



**Local Conference Call  
Magazine Luiza (MGLU3)  
1Q21 Earnings Results Call  
May 14<sup>th</sup>, 2021**

**Operator:** Good morning ladies and gentlemen and thank you for waiting. Welcome to Magalu's conference call about the results of the first quarter of 2021.

We would like to inform you that this event is being recorded and translated simultaneously and all participants will be in listen-only mode during the company presentation. Afterwards, we will start a Q&A session and questions must be asked by telephone. Questions asked via webcast will be answered afterwards by the Investor Relations team.

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

**Frederico Trajano**

Good morning everybody, thank you very much for participating in now call about the first quarter of 2021.

May is a very special month for Magalu because now we are completing 10 years since our IPO, we had our IPO in May 2011 and with very positive results in order to show to the market and we show you the whole context here of another quarter that has the impact of the pandemic on our business.

And I would like to start by this characteristic, in fact, what happened was that we thought this quarter would no longer have the impact of the pandemic, and everybody said at the beginning of the year that it would be the first quarter post-pandemic and strong coming back of the physical stores. However, unfortunately, here in Brazil we have a second wave even worse than the first one during this quarter, and on this chart you can see that in January some stores had already to be closed and in yellow we have the percentage of open stores last year, the orange the percentage of stores opened in 2021, you can see that we had a lower percentage of stores open already in January, 94, then 93 and we closed most of the stores in the Southern region, Paraná, Rio Grande do Sul, Santa Catarina, going to 40% of stores open only in March.

So, you can see that this is a very important figure even if you consider last year when we saw that closed the stores after March 20<sup>th</sup> ended the quarter, the first quarter, 25% of our stores were closed, not only Magalu, but the whole retail in Brazil.

And if you look at the next slide, what happened was the opposite of what we estimated; there was no problem with e-commerce, Magalu or the market as a

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whole, e-commerce continues to be very strong and people who could not go to a physical store they went to the online channels and the best operations in terms of service level and brand recognition they benefit from that, and it was the case of Magalu as once more we grew much more than the market in e-commerce, you can see here 114%, and with the different that we had the most difficult comp in the market because in the first quarter of last year we had grown 73% vis-a-vis 2019, so the comparison if we compare the first quarter of this year to the first quarter of 2019, in e-commerce 3.6 times more than the first quarter of 2019, the moving average of 90% in these two years, the moving average of the two years according to date of NeoTrust we gained 4.9% market share online and already a trend, that is to say, Magalu for some time has already been growing more than the market and gaining market share. And then, I will refer to what is very unique about us: some companies had higher growth, but not with our level of profitability.

On the next slide, our e-commerce grew, but not to the detriment of physical stores, and the big surprise of the quarter was that in spite of this huge number of stores closed 25% on average, Magalu grew 4% in the sales from physical stores, and you have to consider how many stores were opened and they performed very well, but even when the stores had to close, we had an extraordinary performance of the two that we call remote mobile sales and the sales person. In spite of the store being closed, the salesperson can sell by means of WhatsApp, Telegram and whatever.

And just to give you an idea, some stores although they had closed doors they sold about 70% of what would be an open store, the sales people were able to keep the level of productivity of sales and with a very big evolution in our system of mobile in remote sales, and highlight because we book the sale of the salesperson to the store, so we booked this to the store, to the physical store, so the system helped us hold on to our sales, but even if we... well, we put this in our mission, you know, message, if the stores were open, we would be able to add an additional R\$750 million if the stores were really open. So, this is a very big number overall.

Next slide , please, it generates a general growth of 63% in the company with e-commerce representing 70% of our sales and in our IPO it was 10% and now it's 70%, but this has not been my goal because it's very interesting to grow all the channels at physical stores have been growing in double digits in the last 10 years as well, and this shows that our model is not the mono channel, one channel model, it is really multichannel in practice, in reality. We know that it is very much so in practice because the business growing as it grew, it's not taking from the physical short pocket and putting it in the pocket of e-commerce. Marketplace is not going to come to the detriment of 1P, we like to add and not to exchange, that it to say, shifting sales from one channel to the other, but the multichannel model is better expressed not only in the growth of all the channels, but on the next slide, as you can see, growing with profitability.

And I remember that in the last call I answered many questions from analysts about competitiveness in how Magalu was going to do in order to further grow and the

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market conditions that we had. We're very aggressive in the market already last year, everybody giving free freight and subsidized take rate, and many other kinds of subsidies. Some of them do make sense, but many of them they don't work because you buy market with no sustainability, with no logic.

So, Magalu does do trade off, but very conscious, the ones that really make sense in the long-term and Magalu maintained during this year the EBITDA margin and we were able to grow 56% in our EBITDA vis-a-vis last year because we went from 274 to 427 in sales, and Roberto is going to get into details about that we. We had a recurring net income of R\$80 million, which is much higher than last year. But what is really important is to show the operating leverage, maybe the number that makes me very proud of the work that we do and that better expresses what is a real multichannel company is our operating expenses, that were 20% only; we have the lowest operating expense over net revenue in the market and return operation as efficient as that.

We have all the right conditions to be competitive and to have competitive prices for our consumers, we have operating leverage and this number shows that the company thinks more with less, it doesn't do unnecessary tradeoffs, we make options, we make choices for the long run, and I'm not talking about results only, I'm talking about cash generation, and Beto will make it very clear that in the last 12 months 2.7 billion in operating cash, a company that is able to grow with profitability. We had some tradeoffs in margin last year, but always doing this with the cash flow and add today LTV over CAC once again.

And another benefit from multichannel operations is the service level. So, when we created this concept of multichannel – and it was even before the IPO –, we introduced the concept of multichannel 20 years ago at Magalu when not even in the United states or China they had started to talk about that, we were really pioneers and we saw that it would be very good for shareholders and for clients as well because with the support of the stores and the DCs that serve the stores, we are able to have a much better service level that the market, and this year we had an excellent result and the percentage of deliveries of our own operations went from 5% on one day to 51% in D+1.

So, you can see that the scaling of the level of service was very fast because before the pandemic our stores we're just, you know, click and collect, and with the stores closed we transformed them to ship-from-stores, so we increased and improve the operation, the capacity of shipping from the stores and all the structures that were necessary to do that, and today practically we have 1.300 that already work in this way: the customer buys at the super app and receive the product if we have this in stock from the store that is closer to his home.

So, with the 1P operation, certainly, we have the fastest delivery in the market and the cheapest one because as we have a very short radius to travel, we have a cost that is lower and we extended not only the source, but we also extended the

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dedicated structure of supply, the logistic units of 26 to 103 and a very exponential growth, and these units came from the acquisition that we made, and Logbee, for instance, united the operations of both, and today they have 103 between distribution center that we already had and lastmile hubs that are close to areas of a very big concentration or even where we don't have a store and they do the lastmile for us, and this year most of our investment will be to further extend that, so we have 103 exclusive logistic unit plus the 1.300 stores that are DCs as well.

So, it's very difficult to be better than a store that has or an organization that has all that that helps us have a very fast logistic and a very efficient one for the consumer. One detail is that this year we are doing a pilot of 50 of the 1.300 stores to deliver in one hour, so we already have 50 stores and Fabrício (Operations VP) will be talking about that and they already operate in the context of delivering in one hour ,and now with PIX at the checkout this further accelerates approval and we have many sales, and in one hour... and if you don't have these 1.300, you have to have a very concentrated logistic in gigantic DCs. So, if you have an operation like that, you will not be able to deliver this level of service, and everything that I'm saying is for 1P.

So, the idea of this year, besides extending this network and improving 1P delivery from going from one day to one hour, on the other hand, we also want – on the next slide – we want to transfer this differential, this competitive advantage to 3P, we want to throw this out to have for 3P this excellent level of service, and this is going to be for 3P in marketplace.

Today we already see some evolution, these data from April, 40% of all deliveries of 3P were done by Magalu Entregas with our own logistics, with our carriers, dedicated carriers, and this process tends to grow significantly from now on, this was a very big progress that our logistic team did with the extension of the exclusive logistic units that I mentioned, and the idea is to extend this further to other places and more states, other cities as well.

And another important point is the store itself. The store itself is a very big differential for 1P and it's going to be for 3P. we have 415 stores enabled for 3P and store pickup, they buy in the super app and they pick the product out in the 415 of the 1.300 stores. So, this multichannel operation that made Magalu be undefeatable, we're bringing these to 3P, we're bringing the benefits of multichannel, we want to be a multichannel ecosystem, we want to drive this to 3P, we want to roll this out for the 3P.

And another important point is that the stores are helping us having the ranking of sellers... hunting and farming of new sellers. Most of the stores are helping Magalu to get new local sellers to the Parceiro Magalu, which the platform that we launched last year – that later on I will be referring to this –, so we have a whole army 15,000 people in the stores, but part of these people will be helping us to bring these sellers on board and showing that our store will be a major part of our ecosystem and it transformed a lot vis-a-vis the old retail that the only objective was to sell. Of course,

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we have the objective of selling and the stores are also distribution centers, and they are a support to the sellers and to the Magalu ecosystem, and during the Q&A we can go into details about that.

We had an exponential growth in the number of sellers, from 26,000 to 56,000, and the major catalyst here was the Parceiro Magalu, a tool that we developed two weeks after the beginning of the social isolation measures put in place last year and that saved literally physical retailers that had never ever sold online. Today, practically all the marketplaces fight for the sellers that are already digital, they already have integrated stores, and we developed a tool for those who don't have anything like that. So, less than 100,000 sell online, most of them are physical store, retailers that don't sell online and we developed this too so that they could sell online.

So, this was really a trailblazer, it was created very fast by the team and this is a very big vector of growth for our marketplace, we went from 15 million to 30 million items as well. And what is important is that I'm bringing local inventory, that is to say, the lastmile, and this also generates competitiveness from the viewpoint of cost of delivery and the time to deliver.

Now Beto is going to talk about our financial highlights and then I will come back and talk about the future, and then we will be opening for the Q&A and all our officers are here so they're going to participate in the Q&A.

## **Roberto Bellissimo**

Thank you very much, thank you for being with us during our video conference.

I will talk very quickly about the financial highlights. So, we sold 12.5 billion in the quarter, 63% total sales growth, over 100%, 114% e-commerce and 4% in physical stores, highlight of cash flow from operations, almost R\$3 billion in last 12 months, EBITDA of 427 million growing by 5.2%, 259 million net income including non-recurrent gains and the adjusted net income net of non-recurrent 81.

I would like to highlight the fact that non recurrent have to do with the reversal of tax provisions related to default and the difference in the tax rate of the state, which is charged in the destination, in the Interstate sales. This was something that we were provisioning for and we made judicial deposits, and with the recent decision by the STF, we were able to revert these provisions, so over the next few quarters we will have the transformation of the judicial deposits into cash.

So, let's go to the next slide where we show the margin evolution. So, we have maintained EBITDA margin at 5.2, in the quarter our gross margin went down 2 percentage points totally associated to the change in mix, e-commerce one year ago was a little bit more than 50% and now in this quarter it was 70%, so a very big change, and e-commerce, as you know, brings us a lower margin, but our model and our operating expenses are also much lower, so we totally offset the reduction in the gross margin with the dilution of operating expenses and the improvement in

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the results of our equity income of Luiza Cred as well, so we were able to dilute all the operating expenses and in spite of the fact that we had more stores closed investing in improvement and in speed of delivery, service level, and we reached administrative expenses, for instance, historically very low, 1 percentage point of administrative expenses. So, you can see that it is much... selling expenses as well because of the fully integrated multichannel model.

On the next slide, we show you our adjusted working capital and adjusted net cash in March vis-a-vis last March. We further improved our working capital and with a lot of effect in the last March of closed stores impacting the turnover of the inventories. Over the year, over this semester, we see such as we saw last year help inventory turnover going back to normal, so working capital should go back to normal such as happened last year. And regarding the position in December, this is seasonality plus the temporary effect of the closed stores, and when we look at the variation of the net cash, we see that in 12 months we increased our net cash by R\$400 million in spite of making many investments, which is something that we show on the next slide.

On the next slide, we show how we were able to build the strong cash flow generation, it started at 600 million in net income in the last 12 months then non-cash expenses and the variation of working capital and other short and long run assets of over 1 billion, so we reached 2.7 billion in operating cash generation, and then how we invested these R\$2.7 billion, we invested in acquisitions and PP&E then paid dividends and we bought back stock and we had about R\$400 million that is the increase in the net cash that we showed before and adding to the 800 million that we did in funding we increased by R\$1.3 billion our cash reaching almost 6 billion in the position in the end of March.

So, these are the main highlights of Magalu. Now about Luiza Cred, we accelerated sale of Luiza cards since the end of last year, such as we have been saying, we are selling Luiza cards at a very accelerated pace once again, over 150,000 per month, and of course, Magalu card as well, and the total billings of cartão Luiza was over 8 billion in this last quarter, growing a lot vis-a-vis last year.

And I believe that the best news – on the next slide – is that the results are improving significantly. Delinquency at the best level historically and short-term NPL 1 point less, from 3 to 2 in the long-term, and additional 3 points better going from 8 to 5, at the lowest level of delinquency historically, the highest level of coverage in provisions, over 200%, 216% in fact, and even with more provisions we have been able to increase our net income in IFRS and in BRGAP, highlight in BRGAAP almost 100 million in the quarter, reflecting the significant improvement in the past due portfolio.

In IFRS, it was slightly lower because of higher provisions because of the closing of stores that happened in March, and it always has some impact on what we receive because many of our clients pay their bills at the stores, but this is recovered over

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the next few years with the reopening of the physical stores, so we're very enthusiastic about the operation of Luiza Cred and cartão Luiza (Magalu card) and collection.

And these were the highlight, and now I would like to give the floor back to Fred.

## **Frederico Trajano**

Thank you, Beto. So, before we close this introduction, this presentation, I would like to talk about the future now, I'd just like to give you some context, a backdrop of our strategy.

In the last quarter, which was the closing of year 2020, we showed you how much we still envisage opportunities in the future. Magalu closed a cycle and I guess the figures are a great evidence of that that we had an extremely well-performed digital operation, Magalu went digital, and for the future and for a long time now our efforts and projects are more ambitious in terms of digitalization or Brazil; we want to have a digital Brazilian retail, we want to be a multichannel digital ecosystem that will turn out to be Brazilian retail ecosystem. We had a successful transformation; we learned a lot and now we want to share it with small and midsize retailers in the future.

If we think about opportunity in e-commerce in Brazil, we can see it's a huge opportunity. Brazilian retail is R\$1.2 trillion and our penetration is to very low, 10% of penetration post-pandemic, so that's a fact. We have been broadly discussing by analysts and also in the press and the media in the sense that e-commerce over year 2021 will have a very high comparison base starting the second quarter vis-a-vis 2020.

However, if you think about long-term opportunities for e-commerce, that's a huge, gigantic opportunity, and those who have the IT capacity, know-how, a good business model to benefit with long-term sustainability will actually manage to have huge returns to shareholders, and that's exactly what we're seeing now. We have the know-how, the bonus, the ambition, and the will to help.

In this market, there are some pockets of opportunities and we are tapping to them via organic and inorganic investments, and I'd like to mention a couple of them. How we're going to have Brazil digital? What are the main sectors or greater opportunities? The first one is the food industry and consumer products. Magalu introduced this category last year during the pandemic, we realized people needed to buy and have quick access to groceries, we bought consumer goods and had a great inventory of non-perishables and beverages. Today nearly 1.300 stores have in their back-office inventory levels of these goods as dark stores. These products are available as a mini-DC for those who buy, and in the first quarter of last year in less than one year after we launched this category, 40% of the SKUs sold in 1P in Magalu were from groceries, so that was a very significant growth. It is a highly strategic category not only in terms of being the greatest in Brazilian retail, 500 billion, but also because it carries a precious asset to any company that wants to be

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a dominant player in the digital platform, it brings frequency, frequent sales, frequent consumption.

So, we started strong in 1P, but we know we wanted to be a good and grow and strong player we also need a 3P strategy. The problem is that grocery stores are not necessarily there online, so we have to go digital from scratch, that's why we acquire Vip Commerce in March and it's a specialized e-commerce platform for this category, so it has hundreds of customers already and the idea is to scale it up supporting the small retailers to sell online with their own site and also connecting their catalogs to our super apps. That's a big opportunity, very strategic at Magalu.

Next slide, please. We also see a very good opportunity in the fashion category... correcting myself, food delivery first. So, in September last year, we acquired AiQFome, it's one of the greatest food delivery tools, pretty much focused in the countryside of Brazilian states. AiQFome had an exponential growth, 2,600,000 orders in April this year alone, extremely high number. If we analyze the GMV is over 1,200,000,000 in only this number of cities 5,000 municipalities in Brazil. So, we're supporting AiQFome to grow organically.

But we also invested in a couple of assets that we also support AiQFome to grow even further, like, for example, GrandChef for restaurants and TonoLucro, which is a similar operation to AiQFome, but focused on the Midwest. So, AiQFome is growing very strongly, and the idea is to plug AiQFome to the super app to increase the base and plug it in the third quarter of this year.

So, another player in order to increase the frequency, the relevance, and improve possibilities in level of service provided to our consumers.

Another pocket of opportunities where we can go digital and we also can have multiple-year strategies: beauty, lifestyle, sports, beauty. So, we had very positive progress in all these categories, both inside Magalu super app because all of them are fully integrated, and also Netshoes catalog, Zattini catalog and Época Cosméticos catalog, and they also have their own channels, which are also growing well. for instance, just to give some highlights, Época was just awarded as the most or top of mind brand in the category; Zattini is also growing, we're structuring the area, we have Silvia supporting us in this context, we also created executive directors for fashion and beauty led by Silvia, and sports by Julio.

So, these are teams that are fully independent, they have marketing, purchase, planning, product development departments, so we created this setup in the category org to give more autonomy for these categories to run their business and develop. And in Zattini acquiring HubSales, which is a platform that connects the plan directly to the end-user, particularly in the fashion category, we expanded the base, it used to be in Franca and now is in Novo Hamburgo, Blumenau and Goiânia, which are very important fashion hubs for this category that is evolving, and Netshoes, although it's purely online, it's already a leader in the category, has been

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growing very strongly and the results are appearing in our equity income, shown by Beto, and we still have a lot of things to show you in the coming quarters.

I'm very excited with our progress in fashion and beauty and sport categories. So, 30 million SKUs of 3P, new categories, groceries, food, fashion, beauty, finding a product now in super app became harder, you have more SKUs and algorithms need to be smarter and smarter, so one of the most strategic acquisitions earlier this year was SmartHint, basically it's a company, a search engine with intelligent algorithms and their specialized by category as well, so the idea is to bring search an smart recommendation for our customers providing the best experience we have, the same that we had when we had fewer SKUs.

So, we have intelligence behind it, and there also clients outside Magalu's universe providing retail deck, for instance, that will greatly help our search and recommendation operation in Magalu, and we also have Luiza Labs with a strong team that will be added to this new team with SmartHint. So, very happy with SmartHint with us.

Now, I'd like to highlight that this quarter we really highlighted Fintechs, we had good progress since the end of last year and early 2021. Our digital account Magalu Pay reached 3 million clients and we launched it in July last year, so great progress, it's the only account that is fully integrated with the retail super app, 31 billion customers in the super app, in a couple of seconds can activate their payment account, and it's already there, and we have an important feature, which is PIX, so you can bring it to the account and also do cash out from the account. If you have cash back, for instance, you can transfer the money outside the operation and you have more usability and greatly improving the experience, which is already considered to be a very successful account.

We already have assessment scores that are very positive to our account, so it's doing great, and it was also awarded and now it has a fellow that is very relevant, which is the digital card. Magalu, like Beto said, we used to issue cards to brick-and-mortar customers and this product is 50% of the sales in brick-and-mortar sold via card and now the customer can be used outside Magalu stores. However, in e-commerce the penetration of the card was too low and that's why we launched a dedicated card for this digital audience, no annual fee, cashback integrated to the super app and the account, whenever you use the card at Magalu you have cashback that will be deposited in Magalu's account, and it's a virtual cycle.

The fintech is very important to us, it's like a glue to the ecosystem connecting and making the ecosystem work in practice, and these instruments, these tools, like the account and the card, have a synergistic stick effect that is benefiting both. So, I'm very excited, the team worked very hard and is reaping the fruit.

And if you put it all together, I guess the key behind digitalization with our consumers and turning the ecosystem into something user-friendly is the super app. Account or

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bills, the card, fashion, sports, foods, everything will be here available with no friction, very usable via Magalu super app, which is increasingly getting more consumers, 38 million MAU, 70% of our e-commerce sales already come via mobile.

So, the world will be online only and Magalu started on this wave way back then. We are growing with sustainability, we do that in a very consistent manner, LTV over CAC, and the customer stays with it, doesn't uninstall it, it's not deleted. Our idea is not to be high in the rank of audience, the idea is to be high in the ranking of engaged customers who are frequent users to the platform, and which rate you serve as well.

So, now I'd like to mention and to talk about two big avenues for monetization of everything we've said so far, TAM's. We already made big efforts to dilute expenses, low expenses, we are having a good profitability level, but we also need to build avenues to be more profitable in our GMV and to monetize our GMV and we have two great avenues: one of them is Magalu Pagamentos, basically it's a sub acquiring platform that we launched last year. This first quarter had 2.7 billion as advanced, highly profitable, this is in align of the balance sheet of our company, we support the sellers to have advance with user-friendly tools; and this year we also launched this quarter, in the first quarter of the year, FIDC, our own FIDC, which is a non-performed loan for sellers in addition to receivables, a dozen of sellers doing that pilot phase, but we believe there is a very big opportunity to generate results and monetize our ecosystem by using credit operations and loans to our of 55,000 sellers, and certainly the number is going to increase over the year.

And last, but not least, I would like to highlight another monetization avenue, which is ads. We acquired four media assets over the last couple of years, Canaltech is one of them, reaching now the historical level in April of 25 million unique visitors, they are increasing more and more their content, becoming more and more relevant, they generate content that supports sales in Magalu via e-commerce, they're a selling machine to our retail as well with all this content.

We also acquired Steal The Look in the universe of Zattini fashion and fashion inside Magalu. The content is highly qualified, the girls are absolutely great generating trends and relevant information for consumers who are interested in this universe of fashion, not only fashion, but it also covers other categories as well, and also support to generate interest in these products. The idea behind this content is to make this content available via super app as well, the consumer is not only checking to buy, but also for the sake of content.

And the last acquisition, very high profile, which was Jovem Nerd (young nerd), one of the main entertainment platforms to talk to the nerd audience, which is growing a lot interested in gaming, interested in entertainment. Jovem Nerd has a very strong power with its audience and the idea is to have varied co-labs integrating this content in Magalu. We are growing a lot in the gaming universe as a category. So, all sets act to one another improving our audience, which will be monetized with our ads to be launched in the third quarter, and we're adapting, we acquired Inloco Media last



year and we want to have a high level of service to monetize the 80 million Magalu users, including mobile side, apps, and desk and all these channel or content channels. It's going to be a great monetization avenue of our operations having ads to add to our profitability line. Seeds that we are sowing.

So, this concludes my presentation. I'm sorry I took a little bit longer than I wished, and I want to have some time for the Q&A and also to have our officers answer questions too. So, I'm open for questions now, thank you.

### **Question-and-Answer Session**

#### **Operator**

Ladies and gentlemen, we will start our Q&A session now. In order to ask a question via telephone, please, press \*1 or you may send it via chat as well.

Mr. Robert Ford, from Bank of America.

#### **Robert Ford –Bank of America**

Good morning, congratulations for the results. Is it a better basket with more products or is there anything else involved? And how do you think about competitiveness in the long run for the acceleration of consolidation of markets such as cash and carry?

#### **Frederico Trajano**

Bob, as I said before, I'm going to distribute the questions to our officers. Edu, would you like to answer the question?

#### **Eduardo Galanternik**

Yes. Hi, Bob, how's everything? Thank you for your presence and talking about e-commerce, I think it brings us a component that was lacking in our market strategy, which is access to perishable products. This is the tool that will enable us to have these inventories so that they may get to the clients home very quickly increasing frequency and increasing the benefits that we already see from the market strategy that we already have. So, it's really supplementary.

And regarding competitiveness and consolidation, these are... well, Brazil is a big country, there are always important regional components, we see more consolidation, more urban centers, but be it in P1 or P3, we will be able to be connected to the large market by means of our 1P operation. So, we will have the possibility of having a very relevant presence in the market.

#### **Robert Ford –Bank of America**

What about it from the data perspective?

#### **Frederico Trajano**

You mean data that we're collecting?



**Robert Ford –Bank of America**

Yes.

**Frederico Trajano**

Well, the original focus is, in fact, to increase the digitalization in the market category if we see an opportunity regarding monetizing data. This is not the focus of the company now, the category is key, it brings frequency, it brings more users to our super app, so we are very much focused on making the penetration of this category faster. We cannot do this with 1P only, we need to grow with help and helping others.

As Edu said, we are focusing on all kinds of... well, because of the size of the market, our focus is more on the small and medium companies in this area.

**Robert Ford –Bank of America**

Thank you.

**Operator**

Our next question comes from Tiago Macruz, Itaú.

**Tiago Macruz – Itaú**

Good afternoon everybody. My question is more conceptual. When we look at Asia, we see very high-frequency players having a lot of success getting into new categories, so there are examples in China, and when I look at the Brazilian experience, I see Brazilians more willing to deal with a multi-app world. Fred, what is your opinion? Do you think this has to do with maturity and that as time goes by things will be going toward the Asia-behavior, or is there a cultural component here given these success that you have been achieving in recurrence and traffic with all the M&A that you did recently? This was rather impressive. So, how do you think about this from now on?

**Frederico Trajano**

Tiago, nothing is for free. What happened in China were driven by a very competent execution, a more horizontal view of category killer on the part of the Chinese entrepreneurs and their team. So, well, I'm already dominant in this category, I'm dominant in retail, the market is gigantic, so I'm going to grow laterally, so I'm going to do this exploring, the connections of the digital world and that is not given by the physical world, the digital universe gives us more laterality, the borders or the frontiers are less defined, they're more blurred.

So, I think this has to do with somebody wanting to do this. We believe that we have the capacity and the competence to do this, and I believe that as far as users are concerned it is easier to have one and single log in, one single account and do all the interactions this way, and in Brazil I already see some companies becoming more lateral – I'm not going to mention companies, but –, some events are being successful here in Brazil, companies that were in one category and started to get

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into another category with a degree of success in the universe of the app: delivery apps that do food and that sell supermarket, apps of Fintechs that are doing retail.

So, these lateral expansions in Brazil are already going on. You have one option: you can be a category killer and expand internationally or you expand laterally, and Magalu, well, we know Brazil, we have our mission here in terms of digitalizing the country and we have a powerful brand, in the digital universe it's possible to do that we chose to expand laterally and not internationally, so it's a China-like option. I don't know whether we will be successful, I hope so we were very successful in multichannel, so we believe we will be very successful in our ecosystem, we're going to work very hard, and we have very competent people working on land on that in our lab, and I believe that the summation will be bigger than the individual values.

## **Tiago Macruz – Itaú**

Very clear, thank you very much for the answers and congratulations.

## **Operator**

Our next question is from Irma Sgarz, with Goldman Sachs.

## **Irma Sgarz – Goldman Sachs**

Good morning, thank you for taking my question. Fred, I think you already touched an important point about the evolution of the role played by the store. How do you envisage the store of the future in terms of operations? Should they have the same size of the current store or should it be larger or smaller to have an efficient return? And what about the financial aspect? Should we assume that something will change in the future in terms of point of service or support or third-party goods? I would like to better understand, I know you're not going to have answers for all my questions, but maybe have a better understanding of your vision and also perhaps mentioning a couple of examples that you've seen in the world about this transformation taking place and inspirations that you've got.

My second question if I may, if you were to separate a breakdown the GMV in the first quarter via acquisition compared to GMV of the organic operation, what is the contribution paid by contributions? Just to have an order of magnitude. I know you cannot give us annual numbers, but I believe there is a growing curve over the year. I don't know if in the first quarter you could share something to us in a linear matter. Thank you.

## **Frederico Trajano**

Hello, Irma, good afternoon, thank you for your question. Fred speaking. I'm going to turn it over to Fabrício just to give an introduction, the first part. Actually, that's an operation and nearly everything that we achieved right now stemmed from our own inventory 1P multichannel, and we have this vision and conviction that we managed to shift the bulk of this uniqueness to marketplace, so a multichannel marketplace, a multichannel digital ecosystem as we like to say, and the design of the new store is



pretty much in this context of this new strategy in the sense of a store being an active player, a leading role in our ecosystem.

So, Fabrício is going to tell you more about this new store and what we're planning to do and the kind of new services that the store can provide, and then I can come back to address the second part of your question.

### **Fabrício Garcia**

Good morning, Irma, thank you for your question. Let me try to answer in a broader context. With regards to the size of the store, it will remain the same as it is today, we're not going to make larger stores. We're going to slightly increase the back-office area in order to support the new categories and 3P, so we already have a new setup to optimize the space in the warehouse at the store.

Operationally speaking, it's going to change a lot, particularly in back office, considering all the processes and level of inventory, we decided to increase even further the digital tools, we're also deploying a system like a mini-WMS, a smarter warehouse system compared to what we have today, we're going to virtually double the number of SKUs we currently have. So, we should expect to see some new categories at the store with some killer products, maybe some impulse purchase or recurring purchases, and the store will turn out to be a big center of service and also supporting the seller. We are having the store for the seller to drop out the products as if it were a Postal Service and then we also have the hunt and farming for local sellers, we also trust this model with a local seller in large scale, we can also give or provide a very interesting assortment for that location with quick and inexpensive delivery.

So, we have three major pillars at the store: one of them is category; the other is logistics; and the third one is the 3P engine or driver. So, in a nutshell, that's the future store, the store of the future.

### **Frederico Trajano**

As for the second part – Fred speaking again –, we don't disclose any information which is not published yet, so unfortunately, we cannot share that at this moment, unfortunately.

### **Irma Sgarz – Goldman Sachs**

Got it, thank you.

### **Frederico Trajano**

Thank you.

### **Operator**

Our next cash question comes from Joseph Giordano, with JP Morgan.



**Joseph Giordano – JP Morgan**

Hello, good morning, Fred, Fabrício, Beto. Thank you for taking my question and congratulation for the strong quarter. So, we have SincLog, Logbee, AiQFome and everything about doing farming leveraging the store manager in order to have the inventory of the seller close to the customers. So, I would like to understand the level of integration of all these operations. Fabrício mentioned briefly this progress in the store model, but what about the lastmile part? How are you working on? Apparently, it seems that you're having an ecosystem for the delivery agent. So, I'd like to have a better understanding about this front and perhaps even consider the integration with your fintech, if you're considering, for instance, having an ERP, a more sophisticated ERP for smaller retailers, not only having a basic financial solution, but this solution coming back to Magalu as a service. Thank you.

**Frederico Trajano**

Hi, Joseph, good afternoon, thank you for your question. As for Magalu as a service, Fatala is going to answer your question and give you an overview about how we think about the architecture and the connections and the activation of these potential interactions among companies. Fatala?

**André Fatala**

Thank you, Fred. Joseph, thank you for the question. About integration, like you said, first about the logistics platform, we already worked on the integration, if you think about systems with the acquisition of SincLog, we have SincLog systems already integrated to GFL and Logbee, so all our hubs are running now with the same system, and it gives us a better level of management, particularly making it easier to expand these hubs and allowing everything to happen under the same platform.

And with the lastmile, we can also have connections to do what we refer to as local delivery supporting small sellers of Magalu partner to have a fast delivery service of the SKUs that will move out of their stores. So, that's for logistics, we already made good progress, and now Fabrício and Decio and the team are also growing very fast in terms of the number of hubs.

Addressing the second part about financial services and also the potential ERP, there are two avenues here. You mentioned development of an ERP with more basic functionalities, something to support the sellers' management area, and finally, integration with existing ERP in the market and allowing to have a connection in order not to have to simply start from scratch. It makes sense having this solution, but some levels that are more advanced sometimes they have sellers that already have an existing ERP and we can be connected to them. So, that's the idea.

And as for financial services that we can deliver to the seller, I would like to invite Robson, who is also in the call, to talk to you.

## **Robson Dantas**

Good afternoon, thank you, Joseph, for the question. That's an interesting question. In house today, we already have a Magalu Parceiro platform and even the inventory, which is a point of sale with a very advanced solution. Like Fred said, this year the fintech is going to play a key role, a leading role to be an infrastructure to all the solutions that we are planning to see, so today we already have the sub acquiring, we build a very extensive layer of services, connections and with the acquisition of hub fintech late last year – and was recently approved by the Brazilian Antitrust Agency – we're going to have a full fledged platform for financial services, purchases, financial services, card, everything fully integrated and not only the existing tool, but also other tools that we have in house.

## **Joseph Giordano – JP Morgan**

Thank you.

## **Operator**

Luiz, from BTG.

## **Luiz – BTG**

Good afternoon everybody. I have two questions on our side. Based on what Robson said about the initiatives and the fintech and you're talking about monetization, how do you imagine the recurrence of the user? Should it go up, so the more he uses the card? And the second question about marketplace and e-commerce, what about the profile of growth for this GMV? Some categories are more strategic, so how could we see this from now on, please?

## **Frederico Trajano**

Hello, Luiz, thank you very much for the questions. regarding frequency, the new card is one component, it's one component that could help us increase frequency and we still have a very small base, 100,000, it is very big if you consider the short time, but we have 30 million users in the app, so it's not going to increase frequency in the short run. Now what we must do is sell quite a lot of cards for those who use and also for those who do not use the app or even open an account in order to increase frequency, and this is a very important component, but the base is very low yet.

If I think about frequency, the role of adding SKUs via sellers and mainly the category and the services that we talked about, market and delivery, grocery, and delivery, in the short run they're going to impact frequency more initially than fintech. The objective in the short run is to increase loyalty and monetize, but for frequency in the short run, it's not going to make a huge difference.

And about the second item, could you repeat it, please?

## Luiz – BTG

How do you see the growth of GMV in the next few quarters? Do you see 1P as relevant as it was in the last few quarters, or do you believe 3P will be more relevant? Could you talk about that, please?

### Frederico Trajano

Well, it's very difficult to estimate because nobody foresaw the boom of 1P, and it is growing exponentially, very much driven by the interest in the categories. Now we have many with Netshoes, Zattini, Época Cosméticos not only durables, but many other categories as well with the presence of leadership in the Brazilian e-commerce, categories that were not penetrated yet. So, I see a lot of room for growth in 1P, and I see this very pragmatically. As I said at the beginning, we grew e-commerce not to the detriment of physical stores and we do not intend to do it the other way around either, so we don't have this rush of growing this indiscriminately, it has to grow with profitability and making sense, and we have one advantage, we have a profitable 1P, sustainable, and this is growing and generating cash.

So, we're not desperate to make this with 3P, we have to do this. Our delivery time is totally much faster than all the others, so we're going to continue growing and consumers will continue to buy and as the service in 1P is very good, we will continue to gain share and it is going to remain very important for the long run. And 3P as well because the comparison base of last year is very high for e-commerce in general. If you look at the perspective and the future opportunities, we have the opportunity to grow proportionally in 3P, but we're going to do this in a very rational manner and with LTD over CAC, and with the universe of rationality and not just to show what investors want to hear.

I cannot tell you in the long run right now. Well, 3P is going to grow more than 1P, but in the short run no, I'm not so sure. It will happen depending on the consumers' interest and the market characteristics and in a very correct manner. In the long run, well, yes, it's going to grow much more, we're making a lot of investments at the platform and getting many new sellers on board and there is an important trigger, we're going to need some time to do 3P delivery in one day and one hour.

We have to work for a few quarters or maybe a few years for them to get there, but for one day, two days a few quarters, and some years for one hour. So, we have a lot in our hands, but we will get there. However, it's not going to be in the very short run, there are many things that we have to do structurally, and we are focused on that and putting all the time and energy and dedication there.

But the most important message, Luiz, is that we're not going to do this irrationally, only because it sounds beautiful. We're going to do this if it makes sense in the long run and provided it generates value for our shareholders.



**Luiz – BTG**

Very clear, thank you very much.

**Operator**

Next question will be in English, Ravi Jain, from HSBC.

**Ravi Jain - HSBC**

Hi, thank you so much, Fred. My question is on Magalu as a service. As you see this year and maybe next year, what are going to be the focus for monetization within Magalu as a service apart from selling the products on your marketplace? What else are you focused on in terms of monetization and how should we expect that to kind of grow for your income statement? Thank you so much.

**Frederico Trajano**

Thank you for the question, Ravi. Magalu as a service plays a role to digitize the seller, turn the guy who would walk into the store into a digital car guy. Sometimes we think about charging an amount for that, but the idea is not having a very relevant number in our P&L, we believe that the ability to monetize with our ecosystem as a fintech is higher than the capacity to monetize with subscription-based SaaS. So, we think generating revenue is good to have a revenue stream in order to pay new investments, new developments. However, we don't want to be so profitable here, it's not our focus. The purpose is inclusion. I cannot charge that much if I want to go digital, if you want to have high margins, we're not going to be inclusive, which is our goal.

So, we want to enable more sellers to be in the ecosystem, so just 100,000 sell online, so we can bring more companies to the ecosystem, and Magalu as a service is going to charge revenue not just to give it for free so people can value it, but it's not going to be relevant to P&L, it's not our strategy.

**Ravi Jain - HSBC**

Very clear, thank you thank you so much, Fred.

**Operator**

The next question comes from Daniela Eiger, XP Investments.

**Daniela Eiger – XP Investments**

Good morning or good afternoon, thank you for taking my question. I have two questions. The first question is about the recent change in the commercial policy being more aggressive vis-a-vis what ML does. So, do you still have a more stringent policy of free shipping mostly related to the app? Fred said he is very vocal that he would like to give free shipping for everyone provided it's feasible. So, do you consider revisiting your strategy vis-a-vis free shipping considering competition? That's my first question.

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Second question still about competition and a follow-up about international players, but with a different thinking process. There is an interest of Alibaba and Amazon in the country with more investments, open DCs, improved shipping system. So, do you see this cross border players, mainly Alibaba, as a risk? And not only about cross border, but their moves of getting into the local marketplace. Shoppe already has this initiative, Alibaba gives some signs of interest to begin to work on this, and then they would focus on smaller sellers and maybe there could be an overlap with your long tail. So, how do you see these moves? Thank you.

## **Frederico Trajano**

Good afternoon, thank you for your question. I don't like to talk much about competitors, particularly in an earnings conference call. I have not much to consider, maybe I would like to go back to my previous answer to Luiz in the sense that we are rational, we only do a move if we believe it will be sustainable in the long run. So, we give free shipping in the app because there is a logic behind it, it wouldn't make sense in the desktop because in the desktop the P&L is different, I depend more heavily on the media, so we prefer to give benefits for customers who tend to be more recurrent in the app, in the app I don't rely so much on media, so there is a rationale for LTV over CAC in terms of our benefit decisions, and that's very dynamic, it changes all the time.

I can give you an answer today and it will be different tomorrow. Everything or anything I can promise is that we always keep an eye on sustainability and not just because it's beautiful or to increase in the 3P line. So, if it makes sense to invest heavily within a rational that provides long-term returns to shareholders, would make sense and it's not just short-term, but something that makes sense in the long-term scenario then we will do it, otherwise we won't. It's as simple as that.

When we grew 1P in Magalu, I decided not to give a lot of discounts or shipping policies in the last decades and my 1P competitors would do that, and they burned a lot of cash, they didn't move forward, someone broke, and Magalu is here. So, 3P will be the same rationale. Our culture remains the same in terms of being rational, I'm not saying we're not aggressive, if it's necessary and if it makes sense in the long run, we will be, but nothing that goes against what we believe right now. I'm not going to say that I won't replicate, but if it's not sustainable, I won't go for it. So, that's my answer.

With regards to competition, overall speaking, like I said before, today we are not in a FIFA or soccer video game, it is Fortnite, so dozens of competitors coming from many areas in the world, Brazil, fintech working on retail, cross border with local marketplace. So, our competition, if you think about Amazon, we went public 10 years ago, think about the major question in the IPO: Amazon! And we're here today, we are leaders in 1P e-commerce, growing way above the market average with profitability. So, I believe our track record is the greatest evidence, we respect all competitors, we're mostly focused on consumers, providing good level of service to

them, and making it all happen with a lot of sustainability to shareholders.

**Daniela Eiger – XP Investments**

It's clear, thank you.

**Operator**

The next question comes from Richard, with Bradesco.

**Richard – Bradesco**

Good afternoon everyone. My question is about Netshoes and Zattini. I think you mentioned in the release that results were stronger this quarter. I'd just like to understand the dynamics about growth and margin.

And my second question about the same topic, do you envisage any need perhaps to leverage the purchase experience as we have more specialists in fashion and in other areas too? Thank you.

**Frederico Trajano**

Richard, personally, I didn't understand the second part of your question, the sound is not so clear. Would you mind repeating, please?

**Richard – Bradesco**

I apologize. So, how do you envisage the purchase experience in Netshoes and Zattini for the fashion category? And do you believe there should be any change in order to be more specific for the fashion category?

**Frederico Trajano**

Thank you, I got your question now, it's clear. Thank you, Richard, for the question. Eduardo is going to answer the question, if you want, Silvia and others can also answer.

**Eduardo Galanternik**

Hi, Richard, thank you for the question. I guess the first part of the answer has to do with the dynamics or results of Zattini and Netshoes. Ever since the acquisition of the company, we had two early goals: firstly, to resume growth; and second, have a balanced account allowing it to be profitable. Like Fred said, all our goal lies in trying to reach higher growth levels in a sustainable manner, so firstly, we have to balance so that later we can speed up, and we managed to do both in the Netshoes group, we managed to maintain levels of growth, come to a balance, and have a dynamic including expense efficiency via integration and also improving our operations as expected.

And we still have a couple of things to do in the future, it's not over yet, we still have to work hard this year to capture all the benefits, and certainly this will be converted into further growth. If you think about the same categories within Magalu in our

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structure, Richard, the teams in charge for sports, beauty, and they are in all channels, so when we assess the categories in Magalu, we see them as highlights percentage wise with the greatest rates in the business, naturally with lower sizes compared to others core categories, but in a very positive trend.

When you refer to experience, once again, I think we have two challenges ahead: firstly, one in the platforms, Netshoes and Zattini they want to keep on evolving and they already have a very good level, but they really want to make headway; and in Magalu we also have to make progress so we can really grab a larger share of growth and relevance in the category. It's important to make that clear, these teams are focused on the category, multidiscipline, so they have marketing, commercial, planning, and when it comes to products that make a difference, they also have dedicated teams to work in the platforms of the brands, but specially in Magalu.

So, that's an overview, and then Silvia and maybe other colleagues could add something to my answer. Feel free to do that.

## **Silvia Machado**

Edu... Julinho?

## **Julio Cesar Trajano**

Silvia, go ahead. Go ahead, Silvia.

## **Silvia Machado**

I would just like to add something about the experience mentioned by Richard. You talked about specialists and experts, like Eduardo said, we understand that, yes, it's extremely necessary, there is an opportunity to improve experience inside Magalu. One of the major goals of the restructuring and to create this vertical was precisely to benefit from the audience, the big audience in Magalu. And just as a highlight, in this vertical, we've been having very positive results in terms of conversion in these categories, so we've been working on improvements to the experience in terms of navigation or bringing more content to the product page, several improvements related to the categories with very positive results with the conversion of the categories, as Edu said before, and that's inside Magalu.

## **Richard – Bradesco**

Great, thank you for the answers.

## **Operator**

The next question comes from Gabriela, with BlackRock.

## **Gabriela – BlackRock**

My question has to do with the amount of cash net of receivables. There is a debt, I understand, this quarter, when it comes to working capital is not favorable. However, what about growth in the future and acquisition of companies that have been

successful over the last months? So, how do you see this level of debt that you have right now?

**Frederico Trajano**

Thank you for the question, good afternoon. Roberto is going to answer.

**Roberto Bellissimo**

Hello, Gabriela, good afternoon, thank you for your question. Our net cash position is over 4 billion, so we are at a very comfortable position. As for receivables, this is cash or nearly cash, we have a lot of liquidity, we can turn receivables into cash very fast if you want to do that, and we're generating a lot of cash as well, in 12 months we generated nearly 3 billion cash. So, we are accelerating investments, we also have a very healthy and sustainable growth plan generating cash, improving while our working capital profile is also very positive, which allows us to generate further cash.

So, our cash position is the best in our history. Since our last follow-on when we had 4 billion, now we are net cash and we are in one of the best times of growth, with profits, cash generation, and R\$6 billion is our cash plus receivable. So, when it comes to capital structure, we are very well-prepared for the current moment and also considering our trend for growth and investment to keep on growing way above the market and being profitable and generating cash as well.

**Gabriela – BlackRock**

Just another question, considering receivables as cash, shouldn't we consider this as payment with debt?

**Roberto Bellissimo**

Gabriela, our current position involves inventories and suppliers, and that's healthy. Usually, the inventory turnover is faster than the average purchase time, allowing us to grow generating cash from this dynamic.

As for receivables, basically, the purpose is to finance our clients. Accounts payable basically are backed by inventory, and receivables are here to fund our clients, and because we sell a lot in installments and we also have Luiz Cred to finance our customers, we have two types of receivables: one from Luiza card, which can be discount with Luiz Cred anytime; and receivables from third-party cards, which can also be discounted anytime with the acquiring party or with banks, that's a very liquid, very low-risk, and considering our performance they are performed revenues that are even desired by the market.

So, we can discount these receivables, we can add them to cash and keep on paying suppliers with the sales cycle and inventory turnover normally. We don't need to discount more receivables to pay suppliers, we don't have this need.



I don't know if my answer was clear.

**Gabriela – BlackRock**

It's perfect, crystal clear, thank you.

**Roberto Bellissimo**

Thank you.

**Operator**

The next question comes from Fernando, with Morgan Stanley.

**Fernando – Morgan Stanley**

Good afternoon everyone, thank you for taking my question. Could you tell us more about content and advertising? You had three content acquisitions starting with Canaltech and then you have Jovem Nerd. So, could you tell us more about the integration? How are these channels generating traffic to Magalu and other brands like Netshoes and Zattini? Do you think you can relate traffic to this source? Could you tell us more about the results?

And if you should think about advertising in marketplace Magalu app, could you give us an update about what's happening or maybe give us some color on the profile of the sellers which higher the service? Are they large or small in terms of category? Anything would be very useful for me to know. Thank you.

**Frederico Trajano**

Fernando, good afternoon, thank you for your question. The acquisition of these content channels has multiple goals, I'll mention three one: one of them is sell, selling. I firmly believe in what we know as content commerce. In the digital world, you don't have assisted sale. However, it's very important when the customer is considering to buy it's very important to have qualified content to support the decision making process, so it's already a very significant source of revenue for big US players content commerce, and the business model is like an affiliate, so you post a review on the product or you make comments on the launch and this content generates interest and then you click on it and you go to the app or the desktop to buy.

So, you move from Canaltech get into Magalu and then we track the journey and when we sell, we can check it was generated, for instance, by Canaltech. And the positive aspect is that we don't rely that much on paid media, I pay for myself, to my ecosystem, but at the end of the day, we generate something like owned media. So, all these channels, Canaltech for IT products, Steal The Look for fashion and beauty products and even decoration, and Jovem Nerd to all products in this super niche of the nerds. It will have this profile of content commerce too.

The second line is content. We want to bring this content into the super app so we

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are creating, designing an architecture so consumers can go into the super app not only to buy products, but also to use content, generating more frequency and more use of the super app. So, the idea is to work on this content, they bring from outside and it is very specific. For Canaltech we have a goal to generate sales, it's not disclosed, but it's way above the average, they're covering what was expected in the business plan in the variable component, and I'm confident that Steal The Look and Jovem Nerd will be on the same wave.

And thirdly, we're going to launch our platform, our ad network, and we're designing it based on the codes and the team that we acquired from Inloco Media. Today, basically, we have big customers, big clients, and assisted sales support it's not scalable, but already monetizing part of our audience, and the idea with ad network to have a service for small and midsize players to work on ads without necessarily having to need a support or service, making it more scalable. And we expect to launch this platform. Well, we're going to have pilot studies in the second quarter, but actually, roll it out from the third quarter onwards.

## **Fernando – Morgan Stanley**

Perfect, thank you very much.

## **Operator**

This concludes the question-and-answer session. I would like to give the floor back to Mr. Frederico Trajano for the final remarks. Over to you, Mr. Trajano.

## **Frederico Trajano**

All I want to do is to thank you all for joining us today and also thank my colleagues who helped me with the answers and all Magalu members and employees who helped us to deliver significantly this year. So, have a great lunch and a great Friday and weekend.

## **Operator**

This concludes Magalu's video conference call. Thank you all for being with us, have a great day.