Local Conference Call
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3Q25 Earnings Call Transcript
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Vanessa Rossini: Welcome to Magalu's conference call regarding quarterly results. For those who need simultaneous translation, just click on the " *Interpretation* " button through 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, where the results release and presentation are already available, both in Portuguese and English versions. The link to the English presentation is also available in the chat.

During the presentation, all participants will have their microphones disabled. Afterwards, we will begin the question and answer 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. When announced, a request to activate your microphone will appear on the screen, and then you must activate the microphone to proceed with the question. Questions received in writing will be answered later by the investor relations team.

I would now like to hand the floor to Fred Trajano, CEO of Magalu. Please, Fred, you can start.

Fred Trajano: Good morning, everyone. Thank you very much for participating in our Results Call referring to the third quarter of 2025. I am here once again accompanied by Magalu's entire executive board and also the Heads and CEOs of our main verticals: Magalu Pay, Kabum, Netshoes, and Época, all of whom will be available here to answer analysts' questions at the end of my presentation.

Well, I want to start by talking a little, contextualizing the third quarter based on our strategic cycle. I am completing 25 years of the company this year, 10 years as president. Over these last 10 years, we divided our strategic initiatives into two major strategic cycles. The first was from 2016 to 2020, which was the company's digitalization strategic cycle. At that time, in 2015, we had 10 billion GMV, it was also a year of high interest rates, it was 14% at that time. We had 10 billion GMV, 2 billion online. And we assumed, my executive board and I, the mandate to digitalize the company, because we knew that durable goods, in particular, would migrate significantly to online. And we had a mandate to digitalize the company during this period. We consider that this cycle concluded in 2020, which was the last year of the company's digitalization cycle. At that time, in 2020, we closed 1,300 stores, we lost 50% of revenue in March 2020, and even so, that year, we grew 50% and online came to represent two-thirds (2/3) of our sales. We consider that at that time we managed to digitalize the company and successfully complete this cycle.

The next cycle, which is the one ending now—which is why I provided all this context in the opening—is the cycle of diversification of the company's results, to make our results more resilient to macroeconomic flows, mainly more resilient to changes in interest rates, because the SELIC rate in Brazil is very volatile. It has cycles of increase, cycles of decrease, and we needed to do this. We had digitized the company, but we had not yet gone through this process of diversifying results that we achieved by adopting an ecosystem strategy. A strategy in which we made acquisitions, diversified categories, mainly diversified the service line a lot, created Magalog, significantly evolved the operation of our financial arm Magalu Pay. We will talk a lot about this today. We launched and significantly evolved Magalu Ads and also Magalu Cloud, besides the diversification of categories, which we have already mentioned here. Having said that, even with interest rates at 15% this quarter, we presented a very positive result. We reached another quarter with high profitability, EBITDA margin of 7.9%, 711 million in EBITDA results. We returned to the profitability level, 21 million reais in profitability. Remembering that offering profitability for a company that still has a significant part of participation in cyclical sectors, making 21 million in profit in this scenario is a very positive result. And it reinforces—and I will detail this later—that the initiatives aimed at building this ecosystem and diversifying results have, in fact, made our results more resilient. The company has had very high financial and cash discipline. Finally, cash generation, once again a major *highlight* of the quarter. We had good working capital dynamics, generating 535 million in operating cash this quarter, with a generation over the last 12 months of 2.5 billion, so the company has been communicating to the market that in this context of high interest rates, the focus is on profitability and margin preservation. This has been our extremely disciplined execution ever since. In this context, I think the company has to make some decisions and some *tradeoffs*. It is inevitable. Given the macro context we are living in. And our *tradeoff* was to decelerate our growth. In fact, if we look at our net revenue this quarter, it grew only 1% compared to last year, but obviously due to our decision to only work in sectors, categories, and sales with positive contribution margins. If we encounter any scenario of negative contribution margin, we choose not to pursue that sales opportunity this quarter, and this generated the impact on the deceleration of our sales. Which I think is actually very resilient given the scenario, the context we are living in. We still had positive results in physical stores, same-store sales of 5.2% this quarter, even though we had a quarter where we did not have the Indian summer we had last year, which impacted an important part of white goods growth this quarter. Even so, we grew 5.2% We still have 1P very resilient online, practically stable compared to last year. And 3P, largely due to a very large participation of *long-tail* merchandise and smaller *tickets* that are currently being operated in the market with a negative contribution margin, free shipping for very low tickets. We chose not to play this game. In 3P, our focus is on growing *fulfillment*, which hit 28% this quarter, a record participation, growing compared to 24% last year. Our *fulfillment* is differentiated. Ricardo Garrido can talk a little about it later. So we are giving up a bit of sales with negative contribution margins to focus on those where we have *right to win*. Because remember that our *fulfillment*, unlike market *fulfillment*, has multichannel capability. With multichannel capability, we have a lower delivery cost for in-store pickup for 3P. And with this, I can offer free shipping without incurring losses. So always looking at the unit economics as positive. We are making a decision here that will temporarily affect channel sales a bit, but certainly when we pass this phase of migrating partner shipping to Magalu Entregas and *Fulfillment by Magalu*, we will actually be growing with much more sustainability of results and much more competitive resilience as well.

I want to highlight now why we are having and preserving margins positive margins in the face of such a tough, competitive scenario. I want to highlight that all the investments we made in this strategic cycle of the ecosystem are going very well. So, Kabum recorded profit for another quarter, 11 million in profit. *Netshoes* had a record quarter, growing 12% its sales compared to last year, and presenting a net income of 24 million in the third quarter, an extraordinary quarter. Magalu has performed very well in its subsidiaries. And Época Cosméticos, another very positive year. I want to highlight that these three businesses will be extremely benefited by the company's new strategy of applying multichannel capability to all group businesses. I will leave it until the end to explain the new store concept, which is Galeria Magalu, which will have physical units for all these businesses, further leveraging this multichannel differential. This is what makes Magalu very resilient and, obviously, will make these businesses more resilient too, because in addition to the online operation, Kabum, Netshoes, and Época will also have a physical unit with Galeria Magalu. The idea is to expand this to several other group units as well and even expand the footprint of these units looking ahead. I think this multichannel capability will further help these businesses that are already operating very well.

Other businesses that we have evolved significantly, I want to highlight in our ecosystem, the core of Magalupay. Jörg will be here to answer all your questions. We had another record quarter for Luizacred, with 68 million in net income, growth compared to last year and NPL also falling, very positive, very stable. It is now at 8.0%, NPL 90, a significant drop compared to last year. We have proven that our portfolio is of very high quality and we have achieved a very positive result at Luizacred. But it’s not just Luizacred. We evolved significantly here in the consortium business. The consortium is already a business with R$10 billion in assets under management. Few people talk about the Magalu consortium, but in fact it is an extremely *accretive* business for the company and had a net income of 16 million. The consortium is a business that does well with high interest rates. It tends to be more competitive and a good option. We are also doing very well in increasing the penetration of services, both online and in the business. We grew and are breaking records for insurance penetration in our business, which helped our financial services revenue for the period. Service revenue remained practically stable, even with a small drop in *take rate* revenue from 3P. This was more than compensated by insurance revenue. And also the revenues from the next slide I will talk about, which are the revenues from Magalog.

Magalog has been growing significantly here in our business. We opened, created a company, bought five logistics companies, spun off our logistics area from Magalu, and brought all these businesses together under the umbrella of Magalog, which is a logistics operator that provides services to all companies in the group and the ecosystem. But it has been providing more and more service to external clients as well. It is gaining a lot of *marketshare* as a logistics operator. We added 12 clients just this last quarter, relevant clients such as Arezzo, IKESAKI, C&A, several clients using Magalog. Magalog's service level is very high, more than 95%, with absolutely competitive costs. So this expansion to external clients helps us from a results perspective as well, but also helps us have volume in logistics to get good prices for the Magalu ecosystem itself. So, it's a win-win here, and we have won several segment awards. Magalog has really had a fantastic year after opening, finally, after its constitution as a logistics operator and after opening the results to external clients.

I also want to highlight Ads revenue. Magalu has grown, has been growing significantly in this area. We grew 69% this quarter. This was another revenue stream that helped us maintain our revenue, despite the GMV impact I already mentioned. We have several differentiators, as with everything we do at Magalu, I have always emphasized multichannel capability. And one of them is the fact that we are enabling 20,000 TVs that are on display in stores for ads as well. So, today, anyone who advertises on the MagaluAds platform, in addition to being able to advertise, obviously, on all digital channels, and all formats, we have video format, top-of-funnel format, sponsored post format. In our case, we have a differentiator compared to market tools, which is Out of *Home*, which is being able to carry out the advertisement in stores too. Including, the new store is conceived entirely to have LED panels throughout the store, so we can close advertising packages with major market brands. And we have had great acceptance of this. So much so that we had not only revenue growth but also growth in the advertiser base. The advertiser base grew 113% for major brands and 44% for the *sellers* part. So, we are growing both among large advertisers and in our *seller* base as well.

I want to highlight Magalu Cloud. We reached 1,000 clients here last quarter and we are already acquiring the first clients that bring in a few million reais per year. These are packages worth a few million reais per year. So, we moved from the universe of just micro-enterprises to large companies, and we are now on the verge of closing large contracts with major corporations as well. For this, I think what I want to highlight most about Magalu Cloud this quarter is that we achieved ISO 27001 certification this quarter. A fundamental certification so that we can participate in *bids* from the government, which greatly lacks an option due to national data sovereignty in a local operation. So, we celebrated this certificate a lot; it is very difficult to achieve, and also *bids* from large corporations, most of which require this certification. So, the Magalu Cloud has already grown, it already accounts for 50% of Magalu's *workloads*, it is already gaining larger profile clients, and it is now also qualifying for new leaps next year with this certification. There are others that we are yet to obtain, but anyway, we celebrated this milestone for Magalu Cloud a lot here.

Well, I would perhaps like to place great emphasis on one of the major launches of the year, which we just made last week, with great repercussion among our customer base and beyond. We launched the world's first complete AICommerce experience. Magalu has an enormous differentiator: 20 years ago, we created Lu do Magalu, our digital saleswoman, who, by the way, was inspired by the group's founder, Luíza Trajano, the best saleswoman ever born here in Brazil. And since we created Lu in 2004, the dream has been for her to be able to perform all activities and have the same magnetism that my aunt Luíza always had, who was the group's founder. And finally, this moment has arrived, a dream of decades now, thanks to the extremely competent work of our development team and our partners who also participated in this project. We launched the first complete AI platform. We made the decision to do it exclusively on Lu's WhatsApp. Lu has, in total, almost 40 million followers in Brazil. She is a worldwide phenomenon, won a *gold lion* in *Cannes*, and advertises for other group brands. So, she really is the most known AI character in Brazil and the world. And she has several channels, and one of the channels was WhatsApp. We already had 15 million enabled customers who regularly received messages from Lu, mainly regarding *tracking*, post-sale merchandise. And it is precisely for these customers and on this base that we launched this experience. And our experience is the world's first *e-commerce* one because she is the first complete one that goes from product consideration to purchase, payment with card and Pix, and also the entire post-sale process. So Lu guides you through this entire process. We made a very robust architecture. What we launched this week is not a *beta*, not a test, not a small AI initiative. It is truly a multi-agent platform, extremely robust, with new architecture, which even some of our partners saw architecture like this for the first time, now multi-agent. It is complete and has given us quite *positive reviews* in the first experiences. We have already released it to several analysts who are here, and we can talk about them later. Journalists who covered it, influencers in general, but mainly we are leveling it for our most loyal customers. So today it is released for 11 of the 15 million, and we intend to grow this base going forward. And remember, a 100% AICommerce experience, 100% automated. It is an innovation of global level that fills us with pride, especially given the first *reviews*.

I want to highlight, there is a video here, I want to show a little to those who are following the *call*, how the experience works. Soon we will be releasing more to everyone. Here we can see Lu and some of the *features* that are preserved. She talks to the assistant, with her sympathy. We trained Lu to be as sympathetic as she is on social media. It has multimodality; you can send audio, photo with image; she recognizes absolutely everything. And based on a concept search far superior to what I believe is the standard experience today for *e-commerce*, which is Key *Word* search. And she manages to recommend the product, you can make the purchase, talk, ask for more context. Finally, you can reach payment and *checkout*, currently paying with Pix and card. And in the case we launched now for 1 million customers, she already has the app, she already knows your card details from the app, she already knows your delivery address too. And all this is done without friction, without having to leave this environment. I think we really did a very cool development. Later, if you want more technical details, André Fatala is here to talk a little about the architecture, scalability, and economic issues too, from a business *unit economics* point of view. So, all questions can be clarified on the *call*, but I didn't want to fail to emphasize that this is a launch of global relevance. It is recognized by *Meta* itself and the partners who participated in this development. And we have news to release here next week. I won't anticipate it on the *call*, but we'll be talking about it shortly.

Finally, I want to share some numbers from these first thousands of customers who participated in the experience. Sales conversion, I read some places saying 10% above the *app*, it's not; it's three times higher than the *app*. Conversion is really much superior for those who engage in an *app* conversation. NPS of 90, which is very high, excellent, considering that we just launched our product on our platform. There will be many improvements going forward. Payment mix today is 68% Pix, 32% card. Channel mix is 54% 3P. So, it has been particularly good for 3P. 46% 1P. And categories like *long tail*, those we tend to need to grow looking ahead. Lu's WhatsApp has been particularly very good for them. Supermarket, small appliances, household goods (UD), sports. The sales of *Netshoes* within Lu's WhatsApp have been one of the great highlights in this beginning. So, sports, beauty, all these categories performing particularly well in this negotiation model, which I think is a comfort for future growth, precisely in these categories that are more... Speaking quickly about *unit economics*, whoever starts the conversation is the customer, or we send a message; this has a much lower CAC cost. So we believe this will marginally contribute. So this provides better *Unit Economics* logic, also for these *long-tail* categories that are currently so sacrificed in the market. Well, I finish this first part here, then I will come back to talk quickly about the gallery and hand the floor to Roberto Bellissimo, our CFO.

Roberto Bellissimo (CFO): Thank you, Fred. Good morning, everyone, for participating in our presentation of third quarter 2025 results. I will quickly review the main figures. We already commented on 15.1 billion in total sales. Growth of 5.2% in comparable physical stores. It is worth remembering that this is on top of a growth of more than 15% in the same quarter last year, so growth on a very strong comparison base. We grew gross revenue by 1.4% with 11.3 billion in total gross revenue. We also highlight the gross margin we had, once again one of the highest gross margins in recent years, around 31.5%. With emphasis here on the gross margin for merchandise, which grew 0.2 percentage points. We highlight EBITDA with a margin of 7.9%. Adjusted net income, once again, since the end of 2023, we have had recurring net income, and this was another positive quarter with 21 million in adjusted net income and 85 million in total net income, including non-recurring results which were positive this quarter, including tax gains of around 133 million and other non-recurring expenses were very low this quarter, only around 15 million. We highlight operating cash generation again, 535 million, converting a lot of *EBITDA* into cash generation, which has been one of our major focuses, and a total cash position, including applications and receivables, of around 7.6 billion, a very robust position.

The next slide shows the evolution of the EBITDA margin across quarters, demonstrating the consistency of our EBITDA margin. Even in a scenario of increasingly high interest rates, we maintained the EBITDA margin around 8% in all these quarters, with the same highlights, the same levers that we have reported in recent quarters. The performance of physical stores, the increase in merchandise gross margin, the very positive result of Luizacred, the extension of our *fulfillment*, and once again our very strong control over operating expenses. This quarter, as in the previous quarter, we maintained very low growth in operating expenses, less than 1%, compared to inflation which is around 5%. So we have managed to keep SG&A at a very stable level.

On the next slide, we show a little of the evolution of our working capital and highlight here the evolution of R$100 million in working capital this quarter, from June to September. This quarter it is also worth noting, we seasonally increase inventories and, along with inventories, increase the balance of suppliers. As always in this quarter, we have this seasonality in preparation for the main events at the end of the year, *Black Friday*, Christmas. At the end of the year, we return to reducing inventories and improving inventory turnover in the last quarter. It is worth noting here on the financial expense side that this quarter we managed to sequentially decrease the net financial expense in the third quarter compared to the second quarter. It is also worth noting here that during this period the CDI rose practically 45% compared to last year and we managed to mitigate part of this effect and our financial expenses grew by around 35% compared to the same quarter last year. And this proportional reduction is related to, first, the increase in Pix usage. Once again, we managed to increase the participation of Pix, we increased the participation of CDC in physical stores, especially from 8% to 10%, an increase of two percentage points this quarter, with an improvement also in the delinquency indicators of our CDC. And with all this, we managed to sell less using credit cards, especially third-party ones, and consequently we reduced expenses for the anticipation of receivables and also the balance of anticipated receivables.

On the next slide, we explain a little about the cash generation dynamics this quarter. Here we can see that our total cash went from 8 billion to 7.6 billion, exactly because we settled debentures issued by Kabum worth 400 million. Today Kabum has no debt anymore. And this settlement of these debentures basically explains the entire cash variation. If we look at the cash flow from operations, more than 500 million, we generated enough cash to pay for investments, which were almost 300 million, pay the rent, *leasing*, and interest expenses for the period. Here is also an observation regarding investments. In recent quarters, we were investing around R$200 million per quarter, which is a very similar amount to our depreciation. This quarter we made a large expansion in the capacity and quantity of Magalu Cloud servers, so it was a relatively punctual investment this quarter. And this expansion of Magalu Cloud is an investment in preparation for the growth that Magalu Cloud has been experiencing and also for the migration of Magalu's *workloads* to Magalu Cloud, which reached 50% this quarter.

In the next graph, we comment on the change in cash over the last 12 months. And here we increased cash by 1 billion, from 6.6 billion to 7.6 billion. Here we can also see that the cash generation of 2.5 billion was sufficient to cover all investments and capital contribution to Luizacred, again the *leasing* expenses, leaving a free cash flow of 700 million, which in turn was practically sufficient to cover interest and dividend payments. And the cash variation is basically explained here by the net raising of loans. Over the last 12 months, we raised 2 billion and paid 1 billion until September.

And then on the next slide, we show that in October we already paid another 1 billion, returning the indebtedness level in October to 4.8 billion, which is exactly the same level we had in September last year, also 4.8 billion. On the left side, we illustrate here, from the total position of 7.6 billion in total cash, deducting the gross debt of 5.9 billion in September, we had a net cash position of 1.6 billion. So, from a capital structure point of view, we maintain a very robust liquidity position, a net cash position of 1.6 billion, which has been quite stable in recent quarters. And when we look at our debt schedule, the 2025 installment, we just paid in October. So our debt today is practically all long-term, distributed over the next 5 years. And our goal here is to continue reducing debt and financial expense.

On the next slide, we comment a little about Luizacred. Once again, Luizacred had a very robust, very strong quarter with delinquency here at the lowest level in history, around 8%. Short-term *delinquency* here around 2.6%. Also, again, the lowest level in our history. Net income growing, PDD expenses and provision expenses falling, and the coverage ratio growing significantly, reaching from 154 to 156 and to 158%, at a very comfortable level here. And finally, talking here about our financial arm, which I think Jörg will also comment a lot on. It is now a reality. Remembering that we obtained authorization from the Central Bank in February. We started operations in August, a pilot project with one store, and since October we expanded this pilot to 50 stores, already responsible for 10% of our CDC revenue in physical stores. The *rollout* of this operation has been a success. We highlight here a series of benefits, a series of advantages with the launch of this new financial arm. First, we highlight fiscal efficiency; we start making direct consumer credit within a financial institution, subject to all supervision and regulation of the Central Bank. The financial institution starts to have a tax burden which is IOF (Tax on Financial Operations). Remembering that in retail we pay ICMS (State VAT), which is 18%. In the financial institution, the tax burden, the IOF, is 3%, so there is a quite significant tax difference. PIS and Cofins rates in retail are also 9.25%. In a financial institution, they are 4.65%. So there is great fiscal efficiency with the constitution of this financial institution. From a capital structure point of view, we currently have a portfolio of R$1.6 billion in accounts receivable in retail, which should progressively decrease throughout next year, mainly. We should accelerate the *rollout* and start doing 100% of CDC production from January in the financial institution. And with this, the financial institution will grow the portfolio of accounts receivable, of receivables, and we will proportionally decrease it in retail. Today we have a structure where we finance this portfolio of 1.6 billion in retail with long-term debentures. As we decrease these accounts receivable, we improve the working capital of retail, making retail more efficient, more *asset light*, and consequently can deleverage retail. And within the structure of the financial institution, it can finance itself with other sources of funding. Naturally, we will capitalize the financial institution, it will have a very comfortable Basel ratio as well, but it can also issue financial letters, CDBs; it has other forms of funding, including cheaper ones than debentures. So with this structure, we have several gains and also make the operation more transparent, more robust, with very good governance and optimization of the capital structure. And besides all this, we have been investing heavily in new proprietary credit models; we strongly believe that there is potential to significantly increase CDC sales, both online and offline, while reducing delinquency indicators in the future. And concomitant with this financial institution *rollout*, we also launched a new experience for both the customer and the vendor, which has been much more agile, faster, more intuitive, and has facilitated sales conversion at the point of sale. So, we are super excited about this initiative, because it is indeed an initiative that can bring significant sales growth while increasing profitability. So, these were the main financial highlights I want to make, and now I hand the floor back to Fred. Thank you.

Fred Trajano: Well, everyone, thank you, Beto. I started our results call talking about our strategic cycles, but I also mentioned that I have been here for 25 years at Magalu and I think if there is one constant, it is that I arrived here in 2000 to set up the company's *e-commerce*. So, it's 25 years here operating *e-commerce* in Brazil, fighting with the most different competitors throughout this entire cycle. And they have changed a lot from when I started until now, but if there is one constant throughout this period, it is the company's belief in multichannel capability. I think this is the item that makes this whole story of ours very coherent, and even when we launched 3P, we launched it with a very strong multichannel aspect, *fulfillment* with multichannel capability, *sellers* using our store, customers buying 3P. So everything we do, we try to create a link back to the store, because we strongly believe in the potential of physical retail and especially in the integration of physical retail with *online*. Let's remember that today, 85% of Brazilian retail is still *offline*. And even if e-commerce grows a lot, I don't see that number changing much, with 75% to 80% continuing in physical retail. So we have a very great strength and we have almost seven decades of experience in physical retail, but it is true that physical retail needed to be reinvented. We needed to build a concept with new standards. We focused a lot in recent decades on building the store as a base for *e-commerce* from a very *backoffice*, logistics perspective. So it is super important as a *hub* of distribution. I say 50% of Magalu's 1P passes through the store, whether it is *ship from store* or in-store pickup. By the way, it is the *feature* that people ask for most on Lu's WhatsApp. It's, include the in-store pickup. That is a very strong thing for us. This is the number one request from customers for Lu's WhatsApp. And because in fact multichannel capability is a differential for Magalu and all our resilience in *durables* categories comes largely from this aspect of having the physical store integrated into the option of electronic commerce. That's why we, even with so much focus on margin, continue gaining *share* in these categories with higher *tickets*, but we want to expand this because we set up the ecosystem, we bought *Netshoes*, bought *Kabum*, bought Época Cosméticos, *Estante Virtual* too, and they didn't benefit from this concept of multichannel capability, as I mentioned at the beginning. So, we needed to have a physical space that represented the ecosystem in practice. Even for the final consumer, for many of you investors to see that Magalu is more than just Magalu, it is Magalu, *Netshoes*, Magalu is *Kabum*, Magalu is Época Cosméticos. Época, Kabum, Estante Virtual, and Netshoes together are operations worth more than R$10 billion, much larger than many publicly traded companies, and all are doing very well, but they seem invisible to the eyes of many. From the point of view of connecting this with the Magalu brand and the gallery, we will solve all these problems. We closed an iconic point, perhaps the most relevant physical retail point in Brazil, on Brazil's main avenue, which is Avenida Paulista, without disrespecting others, but it is one of the most relevant for Brazilian commerce. And a point that had a very large cultural character, which we will preserve with the maintenance of a theater, with the inclusion of an art gallery, and with the inclusion of all these Magalu businesses, but mainly a business that unites digital and physical. It will be a stage for digital influencers who will be there both in the YouTube Theater, which we made a global innovation by launching it last week, and also in each of Magalu's sectors, Netshoes, Época; influencers will have spaces to create content for *streaming* inside the store. We intend to hold the *live* of *Black Friday* from inside the store next week, and it will be something very different. We won't have opened the store yet, but we will be doing the *live* already inside the store, during Black Week. So, we are super excited. I will show a video here that is conceptual, and the video explores this concept well, which is the concept of the meeting between digital and physical, future and past, and the meeting between the various categories and segments we operate. I will show this video, then I will open for questions:

Magalu Gallery Manifesto Video: I see the future repeating the past. I see the museum of great novelties. I see time, transformations, people through screens, connections, windows, through the galleries from digital to real and vice-versa. In a world that lives trapped on a screen, I see an invitation to leave the search field and seek a meeting space, because meeting each other is more than a necessity. Meeting each other is a revolution. Netshoes, Kabum, Época, Estante Virtual, and Magalu together in the collective. An encounter without algorithms on the same stage, where fashion meets beauty. Sports, technology. Literature, *games*. Influencers, the public, where the improbable finds new passions and goes further. Experiment, feel, discover, live. I see the future meeting the past. I see a gallery of great novelties. Galeria Magalu.

Vanessa Rossini: We will now begin the question and answer session. To ask questions, click on the Q&A link at the bottom of your screen. Write your name, company, and language of the question to enter the queue. When announced, a request to turn on your microphone will appear on the screen, and then you must activate your microphone to proceed with the question. Our first question comes from Luiz Guanais, from Banco BTG. Luiz, please proceed.

Luiz Guanais (BTG): Good morning, Vanessa, Fred, Beto. We have two questions here on our side. The first is if you could comment, Fred, on investments for next year. And here, looking both at the technology platform, and the AI part, which you commented on, as well as the physical store model. What can we expect for physical store expansion looking into 2026? A second question, looking at the *marketplace*, if you could comment, Fred, on the evolution of *unit economics*, which you expect for the platform, especially in the context of competition, which we are seeing here in Brazil, which has become a little more aggressive over the last few months. Thank you.

Fred Trajano: Good morning, Guanais, thank you very much for your question. I will answer the first one about investments, and then I will pass it to Garrido to talk a little about the dynamics of 3P *unit economics*. I already talked a little about it at the beginning, but he will reinforce and detail it better. Regarding investments, Guanais, I think we have been making investments basically equal to depreciation over the last three years. I think this was the prudent decision in a context where the SELIC rate is *all time high* and real interest rates are stratospheric. So, you have to be very careful with capital allocation. And we focused our capital allocation, practically 100% of CAPEX in the last 3 years, on technology investments. So, investments to build the *cloud*, investments to expand our development teams. We created, for example, the AI directorate with an exclusive AI team with the arrival of Caio Gomes last year. We invested in this team, and now we are reaping the rewards of this investment with the launch of Lu's WhatsApp; it obviously reflects this investment from the last year, but also from all the previous years. The agent platform running here has been used by our *cloud* partner, which is Google, but part of the agent models are also running on Magalu's *cloud*, scalable *open source* models, which makes the scalability of this business very positive. So, we obviously intend, given the good signs of the first experiences here with Lu's WhatsApp, to reinforce our investments. I think here we have an important strategic differential, because no one has the persona. The other day I saw a lecture by Nike saying: "Look, our difficulty here in agent of AI is because when we talk to a client there is a Nike symbol here, there is no relevant persona for the consumer." And here we have this Lu who has been built over the last 20 years and is a cultural phenomenon in Brazil and that customers really like her very much, ask for her, because we carried out this construction with great care over time. We have a very great opportunity here to accelerate investments with a good prospect of return, mainly because the indicators, as I said, of conversion and NPS are very high. This gives us great confidence to accelerate investments in the platform. And the same thing is that we have a very positive expectation for our Galeria Magalu store. We have already recovered a good part of its investment in advertising contracts. So the *retail media* team is already working hard and is already managing to capture a lot from this store. It will be a *brand place.* 150 brands will be in the store, such as Chanel and Dior, which we managed to attract. Brands like Adidas, ASICs, passing through all the brands that work with Kabum, like Intel and AMD; we have a series of major brands, besides our own like Apple, Samsung. We will have an official Apple after-sales service there, the second in Brazil, after *Shopping Morumbi,* super cool. So, we are super excited about this and these brands will have space to invest in advertising there too. As I said, we are operating quite a bit. So, the team, led by Célia Goldstein, has achieved a good part of the return on these investments and we believe that we will be able to validate a vision, this helps us improve the ROI profile of the store, having *Retail Media* also as part of the results and even to cover part of the CAPEX, so we can re-accelerate investment in stores. Of course, this will happen, I think, more when the interest rate returns to a reasonable level, because today when we calculate the ROI for a store with interest rates at 15% it is very difficult. It has to be an impeccable concept. We have to validate our entire thesis, but we are very excited, and I certainly believe that we should resume investments in store openings. And this issue of Galeria Magalu, it is important that it doesn't need to be a new location. We have about 40, 50 points here at Magalu. Fábio can explain better later, that have the profile for us to actually convert, have more than 4,000 m² that we can convert other points to this gallery concept, which I think is super positive for the brand, for the business, and for the units themselves, like *Netshoes*, *Kabum*; all the area heads are super excited. Let's move on to 3P now.

Ricardo Garrido: Thank you, Fred. Thank you, Luiz, for the question. I am Ricardo Garrido, responsible for the *marketplace* here. Talking about *Marketplace Economics* and the reaction to this market aggression, as Fred said, we operate under the premise of working always with healthy margins and conditions, exploring our multichannel capability to perform well, without entering this value destruction war. So, I will list here three main actions we have been taking to maintain healthy economics, not just in this result, but for the future. Firstly, we have historically reallocated the *take rate* from detractor categories to incentivize sales in promoter categories so that we have a practically neutral average *take rate* year-over-year and managed to perform better, and as a consequence, we also have an increase in average *ticket* of more than 20% year-over-year. Secondly, we have several operational actions that have significantly improved our performance, allowing us to continue offering free shipping and the things that are important to customers. So, we have fewer cancellations, better cash flow, with greater *seller* participation within the cash flow, greater participation of Pix, a significant growth in Ads that Fred already highlighted. With a 44% growth in advertising *sellers* versus the previous year. And we have recent improvements in the Ads platform that have been highly praised by *sellers*. Thirdly, we have worked a lot with the channels that convert the most, that is, logistical modalities that deliver faster, that cover more free shipping, and that convert more, and that leverage our multichannel capability to do this profitably. With this, we also manage to spend less on *marketing* because with higher conversion, we need to spend less on customer acquisition. Within this, I highlight *full fulfillment*, which continues to grow in participation. We are at 28% participation of units sold in 3P delivered by *full*. A growth of four percentage points compared to the previous year and one more point compared to the last *quarter*. This quarter we connected another distribution center for *full* in the Northeast, in Paraíba, which has a vocation for heavy products and greatly complements the operation of our other distribution center in the Northeast which has a vocation for light products. With this, we continue to grow the *footprint*, the performance of *full*. We have CDs in 3 different regions and we are able to make deliveries faster and faster. So, to give you an idea, now we have reached more than 50% of *Full* deliveries in the Northeast, dispatched from the DCs there, and maintaining 80% coverage of free shipping in *Fulfillment*. Which only happens because we are sharing 10 distribution centers with our stores and we are sharing the delivery network and we have almost 1/3 of our deliveries with in-store pickup free of charge for customers. So I think this is another pillar. I would also highlight beyond *full*, we also launched in the third quarter Vapt, which is our first ultra-fast channel. It is basically a platform within the *marketplace* that *sellers* can directly contract carriers to make a delivery within a 10 km radius around their store on the same day. We announced this at the end of August at *Expo Magalu*, our event for *Sellers*, and we already have more than 600 *sellers* on the platform, 23 carriers connected, and great results so far. A conversion that is 30% higher, even than *full*. The best part is that it is a *deal* between the *seller* and the carrier which is a same-day delivery without costing us anything. Therefore, it is very positive for the *bottom line*. So it is through these paths that we will continue working on the *Economics* of 3P.

Luiz Guanais (BTG): Excellent. Super thanks for the answers.

Vanessa Rossini: Thank you for the questions, Luiz. Our next question comes from Irma Sgarz, from Goldman Sachs. Irma, please proceed. Irma Sgarz: Hello, good morning. I just want to go back, quickly, to a point about the greater competition that is happening, not only on the consumer front in the *marketplaces*, but specifically also on the *fulfillment* side. I think you addressed a little of the infrastructure *buildout*, but I want to understand specifically how you are seeing this potential greater competition between the *marketplaces*. All those who are trying to bring the *seller* in, how do you think you will manage to differentiate yourselves compared to other *marketplaces*, whether in conditions for the *seller* or in operational parts. And the second question is related to the logistics network and the location of stocks. I want to understand where you are on this learning curve in the complexity of knowing where stocks should be positioned to effectively avoid duplication of stocks or perhaps some degree of inefficiency. And if there is an option, either in the gross margin or in the stocks themselves, to still explore greater efficiency with the positioning of stocks in these more regional DCs.

Fred Trajano: Good morning, thank you for the question, Irma. Just a clarification on the second part. Are you referring to *fulfillment* stocks or *1P* stocks?

Irma Sgarz: Both.

Fred Trajano: OK. Thank you for the question. I think I want to reinforce what we have been saying. Firstly, Magalu has a vision of great balance. We always believe that when we create one channel, we don't need to destroy the other. So it was like that when we did 1P. We created 1P and the physical store continued to be an important pillar. When we also introduced 3P into the company, we never did it to the detriment of 1P. We really like a perspective of balance between 1P, 3P, and physical store. We think this systemic balance is super important, it is what keeps us here, with the balance of having a channel that, sometimes when the other is having a little more difficulty, the other can compensate. All of them draw from the same source of operational infrastructure, which provides a lot of synergy for our business. So, Magalu strongly believes in this balance of 1P, 3P store, and you will see this forever. I have done this very consistently in physical store and *online*. But also within *online*, between 1P and 3P, for me, it is a super important balance. In all channels, Irma, they have to operate with a positive contribution margin. So, we don't like to operate and have never worked like this in history (negative margin); we were never a *player* to grow a lot while incurring losses. We never entered this fight, there was this movement in 1P back then with Americanas, with a lot of *e-commerce funded* by VCs and we didn't enter that fight back then in 1P. And we persevered, and today 1P is the size it is, even though at that time we gave up growth or even declined in another quarter in our 1P, at that moment when the 1P war was irrational. Now, the 3P war also, when we look a little at the dynamics of free shipping, excessive subsidies, and *rebates* for *sellers*. Sometimes every sale results in a negative contribution margin for the platform. We don't believe in this model and never have; it's part of the thinking. And another thing is, our result is here in Brazil, our cost of capital is in Brazil, and if we report a very negative result, there is no head office to send money to us to pay the bills at the end of the year. We have to operate with our own capacity. And I like it that way; for me, it's the vision of an entrepreneur, not a multinational executive. So, for me, this is positive. And I tell our team that this is how we learn to be a better executive by choosing to be in markets with a positive contribution margin. The big differential of our *Fulfilment*, it has others. But the principal is the multichannel capability.

We stock *sellers'* merchandise in the same DCs where we stock *1P* merchandise. So they are the same DCs that are there. So we are occupying the idle space of this working capital management that we have to place the 3P inventory. And with this, 3P benefits from the same advantages as 1P, which I have already described *exaustively* here, which is the In-Store Pickup, *Ship from Store*. So, these are all modalities here that help us, for the categories that are in *fulfillment*, to operate, for example, with free shipping. We do free shipping for in-store pickup and still make a profit. So that's why we are making the exchange. The partner shipping we are operating here with free shipping does not yield any results; you pay the traditional cost, but if the product is in *fullfilment* and especially if it has an *in-store pick-up*, the delivery cost is much lower because it is taking advantage of the logistics of a truck that is already going to the store. And this makes us have this competitiveness. I believe that due to the fact that we have this multichannel capability, we remain very competitive, and I believe we will continue to evolve sales in this context.

Irma Sgarz: I think the question about stock allocation is left.

Fred Trajano: I think in this regard, Fabrício, if you want to complement me, is that we have been operating inventory for almost 70 years. So having the 1P *background* helps a lot in these moments. So, not only from the point of view of inventory management, one of the company's strongest areas is the *supply* team, which is a team that plans items, units. And Fabrício can explain better later. And obviously, we will use a lot of this knowledge to share with the *sellers* as well on this issue. So everything we learned over all these decades in 1P *supply*, we can do for 3P too. I will detail a little what our *supply* team is like and then I will come back to you.

Fabrício Garcia: Good morning, thank you for the question. As Fred said, we have a lot of experience. We have 18 DCs, 21 with those of the brands that make up the ecosystem and 1,245 stores, all with inventory. And if you look at our working capital, you can see that our inventory management is well done; we have a very robust *supply* team and a very good algorithm system, which is even supported by AI. So this experience we have in inventory management for over 60 years in 1P, can also be used for 3P. So we are very confident that perhaps our inventory management is one of the best in Brazil and it is very efficient by the way.

Fred Trajano: Just to reinforce here in the *full* today, 80% of deliveries are with free shipping and with good *units economics* because of this multichannel structure. Irma Sgarz: I understand, super thanks.

Vanessa Rossini: Thank you for the questions, Irma. Our next question comes from Antônio, from Jefferies. Antônio, please proceed.

Antônio Cardoso (Jefferies): Good morning, everyone. How are you? Thank you for taking my questions. There are two questions on my side. First, I want to hear your perspective on the partnership between Casa de Bahia and Mercado Livre, both the impact in the short term and especially in the long term. And the second, maybe for Jörg, I want a little more color on Magalupay, specifically perspectives for the fourth quarter, for next year, increasing CDC, and if you could also explore a little more Luizacred, growth capacity, when this growth will come, whether it will need capital or not. Thank you.

Fred Trajano: Good morning, Antônio. Thank you very much for your question. Well, the first one, well, I have a practice here of never talking about competition in our *call*, so it becomes a little more difficult for me to answer. What I can try to answer in a more generic way, which I think will make my point without citing one or another competitor movement, is that for us, the worst competitors, even in traditional categories, are the informal, small *sellers*, who do not pay tax and, therefore, end up doing pricing that is difficult to understand. These *sellers* are everywhere on several market platforms, selling products with prices that don't make much sense or smuggled cell phones from Paraguay. So, really the competitor that bothers us in the *online* is this small, informal competitor, who makes a price that a larger listed company doesn't. Because they have to have margins, pay costs, and follow the practices of major brands and suppliers too. So, for me, even in traditional categories, in the *online*, the big challenge, although we manage to compensate for this with our purchasing power, with our size, and with our multichannel capability, the big challenge is still smaller, informal *sellers*. So, I think that's what I want to comment on this point. And for the second point, I'll pass it to Jörg.

Jörg Friedmann: Thank you for the question, Antônio. Reinforcing some observations that have already been outlined by both Fred and Roberto during the presentation, we are in a good moment here for Magalupay in general, with several levers that were already being activated before my arrival. And there were also some adjustments for us to activate other levers. So, we see, for example, CDC, as Beto mentioned, at its highest level of penetration in stores in recent years, at 10.3%. If you add the recent digital penetration, we are already at the historical record of penetration at 11.5%, with the arrival of the financial arm and expressive improvements in experience, in addition to the adjustments we made in credit, incentives, we will, without a doubt, continue to increase this penetration throughout next year. This is associated with other levers that we activated; in insurance too, we are bringing insurance penetration to historical records, close to 9%. We conducted a quite comprehensive diagnosis together with our partner *Cardif* of opportunities we had in store dispersion, product innovation, review of pricing policy in some cases. And as I said, the very increase in CDC will also continue to boost insurance forward; in the consortium business, we put a very strong focus on growing profitable and relational lines. So, these are lines that guarantee us to have a long-term relationship with the customer, residential and auto already account for more than 95%, with a very strong focus also on quality, efficiency of second and third payments in the consortium above 80%, which is a market *benchmark*. Besides all this, Luizacred maintains a very strong focus on growing with quality. I would say that the three main focuses here for Luizacred will continue to be resilience, efficiency, and engagement. Resilience, we have already highlighted quite a bit in this *call* how we have been improving delinquency levels, we are at historical levels in recent years of 8% and 2.6% for long and short term. And efficiency, we are running with an efficiency level of 33% and falling. Engagement, despite the drop in the number of active cards, precisely due to the focus on quality, we maintain engagement, and proof of this is constant invoicing. So I would say that these will be the trends for the coming quarters, a construction very focused on evolving our historical more transactional view to a more relational view with the customer, and based on this, building a long-term strategy that can not only leverage financial services but truly create a symbiosis with retail, leveraging our competitive differentials which are our brand, which is our multichannel capability, and our ability to allocate capital focused on return.

Antônio Cardoso (Jefferies): Thank you very much, everyone. Good morning.

Vanessa Rossini: Thank you for the questions, Antônio. Our next question comes from Pedro from XP. Pedro, please proceed.

Pedro Caravina (XP): Hi, everyone. Good morning, Fred. Thank you for the space. Perhaps in a more strategic dynamic, I think at the beginning of the presentation you brought up the company's strategic cycles, well, the cycle from 20 to 25. If you could elaborate a little more on the company's thinking for the next, say, 5 years or for a slightly more distant future. And then thinking a little about all the businesses, both the *Core Business* and Magalupay, Magalog, *Cloud, Ads*, to understand a little about the thinking in terms of investment, expectations, and in general. And a little more in the short term, perhaps you could also comment a little on the strategy for *Black Friday*. Also, I don't think it's worth talking about your competitors here, but with this announcement of Casas Bahia and *Meli*, I think there might be a strategy to try, well, to be more aggressive this *Black Friday* or perhaps prioritize profitability. In this more short-term context for *Black Friday* and well, the months at the end of the year and holidays. Thank you.

Fred Trajano: Pedro, thank you for the question. I think there are two questions within the ones you asked. Regarding the *Black* Friday issue, I go back to the point I already made; I think the big *players* play a rational *by the book* game. So, everyone brings their offer to *Black* Friday, and that, for me, is part of the game. So I don't see this *Black* being very different from the others, because whatever the big *player* is, they will operate within a level of rationality, paying taxes and well, with official products and with pricing coordinated with major brands. So, I don't see a change in the competitive dynamic of *Black Friday*. As I told you, the competitive dynamic is more fierce among those who are informal, who don't pay taxes, and well, these are the ones that disrupt things a little more, but generally on *Black* Friday they don't have volume. On *Black Friday*, Magalu is the most sought-after brand by consumers in several surveys, because it is the time for high *tickets*, it is the time for products of origin and quality. So, I have no doubt that we will have another beautiful *black*, we will have a very nice space. I am very much believing in this *live* of the *Black* that will be done inside our new store using the *YouTube* theater also as a stage for transmission at the moment of the *Black* Friday turnaround. We are very strong with several actions, *Black Push*, a series of now or never, these are campaigns that we have been doing for many years with a lot of credibility. I think we will have a *black* positive. We bought the stocks, we have good *deals* with suppliers too, we had a good meeting with *sellers* and we have good offers here especially in *Full* fulfillment, so we think we will be competitive. For the future, I haven't announced a new strategic cycle yet. What I have been telling everyone and what I want to emphasize a lot and go back to the Lu's WhatsApp issue, is that I very clearly see that AI commerce will be the most significant way and will be the predominant way of purchasing in the future. So, there are already some studies worldwide that indicate that from 2028 onwards, a good part of the *online* purchase journeys will occur predominantly or exclusively with an AI agent or with an AI *chatbot*. I think this bet, seeing the market for 25 years, is very safe. So I see that this AI component is at the center of the cycle of every retail and non-retail company. I don't think we can ignore the impact. The impact for you in the financial industry will be for us too in retail. It will be for almost all industries that have a technology component, and even those that don't, and I think AI has to be at the center of this strategic cycle looking forward, but I still need to elaborate on it better. Certainly, I see that we still have many opportunities to give more weight to multichannel capability in all operations. So Galeria Magalu is a milestone, just like Lu's WhatsApp was. But I see that it is a concept that should be replicated in the future, because the physical store is a differential for Magalu. Having this experience and having this contact and being able to operate these two worlds simultaneously, few companies in the world, if not almost none, manage to have a relevant operation in these two worlds and make these two worlds operate in an integrated manner. So, multichannel capability and AI, certainly will be pillars of the new cycle. More than that, I don't have much to anticipate yet.

Fred Trajano: Perfect, thank you very much.

Vanessa Rossini: Thank you for the question, Pedro. Our next question comes from Ruben Couto from Santander. Ruben, please proceed.

Ruben Couto (Santander): Good morning, everyone. Thank you for the space, I think we have already talked a lot about 3P *Marketplace*, but can you talk a little about the market situation and the *core* categories of 1P in terms of growth, your *market share* throughout this year, and a little color on the difference in 1P growth between physical and digital areas. What are you expecting, not just for the fourth quarter, but for 2026 too? If you could give a little more detail on 1P, it would be interesting. Thank you.

Fred Trajano: Hello Ruben? Good morning, thank you for the question. As we have observed, we have had a lot of resilience in our traditional categories. It's 67 years of construction in these categories, and multichannel capability, specifically for 1P, plays a very big competitive differentiation role, because the customer buys, can pick up in the store, the product is physically in the store, so *ship from store* can be done. There are more than 1,200 stores with 1P stock that we can use to deliver to the consumer's home. This makes a very big difference for us. So, this structural benefit of our multichannel capability, the way we built 1P and the way it is natively integrated with the physical store, makes this sale resilient. We realize that this is a category that is very sensitive to high interest rates, because we are more conservative when releasing credit, we are much more conservative when running promotions, for example, when interest was at 2%, we had practically all categories in 20 interest-free installments. Now we do this very sporadically, always negotiating with the industry to avoid having a product with a negative contribution margin, considering the cost of money in doing 20 interest-free installments, the financial cost of this transaction. So, for us, obviously this moment of high interest rates means that the category as a whole in the sector is stalling or growing very little. And we are managing to preserve our *share* in it in this context. I believe that interest rates next year should decrease, and the entire cycle of falling interest rates is very positive for our category, both *top line* and *bottom line*. So, I see that the future dynamic in the sector as a whole is positive, positive perspective, remembering that it is also a World Cup year. If you look at our 12-year history as a publicly traded company, you will see that World Cup years and years of falling interest rate cycles are always good. So, I don't see how it could be different if, in fact, all market projections materialize for next year.

Ruben Couto (Banco Santander): Good, super clear. Thanks, Fred.

Vanessa Rossini: Thank you for the question, Ruben. Our next question comes from Pedro Peroni, from UBS. Pedro, please proceed.

Pedro Peroni (UBS): Good morning, everyone. Thank you for the presentation, thank you for the space. There are two questions on our side too. The first relates to 3P performance. So, if you could explain a little about which categories weighed more and contributed to this *underperformance* of the *marketplace* this quarter, and also a little about physical stores. How is demand broken down between the main categories in physical retail and how is this performance broken down by region. The second question: we would like to have a little more color on how sales performance was month-to-month during this quarter and, if possible, also if you have any information or data to share regarding October. Thank you.

Fred Trajano: Pedro, good morning. We have several questions; I'll see if I remember them all. Regarding 3P, I think we have already talked a lot, but I will reinforce. I do not consider it an *underperformance*. I consider that we performed very well, because we operated it with positive results, margin, and profit. At least, the marginal contribution of 3P remained positive, regardless of GMV. We made a strategic decision, already communicated to the market since the beginning of the year, that we would not enter into sales disputes with a negative contribution margin. That is what we did, and it is within our plan. And we are confident that this is the correct strategy in an environment with 15% nominal interest rates per year, for a company with our characteristics and for any operator acting in Brazil. I think that is the logic. It doesn't make sense to operate with negative margins now; I don't think it makes much sense. Regarding the physical store, I will pass it on to Fabrício now.

Fabrício Garcia: Hi, Pedro, good morning. Thank you for the question. Regarding 1P, we are having very good store performance in all categories, but I want to highlight our performance in smartphones, both in 1P and online. In this category, we grew double digits in the quarter and gained a lot of *share*. In white goods and TVs, which are the other two largest categories we have in the company, we also grew high single digits and are gaining *share* in both, both online and offline. Our performance in the months did not have one month much better or much worse in the quarter; were very similar months regarding growth. At the end of October, we noticed a retraction in demand. I think the consumer waits for November, due to *Black Friday* and the promotions throughout the month. So much so that we ended the month of October a little tougher and started the month of November very well. So, I think it is already a characteristic of our market, of our categories. Regarding regions, we also perform well in all of them. The only region that has slightly lower growth, given last year's base, is the South, because last year there were floods. The performance in the second and third quarters in the South was very high, given that families had to rebuild their homes. So, performances by region are very similar. I think a great highlight here is the North Region. So, performances by region are very similar. I think a great highlight here is the North Region.

Pedro Peron (UBS): Perfect, everyone. Super clear. Thank you very much.

Vanessa Rossini: Thank you for the questions, Pedro. The next question comes from Victor, from Banco Itaú. Victor, please proceed.

Victor Rogatis (Banco Itaú): Good morning, Fred, Beto, and the entire Magalu team. Thank you for taking our question. When we look at the company's revenue growth, this growth in the third quarter was practically *flat* year-over-year. The dynamics of gross margin and EBITDA are practically the same. And that catches our attention, given that with this *top-line* growth, we usually see a more accentuated effect of operational deleveraging, which did not happen in your case and was very good. The question is: if revenue growth continues to be timid for longer, do you imagine there is a slightly more material chance of us starting to see a greater effect of operational deleveraging? Thank you, everyone.

Fred Trajano: Thank you for the question, Victor. Good morning. I think we have shown a lot of consistency quarter over quarter within this context of maintaining an efficient operation. Let's remember that we are changing the mix. We are changing the mix, for example, in 3P from partner shipping to Fulfillment, which has a much more positive, less subsidized result dynamic. We have very strong control over expenses here. All of them: rent, general costs, payroll.

So, the company is very disciplined in terms of its operational efficiency, and we have managed, even in this moment of small net revenue growth, to compensate for this with a lot of efficiency, with a better sales mix, better 1P mix, better store mix, better 3P mix. All of this, again, we manage the company based on the contribution margin. So, practically all the directors here, whether from the *marketplace* or physical store, they do not manage based on gross profit; they manage based on contribution margin, paying all variable expenses: marketing, anticipation of receivables when making 10 interest-free installments. We have very strong discipline, and with fixed expenses, we work outside this concept, in a group here to exercise a lot of control, optimizations, and well, this is a very strong focus of the company.

The revenue, in my view, we are experiencing a perfect storm year, in the sense that we have high interest rates and aggressive competition in some product categories, especially in smaller *tickets*. And high interest rates impact higher-*ticket* categories. From the sector's point of view, as I told you, this obviously prevents us from carrying out those very aggressive promotions which, when interest rates drop, we manage to do and still have a positive contribution margin. I see a more favorable dynamic for next year, returning to what I said in the previous question, with the SELIC rate most likely falling, and us being able to be more aggressive in the categories where we have a large weight in GMV. And also the fact that it's a World Cup year, which is always very good for the dynamics of our sector too, as it ends up benefiting several categories, not only because it brings traffic both online and in stores, but also for other categories.

So, I see that this revenue dynamic is temporary, it is not structural. It is a tactical decision this year, which has been communicated for a long time, but it is not a decision that 'we will not grow more in the future,' quite the opposite. We only want to be growing based on a positive contribution margin. And when the context provides us with that—and I think next year we have chances for this context to be favorable—we will return to growing revenue also. But if it doesn't grow, it's the lesson again: we will review expenses, we will lower costs. Costs can always be lowered more; a disciplined company that has, well, a committed team always manages to deliver very significant things in cost management.

Victor Rogatis (Banco Itaú): Thank you, Fred.

Vanessa Rossini: Thank you for the question, Victor. Our next question comes from HSBC analyst Daniela. Daniela, please proceed.

Daniela Bretthauer (HSBC): Good morning, everyone. I would like to first congratulate Fred on his first marathon and his 25 years with the company. Well, the first question: I want to understand, Fred (I don't know if it's Fred or Jörg), about Magalupay: when exactly will it be in full operation, and can you give us any gain, any estimate of what the savings will be in financial expenses or costs.

Or perhaps Beto can also contribute with comments on how the structure or dynamics between future fundraising will work. Anyway, I know that passing payments and various other services in-house will be very positive, but can you give us an idea of the magnitude of this possible reduction in financial expenses? That is the first question

Jörg Friedmann: Good morning, Daniela. Jörg here. Regarding the potential gains, it is true, there are not only tax gains but also possible financial efficiency, not to mention the gains that we will still have related to the improvement of our proprietary credit models. As we mentioned last quarter, we brought in a totally new credit team with previous experience in institutions like Capital One and Nubank, to completely reformulate our view of proprietary models with more leverage of internal data, both from Magalupay and Magalu, and we believe this will also bring expressive benefits. But, to try to quantify a little more along the lines of what you asked, I would say that besides the tax gains (which are around 20% when you think about CDC in the financial arm), you also have approximately... just thinking about originations over the year funded by instruments possible to be obtained through a financial institution, such as financial letters and CDBs, versus the cost of funding that we currently have, which is basically the company's own capital... we may be talking about something superior to R$ 20 million during the next year.

So, there are expressive benefits that we will start to materialize, and there will be much more. I think the theme of this management and the vision we want to implement for Magalupay is to transform a very transactional view that we have had until today into a much more relational view. And, also corroborating what I already said in Antônio's question previously, we will give more elements to the market for you to understand how this strategy reflects on Magalupay's day-to-day operations over the next few months.

Roberto Bellissimo (CFO): Jörg, let me just complement here. Good morning, Dani. I didn't comment, but we have a portfolio of R$1.6 billion in accounts receivable in retail. And in the financial arm, we will charge an interest rate of around 6 to 7% per month, which is the interest rate practiced on installment sales. So, from that, one can estimate—we don't disclose it, but one can estimate—the potential interest revenue of this financial arm on a *running rate* basis. Naturally, this portfolio will be formed throughout next year, progressively, but as the average term is around 12 to 13 months, practically throughout next year this entire portfolio will be formed. And then, on a *running rate* basis, we will have a very expressive interest revenue and with fiscal efficiency, as Jörg commented. So, we are quite excited about this project for the new financial arm. Thank you, Dani.

Daniela Bretthauer (HSBC): Well, I would like to take advantage of Beto's lead. Along with José Aparecido, one of the *experts* in explaining these tax transactions, I basically want to understand if there would be more gains or more actions that we could expect for next year. I also don't know if he has an idea of the *timing* of more *RAT* and *FAT* effects, I saw that there was also a deferred IR/CS that came from Kabum. So, the question is more about whether there are any other tax gains that we can expect for next year, for us to make adjustments or even try to simulate in our projections. Thank you.

Roberto Bellissimo (CFO): Good morning, Dani. Thank you. Well, we disclosed a gain of about **300 million related to RAT** (Risk of Accident at Work), which is a thesis we have been discussing since 2010, 15 years ago, and which was judged this quarter, favorable to Magalu. It discussed the increase in a tax rate based on the risk of a possible work accident. Our stores have a very low risk, and we discussed, deposited in court, and provisioned for it. So, with the recent favorable decision, the prognosis changed. And we reversed the provision; we accounted for this as Other Operating Revenues, because it is non-recurring and, a principle, non-cash. But, soon, as we had already deposited everything in court, we should recover these judicial deposits and convert about 300 million into cash.

Daniela Bretthauer (HSBC): How quickly, Beto, do you think you can raise that? Is it possible to raise it all at once or will it be in parts? Because it is a significant amount.

Roberto Bellissimo (CEO): It is a significant amount, Dani. It is 300 million because it is a federal contribution. It is a relatively faster process; we estimate it to be in the short term, let's say, around 12 months. Furthermore, Dani, we mentioned in the explanatory notes that the Federal Supreme Court concluded the judgment of a topic related to DIFAL (Difference in State VAT Rates). We are waiting for the publication of the judgment ruling on the DIFAL concerning the year 2022. Due to the modulation of effects, the Federal Supreme Court decided not to allow the retroactive collection from companies that had judicial actions questioning the application of the DIFAL during the 2022 fiscal year, which is our case. So, we still have to wait for the publication of the ruling to estimate all the impacts for Magalu. But I would just like to mention also that we already have R$1.1 billion deposited in court referring to the DIFAL topic. Part of this value is even related to DIFAL before 2021, but the majority is related to DIFAL of 2022.

So, we are waiting for the publication of the ruling to effectively estimate all the impacts. Here, DIFAL is a matter of ICMS, it is state-level, so the process of recovering judicial deposits is a little more, let's say, dispersed and slow. But we do have an expectation that within an interval of 1 to 2 years we can also recover all the amounts we have already deposited in court regarding this topic. So, I think these two topics are the main ones related to our tax aspects. Thank you, Dani.

Daniela Bretthauer (HSBC): Thank you, everyone.

Vanessa Rossini: Dani, thank you for the questions. Our next question comes from Andrew, from Morgan Stanley. The question will be asked in English with the answer in Portuguese. Andrew, please proceed.

Andrew (Morgan Stanley): Thank you for taking my question. I would like to know about Galeria Magalu, how should we think about it? Will it be a single store or will it be an engine for expanded store growth in the future? And perhaps a broader gallery format, a more traditional store. What does Magalu need to see to return to store growth again, considering that this possibility is at the center of the *Omnichannel* strategy?

Fred Trajano: Hi Andrew, thank you for the question. I will take this opportunity to also thank Dani for the congratulations. Anyone who can handle 25 years in retail can easily tackle 42 km in a marathon. Regarding your question about the Gallery, what I want to emphasize was to reinforce the idea, Andrew. Obviously, we have huge expectations for the public and economic success of the store. I would say it is a redefinition of the department store concept, which practically doesn't exist in Brazil. The big department stores were left in the 80s: Mappin, Mesbla, etc. And I think, with the Gallery, we have a possibility in a much more updated, digital, multichannel context. And with this very strong approach of having the store connected to social networks, through the YouTube theater and the units inside it too. I see a very strong public appeal in this, because the big challenge for every physical store is to bring traffic to the store. I think it will have several elements that will bring this traffic to the store: the constant presence of influencers and content creators in that space, diversified sectors in a very cool concept, with experiences there too — cafe, restaurant inside the store, art gallery. So, we think it has a very strong appeal, as the Brazilian public is practically orphaned from this type of concept.

And if it works, we should replicate the concept, obviously, both in existing units—I cited some of them here, there are 40, 50 units that have more than 4,000 m², that can be converted to this concept—and we can open new locations too looking ahead. It will depend a lot on, well, the success of the concept and the format, but we are very excited. Remembering that, to create the Gallery, we already had good experiences before. Fabrício even commented here in previous *calls*: we have a Netshoes clearance store and a Kabum *openbox* store in the Tietê unit here, and both are doing great. It was a unit that used to bill 5 million; then we inaugurated a Kabum unit and a Netshoes unit. Each one is billing 2 million per month, and Magalu's own business doubled in size. So, today we are at almost 15 million per month in GMV there. So, we had a preview—of course, they are clearance stores, the concept is different, it needs to be validated—but it is very encouraging for the business to succeed and be an element of expansion for the company, mainly for Netshoes, Kabum, and Época. I think the introduction of this multichannel concept in their format will help a lot, and it will also greatly help the consumer to link the Magalu name with all these super relevant assets.

Vanessa Rossini: Thank you for the question, Andrew.

Andrew (Morgan Stanley): Thank you.

Vanessa Rossini: The next question comes from Gustavo Fratini, from Bank of America. Gustavo, please proceed.

Gustavo Fratini (Bank of America): Hi, everyone, good morning. Two questions here on our side: without obviously mentioning anything about competition, but how are you thinking about potentially forming new partnerships to, well, sell your products, whether 3P or 1P on other platforms, or mainly 1P. And I also noticed that there was no comment on any KPI or any *update* on how your partnership with AliExpress is going, if you could also give a little more color, please. Thank you.

Fred Trajano: Good morning. Thank you very much for the question, Gustavo. Well, regarding our conception of partnership, it must always have reciprocity. So, if we place our 1P on a third-party platform, in return, this third-party platform must place a catalog on Magalu. It is never just one side. And that's how we did it with AliExpress last year. We made a partnership where we listed our 1P there, but they also placed all cross-border items here within Magalu. It is a partnership that, well, has a mutual benefit and is a partnership that has a lot of balance within this business. So, whenever there is this exchange, there is the possibility of a discussion of partnership. Now, only listing our 1P on a third-party platform, we still prefer not to do that today, because if you list your 1P on a third-party platform, you practically lose the customer. You have the sale, but you lose the relationship with the customer. If something doesn't come from the other side that allows you to gain new customers as well, you will lose your net customer base over time.

So, that's what AliExpress provides. In this context, it is well balanced: the number of customers they bring to us is well equivalent to the number of customers we take to them. Of course, our GMV, because our ticket is much higher, is much more relevant there, but I would say that we are, in general terms, in line with what we had foreseen. It is a healthy partnership. And there is the possibility that we are counting on in the very short term, which is for them, in addition to what they sell here, to operate with Magalog. Regarding AliExpress Brazil using Magalog, we are already in the homologation phase, final discussion of contracts. I see that it is something that will evolve, and it would be a very positive evolution of the partnership now, probably aí já para o fourth quarter or early next year. We are quite excited about this possibility. So, we are happy with the partnership and, well, I would be open to other partnerships, always with reciprocity.

Gustavo Fratini (Bank of America): Super clear. Thanks, Fred.

Vanessa Rossini: Thank you for the question, Fratini. The next question comes from JP Morgan, from Nicolas. Nicolas, please proceed.

Nicolas Larrain (JP Morgan): Thank you, Vanessa. Good morning, Fred, Beto, and Magalu team. Thank you for your time. Thank you for taking my question. Most of mine were answered, but I want to understand a little about working capital: how you see opportunities there to increase efficiency, perhaps in inventory, and how you are viewing working capital now, for the fourth quarter and for 2026?

Roberto Bellissimo (CFO): Good morning, Nicolas. Thank you for the question. I mentioned that in the third quarter we normally increase inventories. It happened last year, it happened this year. This is very positive. We managed to plan the end of the year very well with all our suppliers. So, we make this movement, this anticipation of inventories. Along with this, we also increase the balance of suppliers. We also manage to get excellent negotiations regarding payment terms as well. So, today we have a very balanced working capital relationship between suppliers and inventories. That is, we work hard, Nicolas, so that all suppliers finance their inventories here at Magalu, just as we finance our customers.

And with the new financial arm, this will become even clearer. It will be very good for working capital, because all our sales, when we think about accounts receivable, Pix we receive, in retail, we will receive upfront. If sold through CDC in retail, we will also receive upfront, and credit card payments we can discount from time to time. So, practically we leave the accounts receivable part quite flexible and quite *light*. And the inventory versus suppliers part, we work a lot with this dynamic of negotiation or partnership with our suppliers in the sense that all suppliers finance their inventories here, and we have managed this in a very healthy way. We hope to continue this dynamic throughout next year. And this is even very positive, it's a win-win for the supplier too, because as we reduce their inventories, increasing our efficiency, our inventory turnover, they also gain on the other side, with this too. So it is a very positive dynamic. We cannot look much at the third quarter turnover, precisely because inventory rises in the last weeks of September. But when we look at the fourth quarter turnover, we should see a significant evolution. Sales volume in the fourth quarter is significantly higher than in the third quarter and inventories tend to be lower. So we tend to end the year with a very healthy working capital position and very prepared to enter next year evolving. We have space, a lot of space to, I also told you, Nicolas, in the last *call*, we have space to further improve inventory turnover. This also depends a little, as Fred commented, on the resumption of growth. Falling interest rates tend to help, and all the initiatives that we have been taking are also aimed at increasing sales in a healthy way. We are sure that by increasing sales we do not need to increase inventories in the same proportion at all. So we should see a quite significant evolution in inventory turnover in the coming periods. And I think, just to finish also on working capital, Nicolas, this quarter we didn't have many tax monetizations because it is seasonal. In the third quarter we normally increase inventories and this brings more volume of taxes paid in advance with tax substitution, but in the fourth quarter, just like last year, we monetized a lot. In the fourth quarter of last year, we monetized between 250, 300 million in stocks. The trend in the fourth quarter is for us to monetize a lot of taxes, sorry, a lot of taxes again, and also end the year with a lower balance of taxes to recover and with a tendency to reduction throughout next year too. In general terms, we are super optimistic with all working capital lines and we are sure that it will contribute a lot to our cash generation this year-end and next year too. Thank you, Nicholas.

Nicolas Larrain (JP Morgan): Thank you, Beto.

Vanessa Rossini: Thank you for the question Nicolas.

Vanessa Rossini: We now close the question and answer session. I would like to hand the floor to Frederico Trajano for the final remarks. Please, Fred, you may proceed.

Fred Trajano: Well, I want to thank all of you once again for participating in our results call and extend the invitation to those who have not yet used Lu's WhatsApp, to call our IR. We will release the number to you, just as we released it to our one million most loyal customers, so you can experience this innovation that we launched this week. It is worth it, I recommend it. Thank you. Have a good Friday and a good weekend, everyone.

Vanessa Rossini: Magalu's conference call is now concluded. The Investor Relations team is available to answer any remaining questions and queries. Thank you all for participating and have a good day.