Local Conference Call
Magalu
Second Quarter Results 2023
August 15, 2023

Operator

Good morning, everyone. Thank you for waiting. Welcome to Magalu's conference call regarding the quarterly results. For those who need simultaneous translation, please click on the 'Interpretation' button via the Globo icon at the bottom of the screen and choose your preferred language, English or Portuguese.

We would like to inform you that this event is being recorded and will be made available on the Company's IR website, at ri.magazineluiza.com.br, where the earnings release and presentation are already available, both in Portuguese and English. The link to the presentation in English is also available in the chat.

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

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

Fred Trajano – CEO

Good morning everyone, thank you very much for your attendance in our 2Q23 financial results call. I am here once again together with the entire executive board of Magalu and everyone will be here, available for questions at the end of our presentation. I recommend that everyone follow the presentation that is available on our IR website.

Well, without further ado, I think that in the 2Q we once again showed consistent growth. We are once again growing, grew in our three channels, the main ones, all of which Company's channels, with a significant gain in market share. I will talk a little bit about the dynamics of the industry, specifically online on the next slide, but our online market grew 7%, while the market dropped 15% in this 2Q, so 22 p.p. above the online market. In all, even more than we had been presenting previously.

Offline growth was 3 against a drop of 2%, right? Later, I will talk about what I am seeing as a recovery in this offline market, also 5 p.p. above, according to GFK data. We use Neotrust data for online market and GFK data for offline market.

And I did an analysis, I asked for an analysis correlating data, so that we can understand a little the dynamics of the last few years pre-, during and post-pandemic, correlating the durable and longtail categories with the Selic rate, and the total market, using Neotrust data and correlating them with Selic data.

I think it's important to say that this year, 2Q represents the last quarter before interest rates start to be reduced, right? Which opens up a much more positive outlook, especially for our operations, as despite all the diversification efforts at Magazine Luiza, Magalu, over the last few years, we still have four years in the durable categories, in which we are the leaders, and they are representative of our GMV.

Looking at the slide on this page, what we can conclude is that the correlation, right? Even in the growing online market, right? And the performance of the durable categories in the market as a whole - and here I am not talking about Magalu, again, these are data from Neotrust - with the evolution of the Selic rate, is extremely high, much higher than the almost non-existent correlation of the longtail categories, which today are already more important for our base, but do not make up the majority, the greater part of our revenue.

So we see that we have a 60% correlation with durable goods and practically zero with longtail categories. So I think we see the very high growth we had during the quarters of the pandemic, right? And the drop in this category, even online, in the post-pandemic, right? So I think when we analyze these factors, I think we need to have a growth vision, considering a four-year CAGR. For example, platforms like yipit data do the same rationale.

If we look at the past four years, you can go to the next page so you can see that Magalu was one of the companies in this segment that grew the most, 27% a year in total, right? On the next slide, physical stores grew 4% a year. Before the pandemic, physical stores had a share of 8% of the Brazilian market; post-pandemic, this share went to 20%, but Magalu managed to maintain it, right? An absolute volume greater than in the pre-pandemic, OK? So we went from 3.4 in 2Q19 to 4 now, and we keep growing in physical stores.

It should be noted that growth in physical stores is already significantly higher as of July. Again, physical stores also have a very high correlation, as they are 100% durable, and with the Selic, we see that from July onwards that I have a positive outlook, regarding the growth of physical stores in the coming quarters, as that the Selic drops, OK? And that this impacts the categories that impact physical stores, we have an outlook of improvement in volumes, if looking forward. Despite that, even in the third quarter we gained 1p.p. of market share.

And online we see a much sharper dynamics. We saw that in the first two years, right? From the pandemic, we grew 180% in 2Q20, 46% in 2Q21, with a CAGR in four years of 47% per year. But even in the last few years, we have managed to grow our revenues, even with the drop that I presented in Neotrust data for the durable goods categories. In the past two years, these categories dropped a lot, which made the Neotrust data as a whole fall, so the 2% and 7% growth we had in the 2Q of last year and in the 2Q of this year represented a significant and robust share gain for our operations.

The big growth driver, and that's what I want to come back to, focusing a lot on our call on the slide itself, is the 3P, okay? 3P has been the great engine of growth. For some years now we have been saying that the Company's focus is on the growth of 3P, the channel with the most opportunities for growth. Here we cover a much larger number of categories, including those of the core itself, but not exclusively. Growth in the last four years in the 3P was 64% per annum.

Without a doubt, in the last four years, we are one of the 3Ps that gained the most market share and we continue with solid growth even with the drop in the online market that I mentioned, right? So we have the walk-the-talk from our strategy point of view, improving it - in spite of the 3P, we are growing with the 3P increased monetization in the take rate, reducing the freight subsidy, and growing our revenues from Ads. So we are managing to do this simultaneously with the growth of total GMV, which shows that it is a category that has been growing and we will also see it in the presentation of financials, representing an important part of our margins, ok? So I think it's a highlight, I wanted it to be fundamental, as in this case, we're managing to grow even at this hangover moment, which can go by.

Today, and it happened from 1Q of this year, 3P represents almost 30% of our sales. For the first time in the last quarter, it passed the physical stores, which have more than 64 years of existence. In less than 5 years, 3P has passed and is now the Company's second-largest channel, and it already accounts for 40% of the Company's total online sales. The trends are that this share will continue to grow.

You saw that we continue to grow at 1P in physical stores. This share gain is not at the expense of sales, it is not a cannibalization process, but simply because it is a channel with capacity to grow and it has been the focus of our investments and efforts there. Next slide, please.

Another benefit and advantage for our 3P, is that it helps in two important indicators, not for our business: new customer, in this quarter 3P originated 60% of the Company's new customers. I think these data show that it is also strategically important for the Company to ensure that we continue to increase our already very relevant customer base, and that 70% of Magalu's total base purchased in the 3P in the last 12 months. So, in addition to bringing new customers, it is an extremely important channel for us in terms of activation and increasing current frequency.

We reached - next slide, please - a historic mark in this quarter of 300,000 sellers, right? Growing in all types, large, medium, and small ones. Of these 300,000, 200,000 are small sellers that came from all our efforts, starting during the pandemic with the Parceiro Magalu, to bring sellers from the bottom of the pyramid, physical stores that have never sold online before. This is the vocation of the Parceiro Magalu system and we continue to grow in this base as well, with a lot of contribution here from the physical store.

I always recall that the physical store has a role in our ecosystem, and we will detail it later on in our presentation. So a good part of the efforts to attract new sellers is done through work, right? From the store ramping team, right? Helping us to reach our level of 300,000 sellers, a historic level. We celebrated a lot here at Magalu.

As to Magalu, I've been talking about it for a few quarters here in our presentation, we are leaders in the online market for products over R$ 1000. We came from this category, we have a tradition in this category, we have been operating the 1P in this category for 23 years and obviously we also grew in these categories initially in the 3P very quickly. Here we have a disproportionately high share, right? And we defined it strategically, because you also have to choose battles that you have conditions for competitive advantages, where we would be able to replicate this share in categories and families between R$ 200 and R$ 1000, ok?

So, again for some quarters, as you can see in our presentations from the last quarters, Magalu has been focusing on families in these categories. We identified more than 200 families that have this profile. We are carrying out a whole process that goes from marketing to the entire promotional ramping process, payment logistics efforts, to compose an entire strategy, in short, for us to gain share and be able to replicate the share of the 1000 categories.

In these categories, obviously, we are a company with a whole process of care, curation in the onboarding of sellers that makes the customer, when buying a product over R$ 200, to want a reliable product, be sure that it is not a smuggled product, does not have piracy, right? That is a homologated, certified product, which has after-sales service. All these are already traditional questions at Magalu. It brought this from the 1P to 3P when we started 3P, and obviously now we are putting this as a competitive differential for us to actually be able to replicate share of over R$ 1000 in 200 categories.

The advantage and why we chose this, right? I think we have this competitive differential, but more than that, when we look at the profit pool of these categories, around 85% of the market's profit pool is in categories with a higher average ticket. Very low average tickets, besides being hyper-competitive, represent lower contribution margins, as freight rate over GMV is lower while the cost is higher, because the cost of marketing over GMV is also higher, so you have a much worse unit, which means that, although there is still an important share of total e-commerce GMV for products below R$ 100, below R$ 200, these products have a very small profit pool.

And by the way, consequently, although not the focus, this strategy of ours, indirectly, ends up shielding us a little - next slide, please - in relation to the regulatory changes that happened in the cross-border market now, right? I think these were important changes that impose a certain risk to retail, but especially to electronic retail, of smaller tickets, okay? Mainly the federal fees exemption for items up to US$ 50, which was a recent measure.

Here in Brazil, being a foreign good today has changed, and with this measure I hope a competitive advantage changes, right? I think this reality doesn't make much sense. But looking at it coldly, also because it was a subject that generated a lot of controversy and many questions from investors in recent months, we did a thorough analysis. And when you have this kind of change, it's important to quantify the risk, put exact numbers on it to make it clear what the actual potential impact is, right?

And as Magalu focuses on categories as those I described on the previous slide, we did a very in-depth analysis of all categories, including categories up to US$ 50, the type of volume of these categories, whether or not there are brands in them, and we identified that only 3% of our GMV is susceptible to the risk of this recent cross-border regulatory change.

I see cross-border as an opportunity as a whole. Obviously, we are also going to adopt measures, right, to also make products from foreign sellers available to our customers. I am specifically talking about the impact of the regulatory change in federal tax exempt tickets of up to US$ 50, where I think there is a greater risk, the greatest competitive disadvantage for local players. For us, because we have a higher ticket - not only in Magalu; In Kaboom!, high ticket, Netshoes, with high ticket, the same thing as Época Cosméticos. All have tickets above R$ 200. Today, we only still have a 3% risk in our GMV.

If we look at families at risk in the Brazilian market, we see caps, pants, lots of clothes, lots of fashion - unbranded, right? - and anyway, we obviously have been focusing on families that have a brand, families that have tickets higher than this one. Next slide, please.

Regarding the 3P point of view, we see a positive outlook and a very significant evolution of our logistics. Today, 80% of 3P orders go through Magalu Entregas and we had a very large evolution in delivery within two days, it went from 40% in the quarter, in the same quarter of the previous year, up to 50% this year, right? And even 1P, which already had a high delivery rate, within two days, from 83 to 85. Recalling that we have a huge capillarity in our DCs and cross and that we have been using this increase in delivery times, which helped us in increasing conversion as well, and consequently helping us to continue growing the 3P in an accelerated way.

On the next slide, I would like to highlight our fulfillment, ok? It took us a while to launch fulfillment because we wanted to launch it absolutely integrated with our 1P operation and physical store. Way back in the past, when we launched 1P, its logistics was launched integrated with the physical store, which gave us a competitive differential, with many deliveries in 1P, thus we become the 1P leader in Brazil, as we used the physical store network to deliver 1P with lower costs and better deadlines for customers.

And we wanted to replicate this same model that worked with 1P for 3P, and that's how we developed all fulfillment. All the sellers that store products at Magalu, store them in the same CDs as our own products and use the same network here as our own. So today we have 7 distribution centers, and 1900 sellers in our fulfillment.

And we reached the milestone this quarter, in less than a year of operation, with 10% of all 3P orders already going through our fulfillment process. The sellers who have products here manage their inventories very well, with a 30-day turnover. Those who put products here sell more, right? So this turnover is even better today than the 1P operation, it is going very well and we are opening some costs here, a 25% reduction in delivery costs for those who are in our fulfillment and a 25% increase in conversion.

So, I think fulfillment has now reached an important size, right? We should grow a lot. We have, as I said, 7 qualified distribution centers, a very aggressive and accelerated schedule to replicate this competitive advantage. Once the seller is here, our fulfillment is multichannel, right? It greatly increases, for example, the Store Pickup rate.

If you could share, please, for example, in the quarter, we reached close to 30% share in Store Pickup in 3P, recalling that this indicator for 1P is 45%. We have more than 1100 stores qualified for 3P Store Pickup, so the store is once again part of the 3P logistics chain, it helps in the ramping of sellers, it also helps from the consumer's point of view, so that they can buy the product from the seller and pick it up at the store at a much lower cost. We don't even charge a delivery fee for 3P for products over R$ 70, right? So, anyway, it's a very big competitive differential, right? With the presence and capillarity of our stores, this is important.

Another important point from the logistics equation standpoint, please turn to the slide, is the fact that they also operate as Magalu agencies. So, for those small sellers for which we bring a ramping effort, they are also important regarding shipment of their goods. Today there are 70,000, 77,000 sellers using our stores instead of the Post Office agencies to drop-off goods, and then Magalu's logistics network, which already handles the supply, makes reverse logistics and routing for these products.

I would also like to highlight other efforts to monetize our marketplace, right? So we have our Fintech there, right? We had a milestone in our Fintech in the quarter, which was the incorporation of Magalu Pagamentos by the Fintech hub. The acquisition of Fintech Hub about a year and a half ago, two years ago, was the main objective, right? Buying a regulated Fintech so that we could plug in all of our, volumetry, right? Advancement of seller receivables, the entire flow of seller payments in a regulated IP, because we were already large enough for that, right?

In the quarter, we had more than 10 billion TPV in Magalu Pagamentos, and in this quarter we incorporated Magalu Pagamentos in Fintech Hub. This will generate an enormous operational benefit for the Company, right? We had two platforms, Hub and Magalu Pagamentos, two development teams, in short, which made growth, and operation, very difficult. A good part of our products and developments and innovations, digital account, was in the Fintech Hub, which was not connected to the Magalu Payments platform. So we were unable to scale many of the things that we developed at the Fintech Hub, because the resources flow wasn't going through it.

With the incorporation of Magalu Pagamentos by Fintech Hub, we will now be able to scale the products a lot. For example, we have 56,000 digital accounts in the entrepreneur's Digital Account, already R$ 300 million TPV in the sellers' accounts, with a growth trend. Fintech Hub has also been processing Pix transactions here for Magalu and for some companies in our ecosystem. 7.5 million Pix transactions were made. We don't use a bank, Fintech Hub itself provides this service, more than twice as much as last year.

And we are also transferring our entire payment processing process to our Group companies. There was the Estante Virtual, Kabum!. We had already made sales in Netshoes last year, so with this reverse incorporation, now all benefits from all systems that have been developed by the Hub in recent years will be shared by all the companies in the ecosystem and also by all our sellers, so there is an impact there, a super interesting monetization potential, we can further later.

I would also like to highlight Ads, they have evolved a lot. In the last call, we announced the sponsored search as a great development. This generated significant growth there, because it is super important for advertisers there. We have more than 5,000 active advertisers, more than 16,000 campaigns were created here in the quarter, a growth of 45% over the 1Q, right? And it increased more than fourfold over the 2Q, okay?

I think that all these efforts have generated not only a higher GMV - it can exceed - and revenue growth, but also an increase in profitability, right? As I said, general revenue from commissions and all GMV monetization processes increased by 32%, more than twice the GMV growth, and we also evolved a lot in terms of contribution, because we improved financial expense reduction, reduced freight expenses, all initiatives that the marketplace team implemented to improve the contribution margin of the business, which had a negative contribution margin and now is giving a positive contribution margin.

That is, the channel, which is our main strategic bet, has grown above the market and generated positive and contributive results for our Company, which I think indicates that our strategy is on the right track, and once the more traditional channel benefits from the reduction in interest rates, which is a cyclical channel, and returns to historical levels of growth, profitability under more normal market conditions, we will see these two things overlapping, supplementing each other, that is, all our initiatives, all our investments in innovation reflecting positively, and our core, which is cyclical, now returning with a new cycle of interest rate reductions, to a historic level of profitability.

We have been publicly traded for twelve years and seen that in years of high interest rates, the cyclicality in the traditional business has an effect, and the same happens when process of interest reduction begins, right? The evolution is very positive, more than the market average, right? And that's what we see when going forward. Continuing our efforts here in the channels that we have been investing in, they are the channels that present opportunities for future growth and revenue diversification as well, but also now, finally, getting some wind, tailwind, and we manage to evolve and grow also in these traditional channels where we are a leader, where we are strong and who tend to benefit from this new cycle of interest rate cuts.

I'll turn the floor over to Beto to talk more about profitability, and then we'll come back to the questions.

Roberto Belissimo Rodrigues – CFO and IRO

Good morning, everyone. Thank you for attending our financial earnings call. Let's start on the next slide, talk about the financial highlights. We already talked about sales growth in all channels, right? We've already talked a lot about sales, total sales of nearly R$ 15 billion. Just a minute to change it, yes, that's more like it! I think the highlight in this slide here is the gross margin, right? We reached 28.8% gross margin. This is our highest gross margin in the last three years, and growing, right? In relation to last year 0.2 and growing a lot in relation to the 1Q, 1.5 p.p., so for us, a significant gross margin evolution in a still very difficult environment, with the market going down and interest rates still very high in the 2Q, huh?

With this expansion and all our initiatives, we evolved the EBITDA margin from 1Q to 2Q from 4.9 to 5.1, so even in this context we managed to evolve the operating results and significantly reduce the negative net result in this quarter compared to the 1Q, mainly due to a very strong reduction in financial expenses as well, as we will comment a little later. And just one remark, this result is adjusted for non-recurring expenses of around R$ 155 million.

As to these expenses, most of them are related to the incorporation process of Magalu Pagamentos by Fintech Hub, that Fred has already mentioned, and in a very relevant way. We have already started the consolidation process of all the logistics companies that we acquired. As you recall, Logbee, GFL, Synclog, and we have Maglog, which is our delivery platform and soon they will all be within a single CNPJ too, serving all the companies in the ecosystem, just as we now have a single IP serving all companies in our ecosystem.

Also... any problems with the presentation? I think it's back. Just before moving on to this slide, in addition to these development and consolidation expenses, we also had, in a smaller proportion, expenses related to capacity adjustments, closing 2 DCs and some cross-docking units in logistics as well.

Moving on to the next slide, I will comment a little on the evolution of the EBITDA margin compared to last year. The biggest explanation here, the biggest variation, is still in the product margin, in the merchandise margin, which dropped by 1.7 p.p. compared to last year. In the middle of the slide, we made an additional opening to explain the evolution of the product margin that is also happening. It dropped from 23.1 last year to 21.4 in this quarter, but you can see here that this margin for this quarter is already an evolution of 1.2 in relation to the 1Q margin. Do you recall that in the 1Q the margin had dropped by 2.4? Now it has only dropped by 1.7 and when we look at 21.4, it is just 1 p.p. below our average last year, which was around 22.4, which means that the total impact of DIFAL around 3 p.p. since the beginning of the year due to the increased tax burden, and we now have 21.4 p.p., we've already passed on practically 2 p.p. of the total impact of 3 p.p., so there's practically 1 p.p. left of gross margin on goods for the for us to pass on over the 2H, and by the end of the year we believe that all this will be over. So the impact of DIFAL, we say it is temporary, it is short-term and we are passing it on.

The best news in this slide is the impact of the service margin, which again this quarter already offset the impact of Difal, and it was even greater, and here the trend is for very accelerated growth in the long term, isn't it? So that's why we are very positive about the gross margin dynamics that we should see for the next quarters and years as well.

Speaking of selling and administrative expenses, they had a very small variation both nominally and in relation to net revenue. If we look at total sales, including the marketplace, we even had a dilution. The marketplace raises expenses a little here, mainly with sales through marketing, logistics, but recalling that it is our most profitable channel and this is more than offset in the service margin line, within gross profit. The trend here is for us to continue with very controlled expenses and seek operational leverage as traditional channels also grow more and allow for a greater dilution of operating expenses as well.

Finally, talking a little about Luizacred and PDD, we will show that the recent harvests have had a very positive performance, and soon both Luizacred should contribute positively to our result, as well as expenses of provisions here related to the CDC should be diluted. So we also have very positive expectations regarding the performance of these two lines going forward as well.

On the next slide, which is this slide here on working capital, I would like to point out that once again we have evolved a lot in adjusted working capital here. In this quarter, we once again reduced inventories, improving inventory turnover in practically 5 days. Compared to last year, we improved the average purchase period by another 5 days compared to last year, right? We generated a lot of cash here from working capital, reduced the volume of confirming operations, which are part of our suppliers' financing of more than 1 billion, from practically 3.8 billion to 2.8 billion this year. It's a very positive trend here in working capital, which was also reflected here in the reduction of financial expenses. This quarter, as you can see, we spent 100 million less than in the 1Q. We had mentioned that the 1Q was seasonal, there was a lot of payments from suppliers.

Last year, the financial expense increased throughout the year due to the increase in the CDI rate. This year we should have the opposite dynamics, a reduction in financial expenses and a dilution of this expense over the quarters, along with the drop in the CDI rate as well. Not only the drop in the CDI rate, but working capital.

Pix has been a highlight, it has already grown by 15 p.p. here in our e-commerce. The cost of advanced receivables has decreased and we also have a stronger, more robust cash position, which we will show in the next slide. In this quarter, we increased our cash position by R$ 1 billion, a very positive performance due to cash flow from operations of around R$ 800 million, which more than paid for CapEx and interest expenses, and leasing and we also received the amount of 850 million from the renewal of the agreement, the operating agreement with Cardif. We still have the receipt of LuizaSeg pending Susep's approval, which we hope will happen soon, and with all that, we reached 8.1 billion in cash, including receivables.

And in the next slide we show that with this cash, this position, we also resume the net cash position in practically 1 billion, R$ 900 million of net cash. So, from the standpoint of leverage in the capital structure, we have a very liquid position.

A very competitive cost of capital. Our average cost of capital is around CDI +1.25 and our gross debt is relatively distributed over the next 3 years, right? And a ratio here of total cash/short-term debt of practically 3x.

Going forward, to Luizacred, we continue with a base of practically 7 million cards, a growth here at the TPV reaching 14 billion and 20 billion in the credit portfolio. In recent months, we have also seen a reacceleration in the issuance of new cards, at the same time that we have seen an important reduction in the leading default indicators.

On the next slide, which we show here, we brought managerial indicators for both the CDC operation and the card operation at Luizacred, which show an improvement trend, a very strong downward trend in default. We have already seen Luizacred's short-delay portfolio improving a lot. In recent months, provisions have already been significantly lower and we are very confident in the recovery of profitability and also the levels of credit granted in the coming quarters.

Finally, in addition to everything we are doing to increase gross margins, EBITDA margin, all of our operating results and also dilute financial expenses regardless of the macroeconomic scenario, we brought here just a sensitivity analysis to give an example of the potential impact of the Selic reduction on our financial expenses.

Our expenses are practically all linked to the CDI. We show here that in the past 5 years until the pandemic, between 2017 and 2020, interest rates dropped consistently, and in that period our financial expenses fluctuated on average around 2 to 2.5% of net revenue. Last year, it was 5.5 and, in fact, we believe that the CD with the CDI is returning to normal, our financial expenses also tend to return to their historical levels. A sensitivity here is that each 1 p.p. reduction in the interest rate we have is approximately 150 million savings in financial expenses - not to mention the growth in sales, the positive impact on Luizacred's cost of funding too, on the reduction of default and granting of much more credit to our customers.

With that, we close the part of our presentation and I would like to invite you to start the question and answer session. Thank you very much.

Q&A Session

Operator

We will now begin our Q&A session. To ask questions, please click on the 'Q&A' icon at the bottom of your screen and write your name, company, language of the question to join the queue. Upon being announced, you will see a request to activate your microphone on your screen. You must then activate your microphone to ask the question. Just reminding those who have more than one question, we kindly ask you to ask them all at once.

The first question is from Vinícius Strano, of UBS. Vinícius, please go ahead.

Vinícius Strano - UBS

Hello, good morning, everyone. Thank you for choosing my question. I would like to explore a little the growth potential that you see in this addressable market of categories above R$ 200, given that some of them also have an online penetration a little higher than the average.

And another question here is about DIFAL, which stage of Difal transfer do you consider you are at today? And then, taking the opportunity, I would like to get a little bit of gross margin implications going forward.

And finally, you communicated changes at Fintech Magalu, right? So I would like to explore a little more the new products that you intend to launch and maybe funding alternatives here, thinking more about Fintech, thank you.

Fred Trajano – CEO

Thank you very much for the question, I'll pass it on, I think three of our officers will answer this question, first Edu, then Fabrício, and then Mauad.

Eduardo Galanternick – Business VP

Hi Vinícius, good morning, how are you? Thanks for your question. I think that, in general, these families of products between 200 and R$ 1,000 represent more or less between 45 and 50% of what we understand as the current online market, and with potential penetration growth. When we look, identify, talk about these families, we define them based on what we have as a share, and they are families in which we have a slightly lower share, below 10%.

So, when we compare this with the share that we have in our traditional families, which exceed 25, 30, and in some, reaching 40%, we calculate our growth potential, ok? This is more or less the rationale behind these families of growth.

Fred Trajano – CEO

Just giving one more color there, I think that today they represent around 80% of the estimated market GMV is above 200, so all of them, right? Including the current ones, are quite relevant, okay? So they tend to be very important for us in the coming years in relation to DIFAL, Fabrício?

Fabrício Bittar Garcia – VP of Operations

Good morning, thank you for your question, Fabrício speaking. As Beto said in the presentation, we had already done, managed to transfer 60 to 70% of DIFAL so far. As we said in the last call, we had passed on 1/3 in the 1Q and now we managed to pass on another 1/3, we passed on 2/3 of Difal, and we continue to pass on. Our outlook is that by the end of the year, we will be able to transfer between 90 and 100% of Difal. So we are quite confident about that, also due to the competitive environment.

Fred Trajano – CEO

About Fintech, Mauad.

Carlos Mauad - CEO Fintech Magalu

Thank you for your question. Fintech's agenda is very focused on growth and profitability. So the structure worked for a long time to build a super competitive product portfolio, both for our sellers and for our end consumers. So now our job is to build scale and make these products profitable in the relationship with these two major stakeholders that we have here in our value chain.

So, at the end of the day, we have everything connected here, mainly to digital accounts, a lot to mature, credit products for our sellers, it also still needs an important evolution. The whole part of payment tokenizing within Magalu with our end consumers to achieve acceleration from the conversion standpoint of our digital sales funnels.

Anyway, we have a very intense agenda here to take all that work done over the last three years to effectively build scale and monetization on top of these assets that were built.

And from the funding outlook, we are here with a pending matter with the central bank, which is the approval of the mechanical capital increase resulting from this reverse merger that we made of the two entities, of the two IPs that we had in Magalu, and soon after this approval, we will post a request that is also 100% ready here on our side, so that we can set up a financial services company, which will not only offer us a balance sheet to support credit risk assets, but also offer us a funding instrument through CDBs, bills of exchange, in short, all the instruments related to the financial services company, okay? I hope I answered your question.

Fred Trajano – CEO

I think that just supplementing what Mauad said, an important point on the scale is this integration that we have now, right? The reverse merger, as I said in my presentation, we had all the functionalities developed on the Hub platform and all the volume in Magalu Pagamentos, right? I think that to gain scale it's super important to integrate volume into functionality, which is what we've managed to do now. So now the entire volume of 3P will pass through the Hub, where all the functionalities of the efforts made in recent years are being developed, and now obviously with this direction, this combination of volume and functionality will allow for gains in scale there, especially for those products linked to seller, but not exclusively.

Vinícius Strano - UBS

Perfect guys, thank you very much.

Operator

Thank you very much, Vinicius. The next question comes from Irma Sgarz, of Goldman Sachs. Go ahead, Irma, please.

Irma Sgarz - Goldman Sachs

Hello, good morning, thank you for taking my question. I wanted to explore a little bit the competitive dynamics and the demand scenario for the operation, mainly in physical store and 1P in online. I understood from the comments in the release that July was already better at the end, but if you could just give a little more detail on what you believe generated this improvement in the growth trend. Was it more the demand that is effectively better, or is there any internal measure that you took that you think is worth highlighting and that has generated these better results?

And also a second quick question, it was really nice to see service revenues continue to grow above GMV, which obviously implies an increase in the take rate. Can you break down a little more how much of this increase was due to the increase in commissions you made over the first half of the year and when was it due to other ancillary revenues such as ads and other services? Thank you.

Fred Trajano – CEO

Good morning Irma, thank you very much for the question. I'll start the answer and then I'll pass it on to Fabrício to supplement. First about 1P, I started my presentation by showing the correlation, right? Of these categories with the Selic rate, right? Its high correlation and how it materialized in the past. I believe that with the beginning of the interest rate reduction cycle, one of the main impacts that we will have on our operation is the increase in revenue from these categories.

Obviously, this is a gradual process, but in the end, the trend is extremely positive. If we follow all the other interest rate reduction cycles, we see that soon afterwards, right? The category starts to respond. Anyway, and I see this scenario happening both in physical and online stores, where we are leaders in these categories, right? In 1P today, we are the leader in this market, right. I cannot say that this happened in July, because the reduction cycle started in August, but we see a better competitive dynamics from July onwards.

Store sales improved compared to June. I think we too, Irma, we were very focused on the transfer of DIFAL, right? So, and we see it mainly in online at 1P, when you pass on a lot of prices, it's hard for you to do that and grow sales at the same time, right? So there you have to make a choice; our choice for the 1H was to pass on Difal. We are already at 2/3 of what we wanted, there is still a little way to go in this direction. And I think that after we conclude the transfer, we'll be back to 1P online, mainly with a slightly higher growth focus.

So, I see a dynamic with a very positive outlook for the medium term, right? But in the short term, due to market dynamics, we are already seeing better growth than we saw in the first half. Do you want to add something, Fabrício?

Fabrício Bittar Garcia – VP of Operations

Yes, good morning. Good morning Irma, thank you for your question, this is Fabrício speaking. As Fred put it, I think that the competitive environment is more rational, and that doesn't help us. When we do the transfer and the price goes up, it takes some time to stabilize to have the consumer's price perception. I think the scenario is well stabilized, especially online, right?

So you see, the online market drops, we grow a little, but we grow, we are gaining a lot of share. Physical store growth is already in a high digit, and this quarter we had a good Father's Day. And I think an important point that makes us confident, in addition to what Fred put in the macro scenario, is that we are very well scheduled for the end of the year, right?

So the quality of our inventory is very good and this is very important, we don't have to make any inventory adjustments, right? This weighs heavily in our favor and we are very good with our suppliers, right? Magalu is already one of the few alternatives that suppliers have, so we are getting good deals and are quite confident about the end of the year.

Irma Sgarz - Goldman Sachs

Thank you.

Fred Trajano – CEO

What about the take rate, Edu, if you would like?

Eduardo Galanternick – Business VP

Good morning Irma, how are you? Regarding the question on take rate, it must be an increase from service revenue, in fact it comes from the increase in our conditioning base, whether in the fixed installment, or in the fee, or in the freight co-payment, right? Which is what makes up the take rate today in general.

And it is also an increase in additional revenues from ads, but most of this in the 1H actually comes from this increase in commissions. But looking generally, given our position in the market, we still understand that we have competitive rates for sellers, given our growth in the seller base, the growth in sales that we have been achieving at the same time that we this revenue growth.

Irma Sgarz - Goldman Sachs

OK, thanks.

Operator

Thank you very much, Irma. The next question will come from Maria Clara, of Itaú BBA. Can you go ahead Maria, please. Maria Clara, can you go ahead, please?

Maria Clara - Itaú BBA

Hi guys, I'm sorry, can you hear me?

Operator

Yes, we are hearing, please go on.

Maria Clara - Itaú BBA

Thanks for taking my question. I would like to explore a little more the dynamics of profitability ahead, so if you could comment, please, a little about the outlooks for the margin evolution throughout the year.

And also to hear from you a little bit, do you believe that after these restructuring adjustments made in these quarters, the Company already has an ideal structure to enjoy greater operating leverage gains here in the coming months? Thanks, everybody!

Roberto Belissimo Rodrigues – CFO and IRO

Good morning, Maria Clara, thanks for the question, I'll try to answer. You know that we don't give formal guidance. We have to align our expectations qualitatively and I think that on that slide I showed about the EBITDA margin, we ended up talking a little bit about what are the main initiatives of the Company to recover operating margins, right? To historic levels.

We recall that we had, right? EBITDA margin between 8%, 9% before the pandemic, and so on. We are today, right? In a range between 5 and 6. The marketplace's EBITDA margin is way above our average, it's way above, in the high 2 digits, right? So we've been saying, it's our channel, the most profitable, it's the channel that grows the most, it has even increased profitability the most, right? And it has the potential to grow much faster with, without investment in working capital, with low investment, right? fixed costs and fixed investments as well. So it's a channel that has the potential to actually change the level of gross margins, for example, right? So we are investing a lot. I think the whole presentation focused a lot on the marketplace growth.

In addition to the marketplace, we have evolved the product margin, right? And we discussed that too, an expectation of a stronger 2H, right? Stronger in sales, also with better product margins. So a combination of these two things tends to, right? To favor, boost the EBITDA margin, especially gross margin.

And when we also say below the gross margin, we expect to continue working very efficiently on operating expenses, right? Optimizing marketing expenses, logistics and an increasingly expectation of lower default levels, both at Luizacred and CDC, and so on.

So all these factors tend to contribute to a positive, growing EBITDA margin, without needing intervals, right? But in a very positive trend. 2H sales seasonality is also better, historically our margin has evolved over the 2H, and with all these initiatives, these investments that we have been making and now the macro scenario is starting to get a little better, we are very excited about the evolution of these indicators, both for the 2S. We have seen an evolution over the last few months and we are very confident with this consistent evolution for the coming years as well.

Maria Clara - Itaú BBA

Perfect, thank you.

Roberto Belissimo Rodrigues – CFO and IRO

Thank you all.

Operator

Thank you very much, Maria Clara. The next question will come from Pedro Pinto, of Bradesco. Go ahead, Pedro.

Pedro Pinto - Bradesco

Thanks, guys, for taking my question. Two questions here. Fabrício commented a little about the balanced and good quality inventory you have. First, I would like to ask a question regarding expectations for Black Friday for this year, right? How has the preparation for the event been, mainly from the inventory point of view? Understand a little how you intend to bet mainly on the physical channels and 1P for the event this year, okay? That's the first question.

And the second is also, in a way, related to working capital here. At the beginning of the year, we went through a stressful situation, right? With regard to funding, right? We saw the line of contract suppliers decrease significantly in the 1Q and now gradually resume in the 2Q, right? Do you think that the funding appetite situation is now normalized here and we should see contract suppliers returning to the levels you had had the past year?

Fabrício Bittar Garcia – VP of Operations

Well, thanks for the question, this is Fabrício speaking. About Black Friday, as I said and you also mentioned, we have a good quality inventory. Black Friday schedules start now, are already under negotiation with suppliers this month and next month. We are quite confident in having a great Black Friday. Last year we had our best Black Friday and this year, we hope to have a better Black Friday than last year, both online and in physical stores, okay?

So we're going to be very prepared. Our inventory should go up a little this quarter, right? Already thinking in the year-end schedule, right? Recalling that this year, in addition to everything, it's hot too, right? So, if the heat, if the expected heat comes, it is something that affects the sales pointers in white goods sales. So we are well scheduled and well planned with the suppliers for this moment.

Roberto Belissimo Rodrigues – CFO and IRO

Pedro, thank you for the question as well. I'll comment here on the supplier agreement operations. We reported a drop in the 1Q. It is very seasonal, and in fact in the 1Q, let's say, the market was still turbulent in terms of costs for this line, right? That stayed, right? A little more expensive at the beginning of the year, right? Due to everything that happened in the market.

But we also said at the time that there was turbulence, things were going to normalize and the market was going to settle down - and this has happened since then. The interest rates in this line are short-term lines, right? They are relatively cheap lines and in the 1Q they went up and then started to settle down, and they are on a downward trend, a trend back to normal and now almost at the same level as last year.

And then with that, more competitive rates normalizing demand, right? On the suppliers' side, it's back to normal. We don't have any, let's say, any guidance regarding this level, because in fact it depends on the need, on the trend of each of our suppliers to want to anticipate or not, it's their decision. We offer them the line in a win-win-win relationship, it's good for everyone and as interest rates drop, there may be a slight recovery. There was already a slight recovery from March to June, but there shouldn't be any changes either, we don't see any very significant short term changes on the demand side, either.

Pedro Pinto - Bradesco

Cool, guys.

Roberto Belissimo Rodrigues – CFO and IRO

I think the most important thing for us, Pedro, was the actual increase, the improvement in inventory turnover and the average purchase period as a whole.

Pedro Pinto - Bradesco

Yes, yes, that's clear, great, thanks, Beto.

Roberto Belissimo Rodrigues – CFO and IRO

Thanks Pedro.

Operator

Thank you very much, Pedro. The next question will come from Felipe Reboredo, of Citibank. You can go on, Felipe.

Felipe Reboredo - Citibank

Good morning Beto, good morning Fred, good morning everyone, thank you for the opportunity to ask a question here. On Citi's side, we would like to understand a little more about the evolution of 3P, right? You gave the vision here of a slightly more secure 3P, right? From what we understood, with a focus on these higher ticket products.

Our question is, how does this go along with core, right? With Magalu's 1P. Does this somehow compete with your core products, especially those items over R$ 1,000 that you sold?

And another point is the monetization of this 3P, let's say, this 3P plus higher ticket, right? Is it easier to monetize this type of cell, especially negotiating take rates, fulfillment? Our idea is more or less this way, folks. Thank you

Fred Trajano – CEO

Thank you very much for the question, I will start the answer and then Edu will supplement me. Well, we did a strategic planning job looking at the next 3 years, and we identified 200 families of products that are absolutely supplementary to the families that we already work with today, which are the traditional ones, right? We encoded the size of these families, their relevance to Brazilian e-commerce. Edu has already given a tone like that on their turn, right? And it is on top of them that we are working.

So the growth of these families, families where we have a low share and that we want to replicate the share of traditional categories, okay? And we are talking about tickets above 200, not just above 1000, okay, so from 200 to 1,000 is where we have a great opportunity to expand the share and replicate the share above 1,000, which is what I put it in my presentation at the beginning, so it's supplementary work.

From the standpoint of the 1P categories, we are very rational. Today the 3P is giving a super positive result. It's contributing to our result, so tomorrow's decision to move from 1P to 3P is very dynamic and depends on the category's result profile. If it's better to move to 3P, we'll pass, if it's better to continue at 1P, we'll take it. We have a very pragmatic view, because today 3P is a profitable channel, positive for the Company. So, if you need to pass a product with little turnover, an inventory with little turnover, we also carry out this study in some families, they are migrating to 3P but it is not relevant at all. The bulk of these families are families that we didn't have 1P and that we want to address, especially via 3P.

From an economic and dynamic unit standpoint, it's not even the tale rate that's so different, in fact it's even a little lower, right? The larger the ticket, the smaller proportionally. You take fashion, for example, the take rate is much higher than in larger tickets. It's more a specific question of unit economics, because the cost of freight over GMV is lower, the cost of marketing over GMV is lower, so it's much more a contribution margin dynamics than necessarily a charging dynamics.

But if you take, for example, companies like Flipkart in India, with tickets very similar to Magalu, which also have a large base of high tickets, they are getting monetization of around, above 2% from ads. So, these categories do have monetization potential in ads.

Another monetization detail that we have, is a service that we launched and which is super relevant to show the importance of how our fulfillment is different from market alternatives, we have full fulfillment. So for high tickets and high trend products, furniture, appliances, it's volume, we have the only option today of pro seller fulfillment service, and we're going to start charging for this modality, which is going to be important, also because we still have a lot of idleness in our DCs, right? This will help us to monetize this idleness so that when fulfillment grows, when the number of cells that are paying for this space that today we already have with fixed rent grows, we will be able to monetize as well.

So I think these are categories that have a different monetization profile and dynamics, but have an interesting potential - and again, we have a vocation here. We have a logistics that no one else has, we are developing credit, which is important for a higher ticket category, right? So, anyway, we have a significant area in this sense. We have visits, right? It is also important that all these categories in Magalu generate the visit, right? And it has credibility. I think the consumer will not trust a site that sells a lot of counterfeited, smuggled products, a product that lasts a day. It is not from this site that they will buy a product for R$ 500, R$ 600. I think this credibility is important and we believe that we have many chances to have a share very similar to what we already have for above 1,000. Anyway, this is a growth driver with profitability for the 3P, which in this 1S, is what is materializing in practice. We are showing the numbers, the numbers are corroborating our thesis and we will continue to work in this direction in the coming quarters.

Felipe Reboredo - Citibank

Super clear, thank you.

Operator

Thank you very much, Felipe. The next question is from Eric Huang, of Santander. You can ask a question, Eric.

Eric Huang - Santander

Thanks for taking our questions. I think that on our side, one question that may be a bit of a follow-up to the previous one, right? So I think maybe more to summarize, right? What are the main pillars there, right? So that you can continue to grow in terms of monetization, well, if you could also comment a little more on Ads, ok? Maybe what you see is missing, right, or what still needs to be developed for you to further accelerate the Ads share in there.

And I think one last question here on our side is more on the cross-border side, ok? Fred, I think you commented briefly that you wanted to explore a little bit on that side. If you could comment a little more here on what that could be, how you see this opportunity, that would be really cool, thank you.

Fred Trajano – CEO

Well, I'll take advantage of it - thanks for the question - I'll take advantage of Fatala attending the meeting? I wanted to, so there is a huge complexity in developing an ads platform, okay? I think I wanted it to give a little tone of what we are doing, what the teams here at the labs are doing, right? On this ads platform, then after monetization, and cross-border standpoint, Edu supplements.

André Fatala - CTO

Good morning, Eric! Well, talking about the ads platform, we started developing it last year, that's when we started to integrate it into the Magalu channel, initially. The idea of the Ads part is basically for us to harmonize the traffic that we have in the entire ecosystem, and for that we have to explore the part of the most relevant existing positions, where users most access there, to have this ad space.

There are two breaks in the Ads platform, one that you work with sponsored products and the other is with the display part. We started with sponsored products, the integration was initially made with Magalu's search and then we made part of the learning that Magalu had an expansion to connect to other sales channels. The other one where was done was Netshoes. Today, the e-commerce platform where Netshoes and other stores run already has Ads integration, and we are piloting it there, learning a lot. As to challenges, as Fred put it, I think the main ones are for us to balance the bidding system part with the delivery of inventory. So from there we can analyze the ROE results that are happening for advertisers and the bid systems, so that we can price right from there for the purchase of these sponsored products in the spaces and make a good revenue generation there, or for a good part of the platform, and still be something that is very relevant in terms of results for the advertiser, right? In our case, it is the seller's part.

Now, we are doing an integration in other spaces. We also start recommending products, right? From Magalu, and it is also being piloted over there at Netshoes, and from that we also have an expansion in integrating with the display part, right? So, this is a bit of the roadmap of what is being done.

As Fred said, it's not something that simple to do. As to others, we look at the work that was done for other players, but these are development things, of almost 10 years, and we are managing to speed up this process a lot by learning what others have done in the market, and also by a very nice player that we are following, the history of how Flipkart, which is very similar to us, managed to develop their ads business.

Eduardo Galanternick – Business VP

Going on with the answer here and talking a little about the monetization issue, I think that's how we did it, we announced some necessary adjustments in January, ok? Which reflected in the 2Q result. Now, in July, we announced some small adjustments again, whether in the order rate that we have and some subsidy reductions for our platform on Parceiro Magalu, which will also be reflected in some way in monetization now in the 2H.

We have, as Fred said, the pool. So far it was fully subsidized, in this 2H we already announced to the market the charging in the large product modality, where we already have all the charging modeling for the moment when we deem necessary to pass this on to light products too.

I think Fatala talked a lot about the ads platform, right? We believe that with all this development and expansion of inventory, expansion to other platforms, it will be a profitability engine in our future, we have no doubt about that.

And regarding the cross-border issue, looking at the positive side, we see it as an opportunity, we are trying to explore it in order to support our strategy. Our strategy is higher ticket products, very high service level, with fast delivery. So it's much more a supplementary opportunity than what's at the core of what we do here, OK?

Eric Huang - Santander

Super clear guys, thanks for the answers.

Operator

Thank you, Eric. Our next question is from Gustavo Senday, of XP. Go ahead, Gustavo.

Gustavo Sendai - XP

Hi, good morning everyone, thanks for the questions. I have two quick points, first on the non-recurring expense line, right? I think what caught our attention here was the quarterly evolution of this amount, so just understand from your outlook, what you expect from now on, if this amount should be already normalized, right? With the incorporation of Fintech Hub.

And the second is a follow-up on the issue of take rate, ok? What caught the attention here in the take rate pass on this quarter, so just to understand from your outlooks, if there is any specific category that still has room for increase, and which categories exactly, did you make this adjustment over the last few quarters? Thank you.

Roberto Belissimo Rodrigues – CFO and IRO

Good morning, Gustavo, thank you for your question. I'm going to comment here on non-recurring expenses. To explain most of them a little more, ok? There were 155 million, most of them concentrated in the two incorporation processes, one of them we already concluded, ok? By the way, concluded without any fuss, incorporating a payment institution is super complex, right? So, it took months of work, with a lot of people from all areas involved in this process of Fintech Hub incorporating Magalu Pagamentos.

And another one that is even a little more costly, let's say, so far, is related to the process of incorporating the logistics companies that we mentioned. You can even see, we have a subsidiary called Maglog that had a relevant negative result in this quarter, which is already the result of this incorporation process that will transform all of them into a single, much leaner, efficient, scalable platform, providing the services there for all companies in the ecosystem with a series of benefits, ok?

So they are almost investments, right? That happened. We obviously record it as non-recurring expenses, but the incorporation processes will not happen again. One has already been completed, the other is, will soon be completed.

And a smaller part of all non-recurring expenses is related to expenses that we call capacity adjustment, ok? We reviewed both DCs, we closed a DC between March and April in the South, we closed a DC now between June and July in the Northeast and we closed some cross-docking units, where there was overlap without any impact on our efficiency indices and we deliver, we are delivering faster and faster.

And also in the staff we made a capacity adjustment in the corporate team as well. So, adding all these, these adjustments, we arrive at this value that, like last year we had non-recurring adjustments in the 1H, then in the 2H we had nothing. We have no guidance in this regard.

At other times we had non-recurring revenues which we excluded them, we had non-recurring expenses, we excluded them. So if there is any type of non-recurring expense or revenue, we will always exclude it, adjust it, so that we can present and have the most recurring view possible for all our investors.

So these expenses are not going to happen again, they are certainly non-recurring and are in the past, and for the next quarters we expect what we already mentioned, continue to evolve our operating results, our strategy and everything else.

Also, about the take rate, I'll pass it on to Edu.

Eduardo Galanternick – Business VP

We don't have a table by category, we have a commission table, which has a part that is a percentage and a part that is a fixed amount that we charge. In general, the categories, the orders with the lowest ticket have a higher commission, so we had already made some adjustments in January, and we did it again in July. One of the adjustments we made was to increase this fixed amount from R$ 3 to R$ 5. The effect will now be reflected in the 2H, as well as in the Parceiro Magalu modality, where we made an adjustment of some points in the commissioning too, ok?

So in addition, as we didn't point out in other topics, we have the Ads evolution, the pool charge itself as new changes that will occur from now on.

Gustavo Sendai - XP

Perfect guys, thank you very much.

Operator

Thank you very much, Gustavo. Our next question is from Joseph Giordano, of JP Morgan. Go ahead, Joseph.

Joseph Giordano - JP Morgan

Hello! Good morning, everyone. I have one last question. Do you think that, going back a little to the working capital topic, we saw a very relevant improvement here, which was basically the bulk of the Company's operating cash generation, so I would like to explore with you what are the next levers here of working capital improvement, if there is any, if we should already have it a little more normalized?

And my second question is also related to the restructuring of some internal structures, last year, some restructuring in stores. I would like to explore with you if you see any opportunities today, perhaps, to revisit the store park a little more, bearing in mind the still very strong focus on digital, ads, etc., where it ends up being easier for you to monetize. Thank you.

Roberto Belissimo Rodrigues – CFO and IRO

Good morning Joseph. I'll start here by talking about working capital. Well, we keep reducing inventories marginally, right? We did most of the reduction, right? Last year, the beginning of this year, right? If we compare it to the inventory peak at the end of 20 and 21, we have already reduced 1.5 billion or more, right? In the total value of inventories. So we don't have it, as Fabrício commented, our level of rupture is at an extremely healthy level. The level of healthy inventories versus excess inventory, for example, is at an extremely healthy level.

Naturally, we are always looking to improve inventory turnover, so it continues to be one of our obsessions here. We see more space through increased sales than necessarily through a reduction in inventories. We can indeed gain efficiency here, we have a series of internal initiatives to always be looking to operate in the best efficient way and in the best possible way, and possibly continue to reduce inventories nominally.

This shouldn't happen in the short term, especially because as Fabrício said, we have fantastic sales in the 2H, which is going to happen, so in a little while we'll start receiving products for the year-end holiday seasons, then we'll go back to reducing inventory normally. I think that in this relationship between inventories and suppliers, we see more opportunities on the inventory side than on the supplier side, ok? We already made an additional increase and have an average purchase term that is already quite healthy.

And in addition to this relationship between inventories and suppliers, we are always looking to optimize the other working capital lines. We gave a great opportunity to increase tax offset as well, right? In the last two years this was a line where we accumulated taxes, this year we are stable and slightly offsetting some taxes.

And here we also have a work plan to accelerate the monetization of these taxes naturally, organically, via margin expansion, sales growth and everything else. So we have a very big focus here on these lines as well, an opportunity to improve a lot by the end of the year, generate a lot of cash from working capital this year as well. Now I'll turn to Fred to talk about the stores. Thank you very much, Joseph.

Fred Trajano – CEO

Good morning, Joseph, thanks for the question. About stores, we've already made some adjustments over the past two years. From the volume standpoint, the bulk was in Marisa's kiosks. It is a dynamic process where we are always evaluating rent issues. Anyway, in most stores today, ok? New stores have opportunity to improve profitability, okay? These are the stores in Rio, that we opened in new markets, and are still in the maturation phase and unfortunately got a bad interest rate, ok? So, they got two years of high interest rates. We just opened the stores and experienced a countercyclical moment in the market. It doesn't make sense for you to close these stores now with the lower interest rate outlook, right?

So, we believe that, as it has always been in the past, throughout the economic cycle, the reduction in interest rates makes adjustments. Again, I have already shown that it has a high correlation in the online durable category, but it is especially relevant offline, because credit is related to physical store consumption. So, as you have lower interest rates, better defaults, you open credit again, have positive dynamics again and the volumes of these stores are super important for the operational leverage of their results, they come back too.

So we believe that with this interest rate management cycle that should end, which should still last several quarters looking forward, it will have a super positive impact not only on the result, which is the reduction in the advance rate, etc. and such, but also in store volume. It tends to benefit even more than online volume in terms of growth, and I believe it will be super important for these units. Now, this is a dynamic process, we are always evaluating.

And I would also like to highlight that for us, the store has a role for the ecosystem, ok? It is not an isolated sales channel; 45% of 1P's sales go through the store, 30% from 3P's. A good part of the new sellers arrive due to the store's ranking efforts, so, that is, 77,000 sellers today in stores for drop-off. It has a role here at Magalu. We built it, right? An operation that has in 3P the same modality characteristics that were super important for us to win in 1P, and the store has a super important role for that.

Joseph Giordano - JP Morgan

Perfect. Thank you very much, Beto, Fred.

Operator

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

Fred Trajano – CEO

I just wanted to thank everyone for attending our earnings call and wish everyone a good week.

Operator

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