained.

The next slide only shows cash evolution from R\$1.8 bi to R\$5.4 bi, without considering the improvement in working capital. Again, we have high liquidity, and this represents a quarterly evolution of net income.

Now I would like to talk about LuizaCred. Until March, we recorded fast growth pace. We went from 4.4 million cards to 5.3 million cards; we closed another 20% the card base. Billing totaled 22%, and reached R\$7 bi, as billing of Luiza Card expenses. It grew 8% inside Magalu, mainly associated with growth of physical stores, where participation is higher. About 28% occur outside, a sign of strong activation. The portfolio grew by 30%, reaching R\$11.6 billion.

With the stores closed, the pace of new card sales decreases, so we are selling less cards, and credit granting also drops. We also have a more conservative approval rate,

and customers are spending a little less because of the pandemic. We should probably see this scenario in the most difficult year for LuizaCred, just as it is going to be more difficult for the physical stores, and partly because of this slowdown in growth and revenues.

When we switch to the other slide that speaks about portfolio, what do we show? First, looking at the short-term default, it reached 3.3% of the portfolio, a very low level. Even better compared to last year, it reached 3.5%. Therefore, throughout last year, Itaú's credit policy is very conservative, and has even improved. So, we were following a default-improving trend.

Now I would like to emphasize the partnership, the importance of Itaú, which is responsible for credit, the models of billing credit, and for the cost of capital of LuizaCred, which is quite low, and the guarantee of funding of LuizaCred.

As for long-term default, it should be analyzed in relation to previous quarters instead of last year, because it moves more slowly. It was stable as of December at 8.2%, so it was pretty much in control. I remember it grew in the middle of last year, and we strongly explained it, because the percentage of new customers was significantly increasing. Then that base started to mature and default started to go down. Then, in March, with the closure of the stores, the impact on LuizaCred's default rates was still very low, mainly because we closed the stores in the last 10, 15 days of March. Therefore, most of the impact on LuizaCred or any consumer finance operation, credit card and everything else, the impact of the crisis will only start to appear in the indicators in the second quarter.

The good news is that we have a high level of provisions, but we will have to follow the unfolding of the crisis and the performance of payments. If we look at this quarter, we will see an increase in provisions; coming back again, at the beginning of last year there was a divergence; LuizaCred recorded, for example, in the first quarter, second quarter of last year, R\$36 million, R\$35 million profit in BR GAAP. But LuizaCred was provisioning much more in IFRS, even recording losses.

Then in the second half of the year the situation tended to a balance, and by the end of last year LuizaCred was already recording higher profit in IFRS than in BR GAAP, R\$35 million profit in IFRS, R\$30 in BR GAAP. This should be the trend, or at least a balance this year, and a positive trend. In March, the level of provisions was well above what it had been due to the crisis. Then there was another drop in IFRS profit, a divergence in these profits and a reinforcement of provisions in the amount of R\$30 million reais. Should the crisis continue and default keep rising, there should be another divergence and more provisions in IFRS, because in BR GAAP you only see this later.

Since the crisis began, out of the 5 million customers, 2 million and 2.5 million customers made their monthly payments in the stores; they had great difficulty to make these payments. We contacted them in every possible way, encouraging digital payment so they would not have to leave home, created special offers, reinforced all the service, including with store employees, employees of stores reopening, and employees also made home office, we carried out several initiatives to better receive these customers and avoid higher default as well, preventing them from losing their level, their good credit level.

In April, overall collection was harder because nearly all stores were closed all the time. We reopened the stores as from April 20. The other stores reopened only for collection. Today we have almost 60% of stores open for collection, including 40% of the stores which are open for sales; today most stores are open for collection. So the collection performance in May is even better compared to April. It is not at the same level it was before the crisis, for anyone. All financial institutions and banks will have a rise in default, depending on the size of the crisis. But in our case I think the good news is that we are well provisioned, we will probably have some reinforcement of provisions throughout this quarter, but it is also temporary, LuizaCred is very well positioned, has a very loyal customer base, and several super strategic, super interesting initiatives. Probably from the second semester to the end of the year, the situation of LuizaCred should also return to normal, as well as in the physical stores.

So I think those were the main messages about results and LuizaCred. Now I think we can open for questions and answers. Thank you very much.

## Operator

*Thank you. We now begin the question and answer session. To ask a question, please type an asterisk (\*1). Questions will also be received via webcast chat. Our first question comes from Robert Ford, Bank of America. You may proceed.*

## Robert Ford - Bank of America

Good afternoon and thank you for picking up my questions. Could you talk about how the pandemic has changed your vision of your own business model, and what your plans are for distribution infrastructure and development of your store network in the medium and long term? Also, website traffic seems broadly organic. How does this affect the way you look at marketing and the balance with other investments? To conclude, the growth in Época was astounding. Could you talk about the variables behind that, and maybe how it fits the way you look at important cash aspects? Thank you.

Frederico Trajano – CEO

Robert, thank you for your question. Well, as I said in the beginning, I think the main thing when you look at our strategy as “look, we digitalized Magalu, now we want to digitalize Brazilian retail,” as well as the strategic pillars of this digitalization process, they haven’t simply changed, but I think it is more of a radicalization and acceleration of the strategy’s implementation. So we accelerated a lot of things. When I said 50 weeks in 5, it was a routine, a work pace. I must praise the work of all our executive officers, officers and the entire team, who have been working consistently. Directs have been great peers, so I would like to praise everyone’s work. I look at it more as a radicalization of the acceleration process. I do not see any change. We want to be a platform, we want to be the operational system for Brazil’s retail market, a digital platform with physical presence. Not just my own physical outlet, but the physical outlet of a third party, someone else, my partner, which is the Parceiro Magalu. So I am using my partner’s physical outlet in the operating system’s platform as well. I do not see a significant change of vision, it is more a question of accelerating the strategy, doing it faster, being bolder and making investments so that things can happen and build scale faster. We decided to accelerate this process starting May. We were confident to do it, we want to keep using our cash to make these accelerations. With sustainable and consolidated actions, of course. I think it is important to bear in mind that our long-term vision is focused on the platform. I think there will be a significant shift. In this new cycle for the company we want to grow with the help of other companies, and also helping them. In the company’s previous cycle we grew alone, it was one company growing. So when I say marketplace, it is more than a marketplace, it is a platform, it is about helping other companies digitalize their businesses too and create a lot of volume for them. And we want to do it with a high service level and win-win economics. So for marketplace, from what we have been seeing in our results, I believe this is a strong trend going forward. Which includes the store having a more strategic role for 3P, not only 1P. Today, stores play a very important strategic role for 1P, and I would say that in terms of change the stores will become an important part of supporting small sellers, both for pickup at store and ship from store. I believe this is an increment. Other than that, I think the vision is fully in line. The pandemic is creating a more digital world. Our boat was prepared for this new reality, for this wind direction. All we had to do was adjust the sail a little bit and go faster, but there should be no significant change. As for marketing, we are investing in marketing, we are having a lot more of organic access than before, because now people have to buy online. They need it, they are not willing to go out to buy most of the products they want to buy. So we have a lot more people willing to shop online with no external incentive. This does not mean... We are accelerating digital marketing. Edu’s team has



been doing a fantastic job, his entire marketing team - Bernardo, Monta, the entire team, Julinho... So Eduardo Galanternick's team has been doing great work, they are very technical. Our marketing investments, Bob, have always been precise. I can generate an enormous audience, I can generate many *installs* in a month with disproportional investments. It is a very technical team, focused on making investments that will create return in the long term, not just to look good. All my life I have seen people working in digital marketing who were not very technical. Sometimes, Edu is too technical. Sometimes I will say "you can spend a little bit more there, Edu." And he will not, because he is very disciplined, as is his team. It must create ROI, it must be sustainable. I think he is absolutely right, that is the trend.

But if you look at how much we are doing offline for the online, it is a lot more than Magalu Has It. The campaign is running online but it is also running offline, on the Globo network, on every TV channel, we have deals with all of them. We are using our cash, I think this is the time for the company, just like the Gulf War was for CNN. From an opportunity standpoint we are using this moment to show how useful we are to consumers. Of course I am not celebrating the fact that our country is in this situation. I am very sad, very upset, but obviously we know we can help, looking directly at our 1P but most of all looking ahead, focusing more on the platform and the marketplace. And this shift will require many decisions, Bob, we will focus strongly on Magalu-as-a-service for the platforms. This is our vision: growing by helping others and with their help as well.

Next question.

#### **Operator**

*Our next question comes from Luiz Felipe Guanaes, BTG Pactual. You may proceed.*

#### **Luiz Felipe Guanaes – BTG Pactual**

Good afternoon, Fred, good afternoon, Beto. My question... Fred, you talked about the increase in the number of active customers. Could you also comment on website frequency, especially in April and May? And how are you looking at the evolution of customer acquisition cost? I imagine that because most stores are closed you are probably looking at higher online conversion, which ends up affecting CAC. So, could you comment on that? Thank you.

#### **Frederico Trajano - CEO**

Thank you for your question, Luiz. I will take the opportunity to answer a question from Bob about Época. In fact, I will ask Edu to help me with the answer. Edu, could you unmute your microphone and talk to Luiz?

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

Hi, Luiz, thank you for the questions. Just going back to Época. Here is the thing: Época has been growing strongly at 50%, 60% for a few years. This was mainly due to our particular obsession of having the largest assortment for this category in the market. Because we are one of the largest independent brands out there, we are currently not linked to any producing group, we are able to really work with the most comprehensive assortment in the market. When we combine that with the strong work we had in organic positioning, especially because we have been growing in that, there is always cash... There is always cash burn, we always depend on generating organic traffic. So when it comes to a time like this, when demand in online channels is much higher, when customers search for something organically and cannot find it, this growth comes with a conversion growth. As for your question, Luiz, regarding customer base and frequency, CAC has been growing on all fronts. In the last two months we had a new customer rate, actually, an absolute number of new customers that we have never seen, much higher than before. But frequency has been growing as well, so there is a modifying effect in this regard. When you take that away, the increase in number of customers is even more significant, mainly due to our work in new categories. As for CAC, regarding the previous question, it is only natural that with a higher share of organic demand we have lower CAC in a way, which also allows us to reinvest in our Parceiro Magalu campaign, where we had strong investments. It is the main focus of our strategy, with market, Magalu Has It and Parceiro Magalu. These are the main points.

**Luiz Felipe Guanaes – BTG Pactual**

Excellent, Edu, thank you very much. If I could just ask one more question. Fred mentioned the FDIC, and I think Beto ran out of time to comment on FDIC at the end of your presentation. Beto, could you comment on how we should look at the structuring of this FDIC and the evolution of seller credit within the Magalu Pagamentos platform? Thank you.

**Roberto Bellissimo – CFO and IRO**

Good afternoon, Luiz, thank you for your question as well. The focus of Magalu Pagamentos was to, first, split transactions and advance receivables, which has been happening since the beginning of the year. We significantly accelerated the roll-out, concluding it in March. Since April, the business has been taking off, following our marketplace. The next step is starting to add financial service products for our sellers. We know most of them are small companies in need of working capital, they need

financial support and often struggle to get it. So, we have the relationship, all the internal data, and the experience of the seller on the platform and with our customers. I believe we can help create a better score for them so that they can get income in a way that is not currently possible. FDIC now has a BNDES call notice, which is a great idea, and we thought it was very interesting that the BNDES had this initiative to also invest in FDIC. So we are studying this possibility as well, but whether it will be through BNDES or FDIC, there is no difference. The trend is the same, to create more and more financial products and services for sellers and let them into our ecosystem. And that is also why we filed a request with the Central Bank to become a regulated financial institution. As soon as you become a regulated financial institution you can have a direct connection with the SPB and SPI, and offer more services. So, this is only the beginning, Magalu Pagamentos has just been launched and it is growing. There are many initiatives connected to Magalu Pagamentos that will help our sellers sell more products. This is basically the goal of Magalu Pagamentos.

**Frederico Trajano - CEO**

Just to complement Beto's answer, I think there is a characteristic... Many government measures worked really well. Income supplementation, the R\$600 for independent workers, people who need this extra income. The Provisional Measure I mentioned, which was important to avoid dismissals, and many companies are using it, many of my retailer peers are using it as well. One of the measures fell through, which was credit to smaller businesses. Most of the credit facilities offered by the government for small businesses did not get to these businesses, including small stores. And since we get a lot of information from our sellers, we know what has been selling etc., I think we can help through these facilities, especially now supported by the Federal Government, we can help make this money get there. With the information and the relationships we have. And unfortunately these measures, specifically, have not happened yet, and I think we can add, we can help from within our ecosystem, making it happen while preserving credit. But, anyway, we can make it get to those who need it. These sellers need it, they are growing, so the more money they have to invest and improve their operations the better, so it is interesting for us to start supporting that.

**Luiz Felipe Guanaes – BTG Pactual**

Excellent, Fred. Thank you all very much.

**Roberto Bellissimo – CFO and IRO**

Thank you, Luiz.

Frederico Trajano - CEO

Thank you, Luiz.

Operator

*Our next question comes from Tiago Macruz, Itaú BBA.*

Thiago Macruz – Itaú BBA

Hi, everyone, good afternoon. I think my question is about the marketplace. Your increased exposure to items of higher recurrence and lower ticket indicates that your customer acquisition cost is improving. I believe this is a clear benefit of this migration to this type of product. On the other hand, maybe it leads to challenges in logistics cost, given that the ticket of these products is a little lower. Fred, how are you looking at the evolution of your marketplace economics, considering this migration to items of higher recurrence and lower ticket? That is my question.

Frederico Trajano - CEO

Thiago, thank you for your question. I believe it is a very pertinent question, not only for marketplace but for 1P as well. When it comes to 1P, for a portion of the market I am selling our own inventory, so the low ticket is... The key to e-commerce is the price to cubic volume ratio. The higher the price and the lower the cubic volume, the better the logistics chain for e-commerce, so diamond is the best product to be sold on e-commerce, because you have very low freight cost on product price. Freight cost is a fraction of the cubic volume. So, this is the secret. If you have low price for products with high cubic volume, you have a serious problem in e-commerce. The secret is to be hyper local. So my vision of the logistics chain is much closer to China's view than the American long-haul view. You see Amazon buying planes, with the huge fulfillment, and something... They have a network of planes and flights that enables long haul delivery, not as efficient, but at least more efficient than in Brazil. In Brazil, if the product travels too far, you will have serious issues with the result, because freight cost will be too high. So the vision I want to implement here is based on what I saw in China, which is short-haul delivery, or having the product at the right location, whether it is mine or my partner's. My bet is on a hyper-local chain, prioritizing inventory, and there are some complex geolocation issues involved... There is some long haul, the product needs to get to its destination, but this is about building on local inventory to sell to that location's consumers. The goal is for the product not to travel too far. This is a very different approach compared to what I have seen in some Brazilian players. This is my bet, but there is still a lot of ground to cover, we could talk about this for a whole hour. But I want to sell the product that is close to the consumer. I obviously

need strong infrastructure and technology, Fatala's team is doing a fantastic job on geolock, they have a sensational team at Labs working on it and it is very complex. Making this a more simple front is complex. And Parceiro Magalu will bring inventory from the analog world into our platform as well. As for the Superapp, the advantage of it not having a desk is that you know the person's location, and you can give greater exposure to the products that are closer to the person. It is a chain that is very well tied-up to provide the product that is closest to the customer. I think this is the secret to being able to operate a low-ticket product with good logistics cost: avoid long-haul deliveries.

Thiago Macruz – Itaú BBA

Thank you for the answer.

Frederico Trajano - CEO

Thank you.

Operator

*The next question comes from Olívia Petronilho, JP Morgan.*

Olívia Petronilho – JP Morgan

Good afternoon, Fred, good afternoon, Beto. Thank you for picking up my question. I have three questions, actually. The first one is about the short term. When we look at this current scenario of closed stores, you mentioned that there is a cost of operation for these stores. I would like to understand if you have any estimates of monthly operating costs for the company, considering a scenario where total stores sales are not happening. The second question is about Netshoes and Zattini, the whole platform. How much are they contributing to total GMV and to this GMV growth we are seeing? And the last question is more related to the long term. What M&A possibilities do you see during the crisis? Is the strategy the same or do you believe new opportunities will arise? Thank you.

Frederico Trajano - CEO

Thank you, Olívia. These are three very different questions, I will get my colleagues to help me answer. Beto will answer the first one, he has a vision of what we can share in terms of disclosure. Beto, you can share some comments on this quarter.

Roberto Bellissimo – CFO and IRO

Well, Olívia, good afternoon and thank you for your question. It is hard to answer that without giving too much guidance. What we can say is that most of our physical stores have fixed expenses. So, most expenses in our physical stores are fixed: personnel, rent and other occupancy-related expenses. Marketing and freight percentages are much lower than the online. The online has the opposite: marketing and freight are much higher, so most of the online expenses are variable. So if you try to break down our SG&A as a result of sales, maybe you can get the cost of physical stores. That said, e-commerce is growing and evolving in all the aspects we mentioned, and physical stores are affected by the current scenario, they were closed for most of April and are gradually being reopened in May, gladly with good sales performance, but we still have many stores closed. The quarter as a whole, in terms of fixed expenses, will be challenging for all retailers with physical stores, since these stores are closed. So I think we tried to convey this message as well...

Frederico Trajano - CEO

There is no magic solution.

Roberto Bellissimo – CFO and IRO

Yes, there is no magic solution.

Frederico Trajano - CEO

For the accounting part, there may be some accounting creativity, reverse provisions, some non-recurring tax gain. But in terms of recurring aspects, for instance we made the decision not to fire personnel at this time, because it does not make any sense, since the stores will probably reopen in the next quarter. So, making the decision to lay off personnel to rehire them later, or close a store to rent a new location when things get back to normal, does not make any sense. We have cash, we have capacity, we can cover these expenses right now, as I believe any capitalized company can. We will report on this with transparency. There will be an impact on results, of course, as we made very clear in our management report. The same way the first quarter was impacted. The contribution margin of a physical store, Olívia, is in the *high teens*, so you can do the math from there. We made reduction efforts, we renegotiated rent in the quarter, we used the Provisional Measure to give days off to our team, but under the Measure we have to contribute with something. Take April, for example. Revenue from physical stores decreased 80%, we cannot reduce expenses, variable plus fixed, by 80%. The same thing in May. So, we cannot renegotiate and pay zero rent, zero

salaries, or 80% of the salaries, it is not possible. So we chose to hold the fort for a while, even though it is a more challenging quarter. It will be more challenging. I want to make that clear for investors, so that they can make decisions. You must expect a challenging quarter from a bottom-line standpoint. *As for top line, we have showed you how it is much higher than expected, I want to make this very clear. As for Netshoes, Márcio will talk about it. I think we have to consider that the entire world, even the online, is struggling in the categories Márcio works with, except for maybe home fitness products, so to speak, so I believe the categories as a whole are not growing at the same speed as the website, except for the Netshoes 3P, which is going very well. But 1P is growing very well, I think more than the market average. It is probably gaining a lot of share in the online, I do not have the specific market figure yet. Their work is exceeding our plans and is very balanced in a lot of ways - margin, etc. He will give you more details. I am very comfortable and satisfied with the work of the Netshoes team. But I would like to give the floor to Márcio who will answer directly. Sorry if I talked too much.*

#### Márcio Kumruian – Netshoes Officer

No, that was great, Fred, thanks. Good afternoon, everyone. Well, Olívia, since we got here we have been working really hard, first on the integration. And just to highlight the integration... Back-office is doing really well. In June we have something important, which is the unification of DCs, which will provide Netshoes with the logistics capacity from all 17 DCs of the group. This will make a huge difference in terms of logistics, like Fred explained. Back-office is also migrating gradually, joining the Magalu team. We have a very strong plan for expenses, so as from the third quarter we will be able to see this difference in the bottom-line. As for GMV, the work of both Netshoes and Zattini is growing, and we are also bringing our products and expertise to Magalu.com. In this sense, as Beto mentioned, we had been outperforming the market, and with the start of the pandemic we saw a decrease. We have already recovered from this decrease and accelerated again. We believe Netshoes, one of the country's most beloved brands, has also gained traffic. So, we are very happy with this new acceleration and the margin that has been growing due to successful negotiations, the partnerships we have with major brands, and Netshoes being the biggest, with the highest share, needed to put this all into practice. On the other hand, another important channel is the reverse, so our products are virtually all replicated in Magalu.com. Nearly all brands are on Zattini and Netshoes, and a lot of brands are being added to Zattini and Netshoes right now, while physical stores are closed. We included the most important brands in the presentation. Now we also have Magalu.com selling within Netshoes, which is new. Almost 6,000 products were added,

all part of the integration. With that, what we see is a new acceleration of GMV while also posting margin growth, as well as top- and bottom-line growth.

Frederico Trajano - CEO

Thank you, Márcio. As for M&A, of course we cannot give you many hints as to what we want to do. Once again, we wanted to preserve cash in order to be prepared for new opportunities arising in the market. Companies with digital profiles that we like to acquire did not lose value, on the contrary, their value has increased. There is no opportunity there, no mega deal, but maybe there are other assets that can contribute to Magalu Has It, etc., companies that are not yet fully digital but could contribute in the future. So, I can't say much, but we are ready to make smart and accretive acquisitions, as is the case with Netshoes.

Olívia Petronilho – JP Morgan

Great, very clear. Thank you for the answers.

Operator

*The next question comes from Richard Cathcart, Bradesco. You may proceed.*

Richard Cathcart - Bradesco

Good afternoon, everyone. Two questions on my side. The first one is about 3P logistics. You managed to reach 20% *cross docking* very fast. I would just like to understand the roadmap for that for the rest of the year. Fred, I think you mentioned 1P was growing significantly and that will limit it. But could you give us more color on how you are expecting this to evolve over the course of the year? The second question is about the market category, which you mentioned is the biggest category in items sold. I would like to understand a little bit more of the consumer behavior in this category. Consumers are not trying to form a basket, they are buying individual products. And as for having these products at the stores to ship from there, is this something you are doing temporarily because of COVID, or will it continue in the future, even when the stores are open again? Thank you.

Frederico Trajano - CEO

Good afternoon, Richard, thank you very much for your questions, they are very relevant here. Like I said, as I disclosed in the presentation, as much as I agree with you that 0 to 20 was significant work by the teams, I would like to be at a different level. I believe it is very important to share the Luiza Network with our sellers, and 20% is a



number that does not make us or our team happy. But that is what we managed to do, because sales soared. We grew too much, and this entire work to build capacity for the Luiza Network, especially Logbee, is being consumed by e-commerce 1P, by Edu's share of sales... We need to prioritize this, it is there now, it is more simple to execute, etc. I do not know what it will be like going forward, in terms of growth dynamics. I do not know what these 200% ratios will be like when commerce reopens, whether some of the commerce consumption will return, it is hard to predict. But if it continues to accelerate like this, I think it will be difficult for us to expand these 20% significantly in the short term. I am being pragmatic and honest in my answer. If this growth pace continues, I believe it will be hard to grow significantly from 20%. We will improve, that is our target, but we will also need to meet 1P capacity, which is also growing and is important for the company, as it generates cash and is key. We will be looking into these issues to find solutions, but I do not have these solutions right now to share with you. As opposed to other players that only have the marketplace, we have 1P, so we need to understand. Richard, consumers are buying products that they need to receive soon, it does not matter whether it is 1P or 3P, it is irrelevant. From the standpoint of the Superapp and competitive advantage, I also think it is not so relevant in terms of retaining consumers. There is a small difference in economics, because 3P obviously has higher invested capital, but for consumers, for the growth strategy of becoming leaders in the formal e-commerce market, this is the right path. Our logistics infrastructure is well placed to support us in this sense, allowing us significant growth in total GMV. As for the market, the idea is to be at the stores, our project is to be at the stores for good. So, it is here to stay, we are assembling an infrastructure at the stores so that we can stay. In 1P we have the option for a leaner basket, SKUs with higher average ticket, with more of a wholesale profile rather than convenience shopping, like monthly purchases. *We do not have a basket for higher tickets, or a specific number of items per basket, although we did that development in the app. You can go there and shop, the entire UX... It is fantastic work by the product team, Labs, as all as the teams led by Edu, Fátala, Catoto and Cassiano. We worked to improve UX and achieved a very good level of customer experience. But it is still a basket, with the number of items per order lower than markets, which have higher speed. We want to complement this with 3P in the future. And that should be a different experience. There are some challenges in combining 1P and 3P, but our team is very creative and I think it will find UX solutions that can reconcile these two things. So, I am optimistic for this future. It will be a combination of 1P, dark store, current stores with 3P. If store expansion is required, there will be more storage space. These are things we are discussing and will continue to do. Today we do not need it because it is a very lean line. I have some images of store design for the dark store model, so you can see what it looks like. I can share it with all of you, of course.*

Richard Cathcart - Bradesco

Perfect. Thank you very much, Fred.

Operator

*The next question comes from Ruben Couto, Santander.*

Rubem Couto - Santander

Good afternoon, everyone. Could you talk a little bit more about the behavior and composition you see in this acceleration in April and May? There was this first movement of increase in demand for specific products, like home office, but throughout May it changed because of the higher demand from new customers and acceleration of new categories made available. Anyway, I believe any insight on the drivers of this acceleration to help us understand what is a trend and what is a transient demand would be interesting. Thank you.

Frederico Trajano - CEO

Rubem, thank you for your question. Well, I will tell you my impression. I have data on Magalu, I do not have enough market data by category yet to give you a more, let us say, well-founded answer. But my impression. The first thing is that the offline market has migrated to the online. A lot of people who used to shop at physical stores are now shopping online. Magalu's share of the online is higher than its share of the offline, I have more competitors offline - small, medium, local, regional, and I only have one category, which is home appliances and electronics. But even in this one category we have share, half the market is small and medium. So, you have more options there. There are few players online, there are three or four larger platforms for consumers to buy from. And Magalu has a higher share of the online than the offline. Overall, the off-to-on migration explains part of our sales growth, because there are more people buying online, where my share is higher, so obviously this growth will happen at a higher ratio. And our share of the online is truly very high. As for the categories, if you look at Alibaba's results published on Sunday, it is very interesting. You will see a deceleration in the quarter, because the first quarter was the peak of the pandemic for them, as opposed to ours. We actually accelerated more than Alibaba and B2W in the online. I think we have a lower digitalization rate, so there was a more significant migration to online. But if you look at it by category, their reports show that the top-selling products were in the supermarket category, both fresh and home care, as well as personal care. All of these products performed well there. And electronics. They mention it many times in their earnings release, that electronics performed well. My

theory is that, let us say, you have a universe today that is limited to your home. You are having entertainment at home, you are eating more at home, you are studying at home, you are working from home, so your home is your universe and you need products and tools in order to work. So you have like five people in a household. I know many people who bought five laptops because the husband, the wife and the three kids all need computers to work or study on. Everyone needs their own computer, they can't share, they each have a different class to take or job to do, and so on. People are basically producing entertainment through streaming channels, with live streams, it is all inside their homes. It requires investment. To cook in the house you need a stove, a refrigerator, etc. So, there was a boom in countries that are going through the pandemic, and home appliances and electronics, which everyone thought were highly discretionary, are suddenly prime necessity. I would say they have gained importance even over fashion, if you take a close look. I am talking about data published by Chinese companies and the likes, which I have been monitoring from the outside. But it is still, I do not know, a feeling, a theory that has not been proven. We need to wait a little bit longer. It is being proven by our figures.

Richard Cathcart - Bradesco

Great, that is helpful. Thank you, Fred.

Operator

*The next question comes from Daniela, Eleven Financial.*

Daniela Bretthauer – Eleven Financial

Good morning to all. Actually, good afternoon, we have been here a while. Fred, my first question to you is what do you think Magalu's strategy will be, considering the complexity of this pandemic? Because it caused a level of limitation for the stores, as you mentioned throughout the call. How are you looking at this Magalu ecosystem considering this added level of complexity? This is the first question. Then I would like to ask Beto about LuizaCred. Thank you.

Frederico Trajano - CEO

Hi, Dani, good afternoon, it is a pleasure to answer your question. I think the stores will have an even more important role in the ecosystem. They play an important role today in Pickup at Store, now they are playing a more relevant role in ship from store. But I think it can go further and play an even more relevant role in 3P, which is what I have been saying. I imagine it will be kind of like that independent XP agent... I think that is

the role required for the store in that region, that micro-region - being an aggregating hub for the platform. So, I think this is the best example I can give you of what I think. Stores are as relevant to us as the independent agents are to XP. This would be a generic answer, just to help you understand the path I see going forward. A bigger role in the ecosystem, not only as a sales channel, but as an integral part contributing to the whole. As for the integration of these independent units, so that they can generate synergies among them, e-commerce and store, I think this has to be accelerated. So, it really is a more complete role. I would not say complex, I hate complexity, but it is a more complete role, more relevant for the ecosystem as a whole.

**Daniela Bretthauer – Eleven Financial**

And has it changed? Do you think it would have that role regardless of the pandemic, or did you have to make adjustments to your strategy? Just to...

**Frederico Trajano - CEO**

I think... I would not say it changed, but I think it really accelerated the need to do it. A lot of it is projects that have yet to be implemented. But I think the vision is stronger in the current scenario for the store to become a more relevant part of the ecosystem as a whole, not just slightly relevant but isolated. So, more integrated to the ecosystem. I think the pandemic really accelerated this vision. I would not say change, but it strengthened the rationale.

**Daniela Bretthauer – Eleven Financial**

Got it. Beto, the question about LuizaCred is... I was positively surprised. I actually think LuizaCred performed well in the quarter, especially when compared to what happened to Renner, or Banco Carrefour. Meaning that you managed to grow your portfolio significantly, and even Luiza Card's online and offline performance. And there was no need for an increase in provision. So, what does the second quarter look like? You already mentioned it has been more challenging and all, but on what level are we looking at adjustments in LuizaCred as well?

**Roberto Bellissimo – CFO and IRO**

Hi, Dani, good afternoon and thank you for your question. LuizaCred was in the midst of an improvement process, it was on a growth trend since the beginning of last year, as I mentioned, and it grew a lot. It gained a lot of new customers and the base has been maturing. At the end of the year, results began to improve and go back to strong levels, more similar to historical ones. This year, we expected this trend to continue. So

when you look at this result in the first quarter, compared to the first quarter of last year, the bottom line was better. But it should have been a lot better; it was slightly better because last year was negative. Looking ahead, the industry trend is to get worse. Today, LuizaCred has very high provisions. The IFRS provision is R\$ 1.6 billion, provision for past-due portfolio is approximately R\$ 900 million, coverage ratio is 175%. But the point is that LuizaCred's results in any consumer operation will stop. A decrease in concession leads to lower revenue. So, everyone will experience a deceleration curve, similar to physical stores but less extreme, but this effect will have some impact on the result. There is also an impact from the fact that customers will struggle to pay, which we are mitigating with all of the actions we mentioned and the process of reopening stores. But even in places where the stores have reopened, performance is not back to normal yet. If I could give you some figure, a range so you can have an idea, in terms of payments received, the percentage of payments received compared to our estimates in April was around 90%, and in May it is close to 94%, 95%. This is not in relation to the total, some customers do not pay, some do not negotiate, etc. But this is just so you can have an idea of how May is better than April, but not yet at 100%, which would be the pre-crisis level. So, there is a level of efficiency too, and we also do not have all our stores open, which makes some difference. I believe this is a time to support our customers, try to help them, mitigate impacts. We are getting all of our stores involved in the process to improve customer service, collection, and all that. I repeat, as was the case with physical stores, the second quarter will be more difficult, the third quarter should be better, the fourth quarter even better, tending to return to the same path as before. I believe the good news is that this is just a period in time, it is short-term. In the long term, LuizaCred has a long way to go and will also come out of this crisis stronger than before, more digital, more connected and all that.

Daniela Bretthauer – Eleven Financial

Great, thank you.

Roberto Bellissimo – CFO and IRO

Thank you.

**Operator**

*We are now concluding the questions and answers session. I will turn the floor over to Mr. Frederico Trajano for his final remarks. You may proceed.*

**Frederico Trajano - CEO**

Well, this was a long call, so I will conclude by thanking you all for your patience in joining us here for two hours. Thank you to our team, our financial back-office team, which developed our presentation. Thanks to everyone in accounting who contributed to that. And of course thank you to all 35,000 Magalu employees who are suffering the effects and the anguish of this pandemic and its consequences, like all Brazilians. But they are giving their all here, adjusting the sails of our boat to face wind coming from every direction, so that we can keep sailing forward. I am very thankful to them and very happy and satisfied with their performance. We have a long way to go, I think we made our struggles clear. We will have many, but I am also confident in my team and our great long-term focus. I always say that my goal is for Magalu to be a fit 100-year old company one day. This is not a goal for the quarter or the year, it is for the very long term. The company is 63 years old and has a long way ahead. This is the company we are building. Thank you very much, all the best to you all.

**Operator**

*Magalu's videoconference has ended. Thank you all for participating. Have a nice day.*