



**Local Conference Call  
Magazine Luiza (MGLU3)  
4Q21 Earnings  
March 15, 2022**

**Vanessa Papini:** Good morning, everyone. Thank you for waiting, and welcome to Magalu's conference call regarding the 2021 fourth-quarter earnings.

For those who need simultaneous translation, just click on the "interpretation" button using the globe icon at the bottom of the screen and choose your preferred language, English or Portuguese.

We inform you that this event is being recorded and will be made available on the company's IR website, at [ri.magazineluiza.com.br](http://ri.magazineluiza.com.br), where the earnings release and presentation, both Portuguese and English, can be found. The link to the presentation in English is also available in the chat.

During the presentation, all participants will have their microphones disabled. Afterward, we will start the Q&A session. To ask questions, click on the Q&A icon at the bottom of your screen, write your name, company and question language. Upon being announced, a prompt to activate your microphone will appear on the screen. You will then activate your microphone and ask your question. Questions received in writing will be answered later by the Investor Relations team.

I would now like to give the floor to Frederico Trajano, CEO of Magalu. Please Fred, you can get started.

**Frederico Trajano:** Good morning, everyone. Thank you for being here in our earnings call for the fourth quarter of 2021 and the year as a whole. I am here once again in the presence of our executive officers, who will answer your questions at the end of our presentation. Today, in addition to my presentation, our IR Manager, Vanessa Papini, will do the earnings part. We send our condolences to our CFO Roberto Bellissimo and family, whose father, sadly, passed away yesterday. Vanessa will be taking his role today and participating in the Q&A at the end.

Well. After completing the most successful digital transformation of a Brazilian company, in 2019, we started a new strategic cycle by building the multi-channel marketplace, which would be the gateway to the digital world for thousands of analog retailers, to do for these retailers exactly what we did for Magalu: transmit our technology, our know-how and knowledge so that these companies could be successful in the digital world as well.

This strategy involved diversification of revenues and radical expansion of the product base, which we call "tem no Magalu", in services offered to our more than 37 million active clients, and we completed various acquisitions and organic

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investments to achieve this goal. Three years after this strategic cycle began, two of which were marked by a pandemic that affected the whole world, as well as Brazil, we believe that our numbers allow us to celebrate, we are achieving what we promised for the execution and implementation of this strategy and, better yet, we still have a lot to do for the coming years.

I'm going to share some of these numbers with you and some of the progress in the implementation of these strategic cycles, which I think is evidence of what I have been talking about: first, of course, I wanted to highlight our growth. Again, even after two years of a pandemic, when we compare the value reached in total GMV, including physical and online stores, we reached R\$56 billion in GMV in 2021, twice as much as in 2019, which means 28% growth compared to 2020, so we already have 71% share of e-commerce in the year as a whole. One of the biggest growth engines has been online sales, of course. We doubled the total GMV, but we tripled e-commerce sales from 2019 to 2021 and sold more than 200 million items throughout the Magalu ecosystem. We also managed to grow 39% even on a very high growth base. We are the retailer that grew the most in the first year of the pandemic; we had grown 130%, even on this very high base, we grew 39% in 2021; that is, we managed to — once again, just to reinforce this — triple this number compared to 2019. Our focus online, as I said at the beginning of our presentation, was the marketplace, and we quadrupled it in relation to 2019, from 3 billion to 13 billion GMV, growing 69% in 2021 compared to an already exponential growth of 156% in 2020 over 2019.

Anyway, those are incredibly robust numbers that place the company on another level. They are as important for the digital world as for most of the categories we work with.

Next, please. As for the marketplace, I would like to highlight a historical fact as well. Now in February, just five years after its launch, the marketplace, the marketplace GMV, has already surpassed the sales of physical stores. So, its share in the company's total GMV is already higher than that of physical stores. We have to remember, first of all, that February was a month in which we re-priced seller price lists; even so, performance was positive, with growth above the market in terms of the marketplace with much better margins in the marketplace channel than we presented. We found in previous years, when they were obviously much more competitive, some platforms that didn't even charge sellers fees and even offered free shipping, among other things, so we managed, even with the repricing in February, to achieve a volume of GMV higher than the sales of physical stores and also that physical stores in February performed better than in the fourth quarter of last year. So, really, kudos for a strategy that has been working. And I'm going to speak in a little more detail about everything we've been doing to result in this outstanding growth in a channel that is so important for our strategic cycle, which is the marketplace.

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Next, please. I think we've obviously excelled in adding new sellers. I will speak about this in more detail later, but we went from 26,000 sellers to 160,000 sellers, closing today with 160,000 sellers, adding 40,000 sellers from the first quarter, 45 million offers to our total offers, and we reached more than 61 million offers, further diversifying the product line and the average ticket offered to the client. I will also detail the geographic base and the profile of sellers that we have been engaging because we have a strategy within our marketplace that is different from those of most market players, and I think it is important for us to always reinforce and reprice it.

As I said, we are focused on digital sellers, but we focus on analog sellers as well, ok? At the beginning of the pandemic, we created a platform fully suitable and focused on analog sellers, which is Parceiro Magalu. It has a complete technological stack that involves online billing, inventory management, delivery management; it is very different from the stack native digital sellers need. And just to give you an idea: last year, 80% of the sellers that we added to the platform came from Parceiro Magalu; that is, they are analog sellers that migrated to our multi-channel marketplace to be able to offer their products, which are at their physical selling points, to clients worldwide through the digital world. This number tends to grow from here on. I will also mention the importance of physical stores in attracting these sellers.

An interesting point is that Parceiro Magalu sellers also have a different product mix profile. The vast majority of products coming in today are long-tail, non-traditional products.

Something else, next slide, please, that these sellers give us — unlike most of the marketplace market — are two different characteristics. The main one is that we have a very dispersed geographic base, as we are not just focusing on Brazilian sellers in the São Paulo region but also bringing sellers from all over Brazil to offer their products to Magalu clients, who are also spread throughout Brazil. With a logistic equation for smaller tickets that is a logistical equation that works—because in Brazil, a centralized logistics of low tickets will never have economics; items ranging from R\$40-R\$30 of average ticket leaving the Southeast to the Northeast will never be able to monetize platforms having this characteristic. They will always be platforms with a negative contribution margin because the share of freight in total GMV and take rate will be very high.

We are managing to shift focus from these geographic bases and shift the focus of the average ticket in these geographic bases, making it a strategy for the growth of our decentralized, sustainable marketplace, which we believe will have increasingly positive economics. The month of February is a good example of how we are walking the talk in this sense.

Next, please. An important highlight is that the majority — 56% — of Magalu's new clients came from the marketplace, so, in addition to everything else, it has helped

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Magalu to win over clients who were not clients of the platform before, clients who did not buy the company's core products, 1P products. So, most of the new clients now using the platform, exactly 56%, come from the marketplace.

Next, please. I think that one of the actions through which we have managed to significantly improve the sales volume of the marketplace and, as I will talk about conversion rates, is all the logistical investments that we made starting in 2021. We even carried out a follow-on, the goal of which was to expand our logistics capacity; we went from 31 logistics bases, including cross-dockings and exclusive logistics DCs, to 272, well above the guidance that we indicated in the follow-on. Furthermore, the company's total storage area went from 150,000 m<sup>2</sup> to 1,390,000 m<sup>2</sup>, was expanded significantly, and we also expanded the coverage network of our own logistics.

We made three acquisitions: GFL, Sode, and we had already acquired Logbee, to increase the share of our own fleet in Magalu Entregas and the share of Magalu Entregas in the total 3P GMV.

Next, please. Here are some numbers that I want to share with you. 80% of all Magalu 3P requests last year went through Magalu Entregas and almost all of these requests went through Magalu's own network. So, our dependence on the Post Office or third-party carriers has drastically decreased in the last year, generating two very positive factors: the first, we significantly increased the delivery-within-two-days format, from 18% to 30% last year, and this also increased the 3P conversion rate — last year, the 3P conversion rate increased significantly by 50% compared to 2020.

It is worth noting that, when clients buy products on the platform, they buy 3P products and 1P products too, right; let's remember that the most important thing for a client is to buy a good-priced product that is delivered quickly. In the 1P, our service level is already well above the market average and we make 78% of deliveries in the 1P within 48 hours. So, we are now improving the fast delivery share in 3P sales as well, but in 1P, which represents part of the experience that clients have on our platform, 78% of requests are delivered within 2 hours. It's no wonder that we have one of the best NPS in Brazil and are the only company with an RA 1000 seal in all the *Reclame Aqui* ratings. Let's remember that 3P and 1P are not mixed in *Reclame Aqui*, we have a RA 1000 for... we do mix 1P and 3P in *Reclame Aqui*, right, so we have a RA 1000 seal even with 3P within the category, and we had a 10% NPS growth in 3P as well, which is significant. We are also developing ultra-fast delivery, which is Ship-from-Seller, delivery within 24 hours. Over 1,000 sellers have already adhered to this delivery type, largely due to our investments at Sode, and more than 21 capitals are included.

Next, please. I would like to emphasize the role of the physical store in our marketplace. The physical store was the great differential in our growth and the fact that we have leading in 1P since 45% of all 1P sales pass through the physical store,

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either by ship-from-store or pick-up at a store; it has become the great differential of our 3P, which is why I say that our marketplace is a multi-channel marketplace. Last year, we re-signified the physical store once again and it has become a very important instrument both for our clients and for our sellers who interact with our marketplace, with our platform.

I would like to highlight two points: the first point, next, please, is the transformation of the stores into Agência Magalu, currently, 400 stores have been transformed into Agências Magalu, and the local sellers that the store itself brings into the Magalu ecosystem can drop-off goods instead of going to a post office. In the management letter we shared the earnings of some of these sellers, we have almost 10,000 sellers using Agências Magalu as their main product drop-off point when they sell in the Magalu universe, their sales growth exceeds 150% and the reduction in freight cost over traditional options is more than 50%.

The stores are also 3P pick-up points, so we have more than 1,100 stores qualified for 3P pick-up at a store modality and almost 15% of everything we sold for 3P was picked-up at a store. In other words, the differential that turned Magalu into a leader and a reference in Magalu's 1P is also being transported to the marketplace world. We would like to emphasize the relevance that the store, today, is much more than a point of sale, it is also a logistics point not only for 1P but for the marketplace as well, in addition to being a point of service for clients, of sale of financial products, it is much more than a point of sale.

About the stores, I usually say that, even if they are all breaking even, we will be happy because we will have 1,500 collection points, and, sometimes, more because we will open more of them, free of charge. So, it has a more important role. It is important for us to understand that this role has evolved, transformed, and become a differentiator for the company. I would also like to remind you that 50,000 of the sellers that joined the platform did so due to the store team's hunting as well. So, the physical store team was one of the main players for the growth of the seller base last year, a very strong team that sees Magalu as a multi-channel company and not just as a physical store point of sale company.

Next, please. And I would like to detail that, despite – and we will detail this a little further on – all the difficulties involved, especially in the last quarter, we managed to keep the stores' revenue in the year as a whole even higher than in 2019, we grew 6% compared to 2020, which had already grown 1% compared to 2019. So, in the physical stores, we continue to gain market share and they have the revenue for the year as a whole that proved to be resilient and we still believe that, after the cyclicity of the moment, revenue will return. However, again, they have a role that goes beyond generating a contribution margin for the business, they play an important role in the entire ecosystem.

Next, please. Now, I would like to highlight the second point a little. I talked a lot about the multi-channel marketplace, now, I would like to highlight the important

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point I mentioned at the beginning of our conversation about diversification of revenues and entry of new categories, as well as new lines of service revenues here in our earning. We made a series of acquisitions, about 20 acquisitions over the last two years mainly, some were made before that period, such as Netshoes and Época, and we are disclosing a number that we had not yet disclosed to the market to clearly show that, although we did very well in the categories of durable goods and although we have taken the leadership of the sector in the last two years, it took us six decades to become a leader in durable goods, our challenges of diversifying categories are going very well, and it is important for us to shed light on this and to give visibility to it.

Today, these long-tail categories, which are not the traditional categories, represented around 20 billion, and this number includes the annualized KaBuM number, we will comment on this further later, ok? But 45% of online sales already come from new categories, sectors such as fashion, sports, home, furniture, decoration, peripheral accessories, beauty, food delivery, market, automotive, so all the categories that are growing a lot are showing that our efforts both with the marketplace and with the companies that are joining the group and also bringing 1P are being successful, with a detail that I would also like to point out that the acquisitions, in addition to contributing to the top line and this diversification of category, are also contributing positively to the bottom line, so we have been very successful in bringing companies to the group that help us to expand the GMV, sources of revenue, but that will also help the company to monetize its business.

And I wanted to point out that all of them are either in line with or above the original forecasts from when we bought them. The acquisition strategy is already reaping the benefits and the figures confirm what I am saying here in our presentation.

I will quote one just to illustrate a little what we are talking about. I would like to start with KaBuM. KaBuM is the newest in the group, although we announced the acquisition in July, we were only able to incorporate it into our balance sheet as of November 15, so it will be full, KaBuM's 4 billion GMV and KaBuM's earnings will be incorporated in 2022. It is a company that we mentioned here in the call as the Disneyland for gamers, 4 billion GMV in 2021, profit of 300 million, an absolutely efficient operation with clients who are fanatical about the company, 2 million clients, and almost 70% of these clients have never made a purchase from the Magalu ecosystem before, ok? So, it brings a new, different, loyal client base and a categories base that is growing exponentially in the world, which is the games category, which is a completely complementary assortment to that of Magalu, they include computer accessories, accessories that people buy mainly for gaming, but not only that, some people buy computer accessories to mine bitcoins, and KaBuM incorporates an assortment of 20,000 items.

So, it is a profitable and efficient operation, with a loyal client base that will grow and we still have a lot to do and a lot to build together in this universe of the gamer audience. So, I am sure it will be an extremely successful acquisition, as was, for

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example, the Netshoes acquisition, and we are celebrating earning records here - next slide, please - in this lifestyle universe that we added, mainly the purchase of Netshoes; Netshoes broke records last year, a GMV of 4 billion in 2021, it made the biggest profit in history, 135 million in profits, already reaping the benefits of the integration with the Magalu universe, back-office integration, logistics integration, pick-up at a store, a series of advantages that, alone, it did not have, integrated into the Magalu ecosystem, it incorporated it and we managed to reduce the SG&A, apart from the team management obviously, which was very good. It adds an assortment of 250,000 items and 7 million active clients, a loyal base and one of the main sports channels in Brazil with a very high organic traffic share, showing the strength of one of the main brands in Brazilian e-commerce. We sold more than 10 million pairs of sports shoes last year and 1 million football team shirts, and we are responsible for managing most of the club stores, which are the football clubs' own stores, we manage the stores for these clubs.

Zattini, an optional feature of Netshoes, came as a bonus; it is one of the main fashion sales channels in Brazil that has a whole team that brought their know-how, and, with Silvia, we also brought a new team here to work on one of the categories that has the greatest growth potential in Brazilian e-commerce, last year we reached 1 billion GMV in fashion in Magalu, 170% growth compared to the previous year, we have more than 300 brands available. I would like to highlight the fashion marketplace, 55% of the fashion GMV last year was achieved by 3P, ok? So, 30,000 sellers were incorporated into the Magalu fashion platform, some from Parceiro Magalu others came with the acquisition of Netshoes and Zattini. We have greatly expanded the base of specialized sellers and factories via hub, which increased to 8 industrial hubs last year and we have several factories now connected directly to our e-commerce doing D2C. So, the fashion line has also grown quite prominently, we are very confident that we will continue with a super positive trend; we are already a leader in the fashion segment and we will continue to grow above the market average.

And another big highlight of last year in every sense was Época and the beauty category, 1 billion GMV last year including Época's revenue and what we sell from the beauty segment in Magalu, growth of 60% year-on-year, 3-point gain in share in the category, it is already one of the leaders in the category, if not the leader, besides lucrative and profitable. So, Netshoes, Época, KaBuM, are all assets added to the Magalu ecosystem adding the top and bottom line.

Altogether, the lifestyle categories are contributing 6 billion in sales to the company, in a very strong combination of 1P and 3P that still has a lot of potential to grow in the future. Bearing in mind that these categories are underpenetrated in Brazil.

Next, please. Now, I would like to highlight the markets category. We also reached 1 billion in the category last year, market GMV in the entire ecosystem, last year we

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acquired VIPcommerce, which is an e-commerce platform that helps analogue retailers of supermarket products to enter the online world, it is the only platform specialized in supermarkets in Brazil, it achieved a GMV, these clients achieved a GMV, of 330 million - remembering that VIPcommerce today is still an SaaS model, it was a growth of 200% for these customers, 190 million items sold, 280 cities served, we should soon integrate most of these clients into our ecosystem, especially our super app, soon we will have news to be announced to the market in this regard, get all these clients, all these markets and integrate these catalogs for us, and VIP has also managed to grow in the SaaS model.

So, the market category is growing a lot, it achieved 1 billion in GMV, and, in terms of items sold, it has a very relevant role in our total share, being responsible for attracting clients and audience on the Magalu platform too.

Next, please. I would also like to highlight our food delivery, which, despite not being present in the capital cities and being a little off the radar, generated a GMV of 1.3 billion last year and consolidated itself, in number of orders, as the second-largest player in the market upon the exit of Uber Eats; we have 5 million clients, we acquired Tonolucro and Plus Delivery and we are creating a platform based on AiQFome; we have 30,000 active restaurants in food delivery and I would like to highlight that our food delivery is profitable, it is in the black, AiQFome has always operated in the black and we are able to grow. The focus is still on small and medium-sized cities, but we are also expanding the services to other city profiles and we are also excited about the growth potential.

Remembering that we integrated AiQFome in the super app last year and we are reaping the benefits of this integration as well. It is another successful acquisition that has been positive both for the top and bottom lines.

Next, please. I would also like to highlight our ads initiatives. We acquired three content channels over the last few years, Canaltech, one of the largest content portals in Brazil with more than 25 million visitors in a single month, Steal The Look, a content channel specializing totally in the fashion area, which has greatly helped our efforts to be relevant in this category since in the fashion category it is not just about the product, you really need content too and there is a super qualified audience, and one of the most beloved channels in Brazil is Jovem Nerd; both Jovem Nerd and Canaltech, now with the addition of KaBuM, will have even more representation in our ecosystem.

In all, including the audience of these three channels and of all the channels of our portals, KaBuM, Netshoes, Época, Zattini, we had more than 450 million hits in December 2021, which is perhaps one of the ecosystems with the highest audience in Brazil and, last year, partly with our platform, partly with specific advertising efforts, we have already managed to sell R\$100 million in advertising last year. The trend is for this number to grow significantly over the coming years, mainly with the development of new self-service features on the inclusion platform of Magalu



Pagamentos on the platform and new real estate spaces that we are providing to our Magalu ads platform, which will make it much easier for Magalu sellers and external advertisers to be able to advertise on all platforms, and, obviously, with such a large ecosystem, with such an audience, many advertisers and sellers will want to be together. We are creating several features, we are very excited about the diversification of revenue and already with this number of 100 million, which, in relation to the Brazilian standard, is already significant and will continue to grow.

Next, please. And, to finish, I would like to highlight our Fintech, which reached a significant volume of 65 billion in TPV last year. We launched the Magalu Pay machines, focused on analog sellers; regarding the corporate account, we are also in the process to launch it this year, it was profitable last year, we have now reached almost 5 million digital accounts created in the super app, which is Magalu Pay, and it is also increasing the IPP significantly, the share of Magalu Pay in the purchases made by clients and the integration of Magalu Pay with Pix helped the cash-in a lot so that we had money in the account so that the client could use and enjoy exclusive promotions for those who have a Digital Account. Remembering that Magalu Pay onboarding is totally simplified, you do not need to download another app, it is just a few additional steps for those who already have a super app account, so it is fully integrated into the super app experience, much more than other digital accounts in the market.

We added 3 million credit cards in the year, with a strong focus on the Magalu card, which is a card specifically aimed at the internet audience that generates Cashback on purchases made by internet audiences, which you can check the balance in the Magalu super app, and Luizacred's loan portfolio reached 17.5 billion last year, a number already much higher than most Brazilian neobanks, showing our ecosystem's potential to scale this business. So, it is a Fintech that is doing very well too.

Next, please. And here we see a little bit of the GMV breakdown. Of the 65 billion, 41 billion is from the credit card, 16 billion from the receivables advance, 7 from our banking as a service, which came with the Fintech hub, one of the acquisitions that was concluded in July last year and is already responsible for a considerable part of the innovations, new features that we are applying to our platform.

Well, to conclude, I believe that the numbers clearly indicate significant progress in our multi-channel marketplace strategy, diversification of categories, and revenue sources in the construction of a balanced, synergistic, and symbiotic ecosystem. And now, let us talk a little about the financial highlights of the year and the quarter, Vanessa Papini, as I said, will do this part, and then I will come back here to answer your questions together with my executive officers.

Thank you very much. Vanessa.



**Vanessa Papini:** Thank you, Fred. Well, good morning, everyone, thank you very much for participating in our conference call.

I will go through the main financial highlights for both the year and the fourth quarter. Starting with the year just closed, we, well, Fred mentioned some growth, but it is worth emphasizing that the marketplace grew by almost 70% in the year with 13 billion in sales, our e-commerce reached 40 billion, tripling in size in two years and growing by 39 in 2021. The physical stores, even with all the difficulties of this scenario, the difficulties of the semester, in this second semester, grew 6% in the year and are at levels above the pre-pandemic level.

In terms of total sales, we grew by almost 30% in 2021, reaching R\$56 billion in sales in the year, double that compared to two years ago, in 2019, we reached 27 billion in sales, so I believe this is a super highlight of our year.

Going through the earnings a little bit, Magalu reached 1.5 billion in adjusted EBITDA in the year, equivalent to 4.2% of the EBITDA margin. The net income adjusted for non-recurring events was R\$114 million in the year, equivalent to R\$591 million in accounting net income.

On the next slide, we will see the highlights of the quarter. Sales, so, the marketplace is still a super highlight, it grew 60% in the quarter, reaching more than R\$4 billion in sales in the quarter, e-commerce overall grew 17%, there were 11.1 billion in sales in the quarter, the physical store, due to greater concentration on products with a higher average ticket and the scenario of higher interest, higher interest rates and higher inflation as well, suffered an 18% retraction in the sales in the quarter, resulting in total sales 4% higher than in the 4Q20, reaching more than 15 billion, 15.5 billion in sales in the quarter.

The adjusted EBITDA for the quarter was 243 million, equivalent to a 2.6 margin, which is also a reflection of the lower dilution of expenses due to the decrease in the sales in stores, which was largely due to this macro situation. In the adjusted net income, we had a negative result of 79 million and an accounting net income of 93 million, considering the non-recurring events in the quarter.

On the next slide, we see that there was an evolution, a breakdown of the EBITDA margin, and its evolution compared to the fourth quarter of 2020. So, I believe we see a positive contribution in terms of gross margin, largely due to the higher share of the service revenue. On the other hand, we see in both selling and administrative expenses a lower dilution of these expenses due to the lower volume of sales in the stores, as I mentioned earlier. It is worth mentioning that the company has been working on a profitability agenda for our 1P durable goods operation, especially in the durable goods categories, working on a gradual passing on of both the increase in costs, after all, we had cost inflation in recent quarters, and the increase in the interest rate, this is being done throughout these first months of the year as well.

On the next slide, we will see a little bit of our capital structure. So, once again, there was working capital contributing to the company's capital structure. I believe it is worth mentioning that we have been working hard to improve turnover and reduce inventory levels in the short term, we understand that at the beginning of the year alone, in these first months of the year, the company should reduce its level of inventory by 1 billion, largely due to these efforts, to being able to work with the most efficient turnover in this short term.

In terms of net cash, we ended with R\$5.5 billion in December 2020, and, when we look at the next slide, going through the cash flow for the quarter, I think we have a great highlight in our capital structure, we ended with the largest cash position in our history, R\$12.3 billion in the quarter, we invested 300 million in Capex and raised 4 billion in bonds at a very low cost, with a long term, maturities of 4-5 years with the objective of further strengthening our capital structure, and we ended up with 4 billion in cash plus 8.2 billion in receivables in the quarter.

Speaking a little about Luizacred, I think Fred presented some highlights of the portfolio, but it is worth noting that we ended the year with more than 7 million issued cards in our card base, in the year alone, there were practically 2 million net additions to the base, we ended 2020 with 5.3 million cards and ended now with 7.2. Here, it is definitely worth mentioning the launch of the Magalu card, which was a success, we launched the Magalu card in April and it has already reached 1 million accounts issued, complemented with the Luiza card as well, which is a success in the stores.

In terms of TPV, we reached 41 billion in TPV in the year, growing 40% as compared to the last year, and 80% of this TPV is outside Magalu. So, our client uses the Magalu cards a lot, both at our stores, in our e-commerce, and also outside; the share has increased in e-commerce with the launch of the Magalu card as well. In the quarter, the TPV also grew 40% with a strong share of use abroad, reaching R\$12 billion.

And, finally, talking a little about the portfolio indicators, we ended the quarter with indicators at one of the lowest levels in history, our long NPL close to 5.6%, a little above the third quarter, but still well below pre-pandemic levels, which shows how healthy our portfolio is, the growth in our portfolio, the growth in revenue, a card base that has been very solid, very solid growth in the card base, which improves the relationship with our client too, day after day.

In terms of earnings, in the year, Luizacred made practically 300 million in profit according to the Central Bank methodology, and 153 million under the IFRS. Here, it is worth noting, in short, that we have more conservative provisions under the IFRS, in practical terms, recognition issues, closely related to the growth of the card base and the revenue growth, but that the portfolio indicators remain at historically low levels.



Well, I think those were the financial highlights. We can start the Q&A session. Thank you.

### **Question and Answer Session**

**Vanessa Papini:** We will now start the question and answer session. To ask questions, click on the Q&A icon at the bottom of your screen. Enter your name, company, and language of the question to join the queue. Upon being announced, a prompt to activate your microphone will appear on the screen. You will then activate your microphone and ask your question.

Our first question comes from Joseph Giordano, from the JP Morgan Bank. Joseph, please go ahead.

**Joseph Giordano:** Hello, good morning, everyone, good morning Fred, Vanessa, and team. Thank you for my question. Actually, I have two questions, I think the first one, thinking a little about the short term, I would like to explore with you how you have seen the evolution, the demand for the core categories in the short term. I think this might be a point of attention, but I think the second question is perhaps a little more strategic regarding the long term, I would like Fred to explore a little how this somewhat challenging short term affects the company's long term strategy, and even understand what will be given a little lower priority, what you will accelerate, I would like to try to understand what this changes in the long term because we see several initiatives that are starting to succeed and the very assertive acquisitions and the company stitching this entire ecosystem together.

So, I wanted to understand what accelerates and what decelerates with this macro issue. Thank you.

**Frederico Trajano:** Good morning, Joseph, thank you very much for the question. Well, I believe that in the last earnings call I already talked a lot about the short term, I think I was very thorough, almost a macroeconomist and we also spent a lot of time in the letter talking about this, I think nothing has changed significantly from the last call up to this moment. The situation is the same, I do not want to dwell too long on this, I believe that the only significant difference is that we are prepared for what is happening, and, in the second half of last year, in a way, what emerged from the macroeconomic scenario took us completely by surprise, especially in terms of intensity of the change, the headwind that happened in the second half of the year. We were not prepared, I do not think anyone was, not even the big Brazilian hedge fund managers were prepared for what happened with inflation and interest rates, everyone had to review their portfolios, okay.

I think the main difference, nothing has changed in relation to the short-term situation that is in the news every day, what changed is that we are prepared for this and we are making the adjustments that Vanessa already referred to, to monetize the operation, to adapt the capacity to the size of the demand now.

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Regarding the strategy, it is, in fact, the opposite, it changes absolutely nothing. As I made a point of including in my presentation and in the letter, in the message from management as well, since 2019, the strategy is to diversify categories; however, a pandemic started in 2020 and Brazilians all wanted to buy durable goods. That happened. I was not going to say to the Brazilian people: "Look, do not come here to buy a refrigerator or buy a cell phone, I know you need it, but I am not going to sell it to you because I want to diversify the category", ok? We were obviously there, and, after six decades we have become, to the delight of the company's founders, a leader in the durable goods category and we are very happy about it.

Of course, it is a cyclical sector, there is a certain hangover from the pandemic, but when this sector returns, when the economy is doing well, this sector does much better than average too, we will be very well positioned to capture the next cycle of Brazilian growth, we will have to be prepared for some period, I do not know exactly how long – because, again, I do not want to be an economist in this call, maybe a quarter, I don't know –, for that.

And the Magalu strategy, as I described very well, all the Magalu acquisitions were in different categories, adding new sources of revenue, and they are all going well. We wanted to emphasize that the strategy is happening, it is successful, 20 billion GMV, a share of 45% of the online, several operations with a positive bottom line, most of them contributing to our business. So, we will only accelerate the implementation of this strategy, the connection of these companies with the ecosystem, KaBuM is entering now, it has a lot of segregation, as it benefited Netshoes I am sure we will have benefits here too, ads is just starting, what we are achieving remains little, 100 million, we can do much more, and the platform that we bought from In Loco is also doing very well, it is super functional, easy to use, and we have to acquire real estate in all the platforms.

Therefore, basically, Joseph, we will execute the plan, which we were already doing from 2019 to 2022, and continue to follow it diligently, and, obviously, we will continue to implement a multi-channel marketplace that is bringing sellers from all over Brazil with a very special focus on analogue sellers. So, basically, we will not change the strategy, we will continue the execution with discipline and be patient with the traditional categories, with the traditional part of the business, which is cyclical, we know, we have been working for over 10 years, we have already gone through these cycles, when we were a privately held company, we went through other cycles too, at this stage it is difficult when it ends too, everyone wants to be in the category.

**Vanessa Papini:** Thank you for the question, Joseph.

Our next question comes from Irma Sgarz, from the Goldman Sachs Bank. Irma, please go ahead.

**Irma Sgarz:** Good morning, thank you for taking my question. Fred, I would like to explore the logistics network design issue a little bit. I think you have an approach, a view, slightly different from that of some other players in the market, so, if you could talk a little about what you are... on which fronts you are focusing for this year, trying to improve the average term for the 3P sellers. I recognize that you have already evolved greatly, it was very useful to hear that it increased from 18 to 30%, and I know that you will seek more.

So, the question is, which fronts will you focus on this year, if it is more a matter of technology and finding the right algorithms to locate inventories at the right places and do the routing, or if it is more a matter of expanding assortment by means of the analogue sellers, or maybe a matter of physical assets that you will have to open? I think the latter is perhaps less a matter of how you opened and anticipated keeping a good part of these investments, but I would like to hear a little more about the fronts and maybe even the obstacles in the short term to take this to faster rates. Thank you.

**Frederico Trajano:** Hi Irma, good morning. Thank you very much for the question, I think that, in summary, it is a question that we have received a lot from investors, I think we are showing some important numbers that we had not disclosed before, also to clarify our strategy.

I think I would first like to highlight the expansion of the network; I think logistics capacity is super important, we expanded from 30 cross-dockings and DCs to 272 last year, and our focus on logistics is based on almost every point that you said. So, first I need to bring a decentralized seller and catalog, so I obviously need to have a decentralized seller base, present throughout Brazil, and we have been able to do this through our physical store hunting efforts and mainly through the Magalu partner's platform, that we, as you have seen, are having seller cohorts increasingly outside the Rio-São Paulo axis, especially São Paulo, where 70% of the sellers of almost all Brazilian marketplace platforms are located, we are bringing sellers from the Northeast, South, Midwest, and these sellers' catalogs as well.

Then, the cross-docking logistics units help us to pick up from that seller and quickly re-dispatch it in our network without necessarily – but we shall give this opportunity – having to store merchandise, because that seller already has such merchandise stored at the physical point. So, having logistics with a lot of flow and with little inventory is the logistics we are designing. Our focus now, as you said, is to make the goods travel less. So, if a client from Franca, in the countryside of São Paulo, is buying a product that is available in fulfillment in São Paulo or is available at the analog seller in the City of Franca, we wish to ship such goods from the City of Franca, thus avoiding unnecessary transport of such goods since we know that in e-commerce – and with gasoline prices rising – the main cost in e-commerce is transportation costs. So, the less the goods travel... and when I talk about smaller tickets, then we are talking about BRL 30 - BRL 40, especially this product, for very

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long distances, it is impossible for a seller or for a marketplace platform to make a profit, ok?

So, for that, we are creating and expanding our logistics bases, there are 272, as I said, that help in the collection and re-dispatch, we are making our 1,400 stores work as logistic points for that seller; I already said that 15% picks-up at a store, smaller ticket pick-up at the store is economically feasible, much more than the last mile, and also stores like Agência Magalu points, as I said, the seller's drop-off too since for the seller such cost is reduced by 50% when they use it; nearly 10,000 sellers are using that store for the re-dispatch of merchandise for the goods drop-off.

From the user experience point of view, the structural change in search algorithms, in the data structure that we need, is monumental in order for us to start making local products available to the local consumer. It is a change; it is a complete reengineering of our categories. AiQFome is already prepared to serve local consumers with a local seller. Magalu was not like that, no e-commerce platform is like that. So, the change and the technological challenge, engineering, algorithms, and searching the labs to place localization features is very great, much more complex than it looks, but we have a very strong team there working on this issue of geolocation, and we believe that the more the local consumer sees the local seller's product that we will have, and we have to continue hunting, bringing in new local sellers, ensuring their products have active listings. Thus, it is a holistic, 360° job.

And finally, now, with all the investments we've made in the storage area and also with the fact that 1P, durable goods, which had taken up almost the whole storage area we had, tend to generate a little space in our idle space DCs, we will also use this idle space for fulfillment buy. So, we are also going to add fulfillment buy to our options there for the seller, and we believe that all those factors together will help us to improve the share of ultra-fast deliveries there in 3P.

Let's not forget that we have 1P with very fast delivery too, which we must not disregard. When you compare an Amazon product but you cannot see if it is 1P or 3P, here in Brazil, there is this thing: "Look, 1P is not good, 3P is good." There in the United States, they do not have that, 1P and 3P for the consumer are the same, if you deliver quickly on Prime it's fine. In fact, consumers even prefer to buy 1P but the market prefers 3P and we do not do what the market wants, we do what the consumer wants.

But, having said that, I strongly believe that we will also improve for 3P and, as you said, the improvement last year was very significant because we will have more stores working with branches in Magalu, and we will improve the algorithms there, even ads, and we are putting features in ads so that the seller can advertise for the local seller as well.

So, this is a QR that is shared by practically all business teams, with great emphasis there for all labs teams as well. I am sure that we will continue to evolve in this indicator, looking forward.

**Vanessa Papini:** Thank you for the question, Irma.

Our next question comes from Maria Clara, from Banco Itaú. Maria Clara, please go ahead.

**Maria Clara:** Hi Fred, Hi Vanessa, thanks for taking my question. In fact, I have two. The first concerns working capital dynamics, specifically the situation in the company's inventories. When do you expect to finish Magazine Luiza's inventory cleaning process?

And the second is about the future of the physical store. So, with the multi-channel system growing ever stronger and marketplace sales surpassing those of physical stores in February, what can we expect regarding the future of this division in the long term? Thank you.

**Vanessa Papini:** Thank you, Maria Clara. I will start here, then Fred will answer the second question. Well, about inventories, I think it is worth mentioning that in December, at the end of the year, at the end of December, we consolidated KaBuM's inventories into that December figure, the closing of the transaction was around December 15th, so in terms of earnings, it was only 15 days, but the balance sheet was consolidated, so this ends up impacting the par figure when we look at that inventory, and Magalu is also preparing for Liquidação Fantástica. Guys, the sale is important for selling, to dispose of inventory, to be able to sell display models, but we also compare a lot of products so we also prepared for the sale. Those are two points for us to remember when analyzing the December inventory.

During the quarter, there was a reduction in turnover, when we use the comparable turnover, excluding those effects, there was an improvement in inventory turnover during the fourth quarter, but this work remained very strong over the first few months of the year, and I think we set out to reduce inventories, to adapt the inventory to this new reality of sales of 1P durables, both in store and in e-commerce, and this work was very intense also at the beginning of the year, the sale was an important date for reducing inventories, after all, sales performance was excellent in the stores and that was important for us to sell this inventory that was idle.

We also highlighted in the release that, with those efforts, in the first months of the year we should already have a significant reduction of BRL 1 billion in par inventory there in those first months of the year, bringing it to a level that we view as much more suitable for our operation, much lighter, a much more agile turnover there for our day-to-day operation.

**Frederico Trajano:** Well, thank you for the question. Regarding the future of the physical store, I think I have already talked about it, I am going to reinforce some points here and I am going to ask Fabrício Garcia to supplement here with all the work they have been doing there to adapt the store to that concept, to re-signify it at this new level. First, I have already re-emphasized the strategic importance of the store as a differentiator for our marketplace, ok, product offering point, product withdrawal, fundamental for 1P, increasingly fundamental for 3P, hunting support, and an extremely successful channel for selling financial products as well. So, it is much more than a point of sale for physical products, it is a point of service and sale of financial products and a point of support for sellers and for our e-commerce operation as well. So, it is increasingly essential to our process.

And I would like to reinforce that we have great discipline in what we do in stores, our stores are very lean, have a small area, cost per square meter below or at the same level as distribution centers that are outside shopping centers, we have a very low cost per square meter, and most of the store costs are variable, and we are able to adapt capacity to the demand that it is generating at that moment. So, I think they are key points. As I said, if they breaking even, we already have a significant competitive advantage, which is 1,400 free logistics services points there for our ecosystem.

But I would like to ask Fabrício to contribute to the answer here and describe all the efforts we have been making in physical stores in all its aspects. Fabrício?

**Fabrício Garcia:** Good morning, good morning, everyone. Thank you for the question. Well, Fred has already said a lot about the store, I think we managed to find its role, in fact, we included it in our ecosystem in two years, so it is a great point of support for logistics and for 3P. I think the store still has a high concentration of sales in Magalu's core products, and we are in a somewhat complex market situation, as soon as the market improves, I am sure the store will also improve. So this is a cycle.

We have been working in a few stores on some pilots to include new categories in the stores, we have been very successful in that process, so for the future we need to introduce some new categories and move concentration away from the flow of Magalu's core business. Moreover, we have invested a lot in technology, greatly improving our productivity, especially in the back office, which is the entire support area, so we can operate the store with fewer people, which reduces our costs, in addition to this discipline that Fred mentioned, we opened... the last 400 stores that we opened were organically, so we were able to open at a low cost and with a profitable operation.

And I think, finally, there is the issue of credit, right? The low-income population in Brazil needs credit and the store is where they can get credit to consume. So, I think it makes the store even more resilient. I think those are the points to contribute to Fred's answer.

**Vanessa Papini:** Thanks for the question, Maria Clara. Our next question comes from Bob Ford, from Bank of America Merrill Lynch. Bob, please go ahead.

**Bob Ford:** Thank you Vanessa and good morning everyone. Fred, can you talk a little bit about the scale of the reductions in the cost structure, please? How was this done and how should we think about your EBITDA margin evolution this year?

**Frederico Trajano:** Bob, I think it is clear from the performance that we... from the sales volume presented in the second half of the year, particularly in the fourth quarter of the year, that those figures, in short, were below our expectations, not only from the markets but the physical store figures were below our own expectations.

We had capacity dimensioned for a volume that did not happen in the fourth quarter and you have to entirely adjust the capacity. In all aspects of capacity adjustment, we are adjusting variable costs, fixed costs that involve agreements, service provision, and team capacity as well. So, finally, a series of adjustments to scale our structure to the volume that the market is supporting at the moment.

Thus, a huge amount of work was and is being done in all aspects, personnel productivity, Fabrício touched on just now, also freight, logistics optimization, we have teams focused on route optimization, logistics optimization, and freight revenue reduction on gross revenue, marketing, we have made a huge effort to improve the ROI of our marketing, various super sophisticated efforts from *martech* to improve, regardless of whether the market is more competitive or there are more people who like marketing, CPI is increasing, you get jobs like that by making your process more sophisticated, databases to achieve greater returns, and we are enjoying success on absolutely all fronts compared to last year.

As I said, Bob, we were not expecting what we found in the fourth quarter and all this economic slowdown, now we know what it is, so we are prepared for it in the first half of the year. My opinion is the following: this year, margins will gradually improve, obviously in the first quarter, as Vanessa said, we still have inventory adjustments to make, part of some capacity adjustments have been made in the first quarter of this year, but we can already see there is a significant improvement in relation to what happened in the fourth quarter, especially from March onward, and we think that this will continue to improve over time as we succeed in our initiatives to increase efficiency. If the economy is not good, you have to do your homework here within the company, optimize, rationalize, improve interest-bearing sales, reduce interest-free sales. There are a series of initiatives here that the company is taking to try, in short, to improve standards and adapt the core, in particular, because you know that the new initiatives, as I have shown, are very successful both at the top and at the bottom line, but to adjust the size of the company to the new macroeconomic situation.

So, it is a series of initiatives and we are performing them within the agreed schedule. This shall be very clear throughout the year in our earnings.

**Vanessa Papini:** Thank you for the question, Bob. Our next question comes from Ruben Couto, from Banco Santander. Reuben, please go ahead.

**Ruben Couto:** Good morning everyone. I think it is a supplement to the issue of margin and the point of view of cash management for the year 2022. Can you talk a little more about those margin improvement levers, the normalization after the first half of 2022, which must be difficult, whether we can expect an improvement in the second half in terms of cash generation? And what other levers are significant in order to return to generating cash? Is it the marketplace gaining importance, is it reduction of the importance of 1P? Anyway, I would like to touch a little on your comment, Fred, about the gradual recovery of the margin, but also from the perspective of cash generation. Can you help in this regard, please?

**Frederico Trajano:** Yes. Good morning, thank you very much. I will start answering your question and then Vanessa will add to it, ok?

Well, regarding cash generation, I think there are a series of aspects this year, first is working capital, right, Ruben, and, as I said, and we have been very vocal about it, we have been adapting the working capital and we have always been a very disciplined company in generating cash, also in terms of good working capital management in 1P. So, 1P is not necessarily bad in terms of cash generation, it is good when you have a good sales plan, a good inventory plan and you have a good understanding of the market, this ends up happening.

Thus, this year I think the unpredictability factor is much lower than last year, we know what we will find in the first and second semesters, so we have been working to return to Magalu's traditional levels to have positive working capital. This is what we are working to do. There is still an adjustment to make in the first quarter, which is normal, it is a quarter that consumes cash due to the company's natural cycle, but we are very focused on returning to our normal working capital standards of the past, there are a number of other cash initiatives, asset monetization, last year's default did not become cash, it was a court deposit, this year in several places the default will be cash, and other judicial assets that can also be monetized, obviously in our case without deductions, we only want to do this if it is good for the company, if it is a positive thing, so we are working there only if there are good opportunities for our company.

We prefer to monetize assets by winning legal disputes, without doing anything that is harmful to our earnings, and I also see a series of benefits in the marketplace, last year the marketplace was actually not good for cash generation because since the entire market was doing zero take rate and free shipping, it consumed more cash than it contributed to cash. As I said, in February we changed our fees and it is now contributing positively, so it tends to be what it should always be, an economic model of positive cash generation because the market this year is much more rational and playing less to the crowd.

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So, I see it as positive in this context, it should indeed contribute to cash, but it does not mean that it is good and 1P is bad. It depends on how you trade 1P and it depends on your competitiveness. 1P can be a good cash generator and 3P a bad cash generator depending on how you operate these two channels.

It is a challenge, it is a lot of teamwork, the scenario makes all these achievements more difficult, but we have a very strong team, very brave, and I also wanted to say a team in the store, because we were talking about the store before and I wanted to go back a little; our store team is spectacular, we have great culture, when we talk about physical stores we talk with a coldness, without forgetting that we have thousands of people working there, delivering results, delivering goods, serving the seller, serving the client with fantastic human warmth. We must not forget that the team at the physical point also has a differential - for many years it has been the happiest and most motivated team in Brazilian retail. I wanted to emphasize that here so as not to forget to reinforce it in the last question.

Sorry, but you must not forget to reinforce that point.

**Vanessa Papini:** Thank you for the question, Ruben. Our next question comes from Vinícius, from UBS bank. Vinicius, please go ahead.

**Vinicius:** Good morning, everyone. Thank you for taking my question. In the previous call, you mentioned a Black Friday that was a little more premium, so I just wanted to understand a little bit of how the company is thinking about that mix of products, do you intend to focus even more on more premium products here in the more core categories? And what do you see in terms of the competitive environment in general? Have you seen perhaps the competition is a little more aggressive?

And if I can ask another question, Fred, could you comment a little bit about the initiatives here to increase the company's organic traffic? Thank you.

**Frederico Trajano:** Well, I will answer the first question and then I will let Edu Galanternick answer the second, okay? Thank you for the question.

Well, unfortunately for Brazil, we had a situation where the low-income public, with the inflationary aspect, lost the power of comparison, so we feel this a lot in the physical store because the profile of the public in the physical store is a middle-income public profile around BRL 2,500 and obviously the impact of inflation on consumer income is high.

As I promised I wouldn't talk about macroeconomics, I'll stop here, but clearly, Brazil, in an inflationary nature, becomes a Brazil of the few, a Brazil of clients that have smaller impact from food, fuel, energy inflation within their budget, so premium categories remain more resilient than low-ticket companies. But this is bad for the Brazilian economy, bad for Magalu, as well as for almost all Brazilian retailers, apart from those few that focus exclusively on premium clients. Black Friday materialized that way, but obviously, we really miss selling to the masses. We have the

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characteristic of giving access to the many, few others have this privilege, this is Magalu's passion, bringing products to low-income consumers, bringing digitalization to small sellers. We have a vocation of inclusion, so it is a situation that makes me sad and I hope that we can quickly return to having controlled inflation, make distribution of income happen again so that this is the Brazil of the many rather than the Brazil of the few.

So, the characteristic was due to the macroeconomic situation, and obviously we hope and wish for this situation to normalize quickly.

About the audience, I want to pass over to you, Edu.

**Eduardo Galanternick:** Good morning, thank you very much for the question. Talking about the issue of organic traffic and reducing dependence on marketing investments, I think there are two dimensions to answering this question: one is the more tactical dimension, which are continuous works in the evolution of both SEO and CRM - bearing in mind that each time we add a client base, either through the growth of the Magalu brand itself or adjacent brands, obviously with their consent – we can enrich our recommendation algorithm and improve all our CRM strategies. But these are more tactical aspects.

I think that from a strategic point of view, what really makes a difference, we have been observing, we observed this a lot in 2021 in the second half, in particular, is that the addition of new categories with the increase in frequency, especially in our app, increases recurrence and makes this client, in their recurrence, end up opting for a better traffic mix for us, more organic.

Those are data that we did not make available, but our share of paid sales in the year is going down, more specifically in the second half, largely due to the growth of categories, of new categories. And remember that last year we completed the integration of AiQfome within the Magalu application, still at an early stage, but that caused this confusion, as Fred said, we are completing the integration of VIPcommerce within the Magalu application as well, and KaBuM is now fully integrated into our marketplace, as we move forward and convert that Magalu client to these new services, to the new categories, we have a much better rate, we have a higher frequency and reduction in this level of investments, in the need for investments. We can choose it or not, I think it is a question of discretion, but, in the aggregate, we clearly see a reduction in that need.

So, clearly, this is it, it is our app, it is the diversification of categories. This is the main strategy.

**Vanessa Papini:** Thanks for the question, Vinícius. Our next question comes from Danniela, from XP. Dani, go ahead, please.

**Danniela:** Hi Van, hi Fred. Thank you for taking my question. I have two. The first, in relation to the estimate of inventories in the last quarter, I would like to understand

how much of it you have already used this quarter and how much we can still expect to be left for the first quarter - I imagine it may have been 100% used by then? And the second regards the M&A strategy. We saw you being very vocal on that front, especially, I think, at the time of the follow-on and even before. I would like to understand what you are thinking in that regard, if given the slightly more uncertain macro scenario, perhaps it is time to hold back a little to move forward with that strategy, perhaps smaller M&A strategies that are less relevant in the short term.

Anyway, if you can give us an update on this topic, it would be nice.

**Vanessa Papini:** Dani, about the estimate, we used a significant part of it during the fourth quarter, as I said earlier, the efforts to reduce inventory started at the beginning of the fourth quarter and continued at the beginning of 2022, I think that, well, with Liquidação Fantástica we took another important step and we continued on, we ended February with a much more appropriate level of inventory, March a level going very well too. So, yes, a significant part was used in the fourth quarter and also in Liquidação Fantástica.

I think these are the points we can share to make it clearer for you, okay?

**Frederico Trajano:** Dani, thank you for the question. On the issue of M&A, I think there were 20 acquisitions in two years, so now we need to digest them, we need to work, the Graciela Kumruian team has a lot of work there, which is the integration team we have to get us the results. As I said, although those businesses are doing very well, there is a much greater opportunity ahead than what has already been done, so we think that, at this moment, not for the macroeconomic issue, but for the sake of execution, we will focus on more in the assets that are already at home, in expanding their potential and expanding connections. There is still a lot to do, so we should stop slow down a little with new operations and focus a lot on making the best of what is already within the ecosystem.

**Vanessa Papini:** Thank you for the question, Dani. Our next question comes from João Soares, from Citibank. João, go ahead, please.

**João Soares:** Good morning, thank you for taking the question. I have some quick points here. First, to explore this 3P growth a little, which was very positive this quarter, I think it is important for us to understand what the main drivers of this 3P growth are if it is really the entry of these new sellers that you have done a lot of hunting in these last months, whether this is a legacy seller that is selling more or maturing of some recent sellers. If we can have a little more detail on the growth of these 3Ps, I think it would be interesting.

And also understand, Fred, these lots of initiative, lots of services that you are providing when we look at Agência Magalu, the advertising sales you are doing, so there is a lot of services here that you are evolving, it is important for us to understand

how it reflects on the take rate, on the commission that you are charging sellers today. This is important too.

And one last point and, if you allow me, about the short term, Fred, I do not want to insist too much, I know that, well, it is still unpredictable, but I think that lately, we have seen an improvement in the store flow from February onwards, some companies in the sector having a slightly more optimistic discourse. So, if we can hear a little from your side, if you share that optimism, that would be interesting too. Thank you.

**Frederico Trajano:** Thank you for the question, João. I will pass on the first one, I will let Leandro Soares, responsible for our marketplace, answer your first question, I think he will give more detail, then I will come back to answer the second one, okay?

**Leandro Soares:** Hi, thank you very much for the question. The growth of the marketplace has both components, as you mention, it has a component of new crops, we added a large number of sellers throughout the year, so they start little by little and after a few months they are already selling at a fast-pace, and a component of old crops. I think we showed in our cohorts that there is a little bit of each and we can see that this comes from both parts, both the new and the old. I think this is the healthy part and the decentralization for us to start serving other regions of Brazil at an affordable cost.

In September, I think, we also implemented our free shipping policy, which accelerated part of this process in which we offered free shipping for up to 100% discounts to our partners, which now, as of February, we updated to offer up to 75% discount on shipping rates, and this is what changes our billing a little bit.

So, I think, from the billing point of view, we kept the percentage, we added a fee of BRL 3 and we adjusted the freight for it to be economically viable for us to serve all our partners and in order to sustain this growth longer. I think this is the main component that we made to explain the growth we experienced in the fourth quarter and obviously sustainability for coming periods.

**Vanessa Papini:** We now conclude the question and answer session. I would like to turn the floor over to Frederico Trajano for his final remarks. Please Fred, you can continue.

**Frederico Trajano:** I think that Vanessa's recording came in before that. Let me answer the second part of João's question.

I did not see, as I said initially, a significant change in the macro scenario from the fourth to the first quarter, ok? So, we are better prepared to deal with the context we are experiencing. So, anyway, we already imagined that we would find in the third quarter as it is, so my opinion is that more expressive improvements will happen from the second half of the year. Thus, this year I see as the opposite of last year,

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the first semester is harder, the second semester is better from a macroeconomic point of view, but the company is prepared for this scenario, in fact, and improving... thus, improving its operation over the quarters.

So, this is my opinion now, but again, I do not have a crystal ball, it could improve more quickly, anything can happen. So, anyway, I just do not think we are going to have any big surprises.

**Vanessa Papini:** João, thank you for the question.

Well, let's finish the question and answer session now. Fred, let's go to the closing.

**Frederico Trajano:** Right. I would like to thank all of you for participating in our earnings call, all the officers here who also participated, all the Magalu team employees who are also working hard to implement our strategy, and, finally, say that we obviously understand all the challenges and short-term contexts, but we are totally motivated and excited to implement our strategy and follow our film there, right? Instead of looking at the photo, let's look at the movie, and the movie is a beautiful one, okay?

Goodbye to all of you, thank you very much.

**Vanessa Papini:** The Magalu conference call is finished. The Investor Relations team is here to answer other questions and concerns. We appreciate everyone's participation and have a good day.