

Q4 2018 Earnings Call

Company Participants

- Frederico Trajano Inácio Rodrigues, CEO & Member of Executive Board
- Roberto Bellissimo Rodrigues, Executive CFO, IR Director & Member of Executive Board

Other Participants

- Joseph Giordano, Senior LatAm Healthcare Analyst
- Marco Calvi, Research Analyst
- Robert Erick Ford Aguilar, MD in Equity Research
- Ruben Couto, Research Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And thank you for waiting. Welcome to Magazine Luiza's Fourth Quarter of 2018 Earnings Conference Call. (Operator Instructions) Now we would like to turn the floor over to Mr. Frederico Trajano, CEO of Magazine Luiza. Mr. Trajano, you may proceed.

Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Good morning, everyone. And thank you very much for participating in our earnings conference call about the Fourth Quarter of 2018 and also the full year results. Once again, I'm here with our whole executive committee of Magazine Luiza. I would like to make an introduction, if you would, that is to say I'm going to talk about some slides about our operations with a more in-depth description of our operations. Then Roberto will talk about our figures. And then we will be opening for us questions from you.

Talking about 2018, as I said, on our Investor Day on December 14, I say that perfection is very hard to achieve. It is (new) topical. But one day we got close to perfection. And that was 2018. This is when we had a fantastic outstanding performance. And I would like to highlight the fact that it was very much in balance, we were able to reach a very good performance in all areas of the company, all departmental areas, we have dozens and dozens of targets to be reached. And the bar is very high. And we had a very high number as well of people who have achieved the targets. And they went beyond the target as well. So our team was outstanding in all channels, with front office, back office, all the segments, top and bottom line with a good performance. So we have to celebrate a lot, our results. And from the macroeconomic viewpoint, it was not a good year. So this makes this even more outstanding.

FINAL

It was a little bit better, however, very far from the growth potential that Brazil has. So we are very happy with the work done by the whole Magazine Luiza team, they really worked very hard. But ultimately, we had a payoff of all this work. And as I said in our annual report, in our message from the administration, from the management, I consider that with everything that we have already achieved and implemented, mainly in terms of the digital transformation of the business, we believe that we have already completed the process. So Magazine Luiza is already a digital company. So it no longer makes sense to say digital transformation because this is past. We are already a digital company. It was already a tech company, a digital platform, however, with human warmth. But physically.

And with that, all the work that we did. And we have a balanced capital structure. We paid our debt and we are capitalized and we have net cash. Operationally speaking, we are very well structured, we are running with a lot of efficiency, with a low SG&A vis-à-vis the remainder of this sector. So we work with a lot of efficiency, we have a very good team, very much balanced and also very motivated. So we are entitled to be even more ambitious because we have already delivered and now we want to make the whole country digital after making Magazine Luiza digital. So we can afford to do that. That might seem very ambitious. But we are very comfortable with what we did for our company and we believe that we can share this with other companies as well and attract more and more consumers to our base in order to share these benefits coming from digital transformation.

I would like to remind you that we still have only 17 million active consumers of a total of the economically active population of 55 million. So the share is very small in the total consumers of Brazil. So we have a lot of room to grow in order to gain scale, in order to grow. And our focus is to scale up the model and share this with other companies in order to help us digitally include more and more Brazilians. So I know it's a very big challenge. But it is more in the sense of keeping the level of service that we have within operations, in which almost all of the sales are still -- some are only inventory. So one single registration number -- taxpayer number. Most of our sales -- most of our revenues still come from 1P, which means that our main challenge now in the process will be to convince and encourage companies that participate in our ecosystem to be included in the same level of service that we provide.

And we believe that this will be the major challenge and also when you grow a lot and when you are very ambitious, as is our case. And we call it Chinese growth. And I presented this in our Magalu Day or Investor Day last year. And with this very high growth, sometimes we have growth pain. So we have to have a lot of balance inside the company to keep the very high service level that we achieved this year and that we call the year of the client. And we established very high targets and we went beyond our targets. And this is the big challenge now, that is to say, growth will be even more exponential. Now I would like to focus on our presentation.

Already talking about the Fourth Quarter and the full year of 2018. The first slide that we have has 4 bullet points about our physical stores. And these are the highlights. 19% increase same-store sales in the year. And if we consider new categories, a growth that reaches 25%, 26% in the year and a gain of 2 percentage points of market share on average. But practically, in all categories that had gains in market share coming from other

FINAL

areas of growth in market share of our brick-and-mortar stores. And we added 100 new stores to our portfolio and we shut down a few. But the balance was 96 new stores. And the additional revenue coming from these stores and last year's stores, 7 percentage points of growth. And a very expressive growth in our brick-and-mortar stores in 2018.

And I would like to highlight the fact that brick-and-mortar stores, as we said, we have a digital platform with physical points of sale. And they are fundamental for -- to increase our sales of the -- in e-commerce. And we have the participation of physical stores, a lot of click-and-collect. But from now on ship from store. So they are shoppable distribution centers, in fact. And we have been remodeling structurally -- in structure, 100 of these remodelings last year. All the stores that we opened, we already opened with this new concept of mini DCs, 30% of the area for warehousing and also systems. Very well-developed systems in order for us to help these stores to serve the clients that are using e-commerce as well. So this is a great potential that we have. And if we consider the stores as DCs, we will have approximately 1,100 DCs to supplement the e-commerce.

So the multichannel model is very much through the process. And I would like to highlight the fact that we are concluding the digitalization of the pilot that we have, Caixa Mobile. That is to say the seller issues -- they invoice to the consumer directly. He doesn't have to go to the check-out. This is a very complex process and we intend to place this in the 17 -- 19 states where we have stores. And we need the authorization of each one of them in order to use this printing system. That is to say the salesperson having a mobile printer. And we're adapting them to all our salespeople for the second half of this year. So the consumer will no longer have to go to the check-out in order to pay.

If they are not paying cash, of course. If they are paying with a credit card. So they can already use the system. And the whole process lasts about 2 minutes. It's very, very fast. And it is very different from the average in the market that sometimes takes 40 minutes to be concluded. And digital credit so that the consumer doesn't have to go to this island. Most of the clients use Cartão Luiza in the physical stores and they are buying for the first time with credit by Magazine Luiza, these new clients that come with the Magazine Luiza credit card. So the credit process has to be fast. And now salespeople can approve a new card and we print the card at the store. So it's very agile, very fast. So the stores in the first half already -- will already have a total digital process.

Now I would like to go to the e-commerce slide. The app, the company app, is the highlight and I would like to give more emphasis to the numbers.

The total downloads that were placed, 24 million downloads of the app. But in Brazil, we have about 30%, 40% of the clients that install the app. And they remove the app after they make their purchase. And we have been working a lot in order to make it lighter. This is the market standard. And our number is lower than the market numbers. But even so, it's still a very high number. So I would like to emphasize the 6 million active users that we have per month of our app, people who use our app every single month. And this is more relevant than the absolute figure that is mentioned in some reports. So this is a very high number. And 40% of the total sales of e-commerce are via app. They are very consistent figures that show that we are right in our strategy of investing in our online experience for

the clients and it is much higher than the average of the market and we want to continue on this track.

And we have already talked about the superapp. And we will get into details afterwards.

And delivery times, it is one of the major drivers last year because we were able to lower, much lower than the average of the market, the delivery time for the product that we offer through our website. 30% of the deliveries of the sales that we make on site, they are promised and delivered in 48 hours. And we even deliver other products in 48 hours. But these that we make a promise to do, we do all of them. And click-and-collect, over half of our sales are this way in 48 hours. So this is a very big competitive advantage vis-à-vis any other player, any digital player. So multichannel cannot offer this amount of product and have this kind of penetration and this number of deliveries in 48 hours. So this shows that our model is superior omnichannel model, in order to meet the needs of the Brazilian market. And we know the logistics complexity in Brazil.

And this -- Logbee is already in 200 cities and accounts for 14% of the deliveries of our total e-commerce. But in some markets, like São Paulo, the share is much more relevant.

And also, I would like to mention the launch of the 12/12 delivery model until midnight. If you buy until midnight, you receive until noon. And we intend to roll this out as of this year.

And I would like to highlight marketplace because this is very important. There were many doubts about our marketplace operation. And we have exceeded our most bullish expectations, over 3,300 sellers in our marketplace and 4 million SKU in the platform.

GMV. BRL 800 million, GMV. And last year, it was the year of the defect to roll out. And before that, in 2017, we were experimenting and fine-tuning our operation.

And already with the Magalu Entregas mode, we have 50% of sellers and 30% orders made through Magalu Entregas. This is the basic model with the contract of carriers. And we are rolling this out, the fulfillment by Magalu. And we are going to use the Luiza (mesh) and Logbee. We have 20 sellers in the pilot and we will be rolling this out up to the end of this year. Magalu Entregas is already a huge benefit vis-a-vis the package that the seller has. And this gives us a big competitive advantage vis-à-vis our competitors, because they have neither Logbee nor Magazine Luiza delivering for them. So this is one of the major focuses of our operations, the rollout of the fulfillment by. So this is a target that is with -- in the hands of many of our officers and we are going to work a lot in order to have the highest possible number of sellers in this modality. And initially, we contemplate more warehousing by the end of the year.

Magalu Pagamentos, over 2,000 sellers in the platform, very much focused in -- on services for the seller. And not the final consumer, the end consumer. We intend to roll the number of sellers by the end of this year.

FINAL

And we already have a target for 2019. I cannot disclose the target. But we have a very high volume already estimated for 2019. And this will help the seller because they will have a discount rate that will be below the market -- lower than the market and also helping our marketplace continuing to grow.

And before giving the floor to Beto, I would like to repeat what I have been saying the whole year, this was the year of the client. Our bar was very high for KPIs for end customers. And there is a trend in the world that in Brazil that companies be more and more customer-centric and balancing KPIs and the level of satisfaction provided to the end consumer. And we are focusing on our active clients, not only GMV and invoices, 17 million active clients last year, 34% year-on-year.

We are the only retail company that has a very big reduction in the (foreign language). So our satisfaction -- client satisfaction is much higher than the market. And we intend to have an accelerated growth of marketplace further decreasing any complaints. And we will keep this objectively. So we want to grow as they grow in their participation of e-commerce. In the total sales, we reduced 29% at the Procon complaints according to each 1 million orders. So our efficiency is much better and we are generating less problems to our clients. And the call resolution when you call in the chat went from -- rose 19%. So in the first call, the client already solves any problems and satisfaction, 80%, one of the highest in the market. And I would like to mention the NPS that grew a lot. Our NPS is much higher than the average in our category as well and at internationally high levels in our brick-and-mortar stores and e-commerce.

Now I would like to give the floor to Beto so that may -- he may talk about our financial highlights.

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Good morning, everyone. I would like to talk about our figures very quickly, the highlights of the Fourth Quarter. And I think the figures are very self-explanatory; very high growth in our figures. Dilution of our operating expenses was very important. And for the first time, we reached an SG&A level of 20%, or 40 bps, to 20.8%, the dilution of our expenses. 1.2% of our net revenue was invested in our level of service. And this shows the operating efficiency of the company. I would like to mention the ROIC, 33 -- ROE, 33%; ROIC, 39%. Extremely high returns. And we continue to grow with high return and high cash generation in the quarter as well. We've generated BRL 1 billion in operating cash flow.

Then we have the 2018 highlights for the full year, very much in line with what we did in the Fourth Quarter. It was a very consistent year in all the quarters.

On page 8, we show some operating highlights. One highlight I would like to mention is that we more than doubled our investments and we were able to open 100 new stores with investments of only BRL 87 million in new stores, which means an average of less than the BRL 1 million per store. And this shows that the new stores -- we said this already, they're growing very quickly and with low investments and with inexpensive rentals and with very fast returns.

Then we give you details about the evolution of our sales on each channel, very consistent.

On the next page, the gross profit; the reduction of the gross margin associated to the growth of e-commerce; over 5% increase in participation; and the strong dilution of our administrative expenses. And total expenses, 40 bps reduction in spite of the additional expenses. In terms of equity income, the result was very much impacted -- of the IFRS 9, the -- of the Luizacred. And anyway, giving us 40 bps of margin per EBITDA.

And on the next page, we showed that we closed the year with 8% EBITDA; in the quarter, 7.7% EBITDA margin, impacted by the growth in sales, a very quick one. And e-commerce and investments in service level. And the acquisition of clients that will be helping us continue to grow at a pace which is faster than the market.

Then talking about the financial result, lower than 2% of the net revenue in financial expenses, including the prepayment of receivables. We continue to have net financial revenue and growth in expenses with this prepayment. They are totally associated to our strategy. Our focus on Cartão Luiza, the Luiza Card, which grew over 50% in the year inside Magazine Luiza. This is our focus and we derive many benefit from that, both in our sales and our margin and our EBITDA.

Working capital. We had already talked about the results of the Third Quarter. And the trend of working capital for the Fourth Quarter was very positive. And for the year as a whole, working capital contributed BRL 350 million for cash generation by the company.

We increased our net cash production, BRL 488 million. BRL 400 million cash generation, net cash generation booked over. When we end, it's 260 million and -- BRL 2.2 billion net cash position of -- in December '18.

And our cash flow of the operations was BRL 1,100,000,000, more than enough for investments and for the payment of BRL 400 million in debt and interest and all the dividend payout that we made, with BRL 2.6 billion in cash at the end of December '18.

In terms of net income, in the Fourth Quarter, we had a major growth in our net income. ROE, 33%; again, ROIC, 39%. Very high.

And now talking about Luizacred. In the last quarter, we sold over 500,000 new cards. For the year, we increased our base in almost 1 million new cards already. Well the biggest growth that we have ever had on our card base. And with that, we grew the revenues from Luizacred as well. In the quarter, 45% increase, BRL 1,600,000,000. And Luizacred for the year as a whole, exceeded BRL 20 billion in total sales -- in total revenue. So an excellent year for Luizacred. And at the same time, we were able to keep the quality of our portfolio, the quality of our clients, a very stable situation regarding our portfolio.

So we show you the portfolio, 7.2%. Only 2.7% from 15 to 90 days. And with the coverage ratio, that was very high as well, almost 200% of our delinquent cards. The result of

Luizacred in the quarter was lower -- for the year was lower than the previous year in IFRS 9. And here, we highlight, in the quarter, 36% higher here, BRL 47 million in net income compared to BRL 34 million in 2017. And for the year as a whole, BRL 151 million net income in BRGAAP.

We placed BRGAAP because this is the way the banks report results and this is the way that is taken into account for BIS Ratio purposes and it is more comparable to the previous quarters. IFRS 9 was adopted in 2018. And it anticipates provisions, though it brings out -- for clients that are constrained, also the limits for the clients that have not even used their limits yet. So the difference in results from one to the other is -- was almost double BRGAAP and IFRS, almost BRL 100 million in IFRS 9 compared to BRGAAP, which is rather conservative in this evaluation. And it was -- if the result of Magazine Luiza were to be used according to the Central Bank's accounting practices, year-on-year, it would be over BRL 635 million just for comparison purposes.

So these were the financial highlights. And now we would like to open for questions. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Robert Ford from Bank of America Merrill Lynch.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

I was really impressed with same-store sales growth based on a 15% foundation. Could you talk about 2019? And what is your view in terms of the next coming growth since it will be difficult to run a comparison vis-À-vis what you had already posted?

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Bob, thank you very much for question. I will initiate the answer and then Fabrício will give you a follow-on. As I said, Bob, we haven't yet seen a very strong economic recovery. In fact, the economy was mostly moving sideways. But we saw some signs of recovery in the last quarter. We hope that, looking forward, for the first time, maybe in three years, I would say, we will be surfing good waves. There is a suppressed demand in several categories. And the one that was more resilient during the crisis was telephony. And now we will see more balanced growth per category looking forward. But we are also gaining a lot of market share. Crisis was very hard on a lot of people. But particularly, was harder for smaller players because they had several difficulties. Many of them wouldn't be able to overcome the crisis. And that's why we are gaining a lot of share. And I still see a lot of room for further gains in market share.

Depending on the category, we may even get 15% share gain, especially in the brick-and-mortar stores. That's why I see great opportunity for further consolidation of the industry because distribution is very balanced; stock management, we are reducing stock out.

Credit is going well. The purchasing experience is also very good. The team is well-motivated, that's why I still see great opportunities to gain further share. In the first half of the year, we have the base of comparison of the World Cup, especially in the Third Quarter. Having said that, we started the year on the right foot. I mean this year, we started off well in terms of categories. But in the Second Quarter, I think we have to compensate, especially in the image area with other categories. In May and June, which are stronger months because of the World Cup, we sold a lot of image products.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

Yes. And you've been very disciplined in terms of the growth and refurbishing of stores. What are -- what is your CapEx plan for 2019? And what is your plan for the opening of new stores and refurbishing of old ones?

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Well I cannot give you any guidance, Bob. But what I can say is that, last year, we refurbished 100 stores and we opened another 100. We intend to be just as aggressive, both in terms of refurbishing and the opening of new stores. Our capital structure is very solid, very good. And that's why I say that not only we should maintain. But also expedite our investments. We are very enthusiastic. And whenever we open a new store, we are not only looking at the sales potential of that physical store. But we also want to improve the delivery term because one thing is linked to the other. And it helps us then in both front.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

Fred. And also, you said that over 30% of your e-commerce sales can be delivered before two days. How do you see the evolution this year? And what kind of investments you're doing to ensure an even faster delivery free of charge?

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

We intend to increase our share in shipment in the Third Quarter. But we intend to expand our share in terms of delivery and we have to look at the roll-out of Logbee. We have the Luiza grid, which is very adequate. We have a lot of people working there, more than 1,800. And they are very adequate to deliver products and they can add up to that grid using another kind of fleet to deliver smaller products. Usually, we would use the postal service. But now we will expand Logbee and we are doing a lot of other things to improve the delivery or store pick-up.

Considering all the 2 new distribution centers and all of the other ones that we already had, we want to have the right product at the right location to be able to deliver fast in up to two days or even 12/12. And as you know, this will depend on a very strong replenishing in supply jobs. One of the main goals of our team, e-commerce team. And even on the labs side, we still have a lot to develop. There are many initiatives that will help us boost that quick delivery facility.

Operator

Our next question is from Mr. Joseph Giordano from JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

You didn't give a lot of details. But can we expect some more concrete timing for the first half of the year or the second half? And also, I want to get a better understanding about your strategy or how much capital the company wants to allocate to that. When we look at the superapps that we have at the market today, they have certainly demanded a lot of investments in acquisition cost for new customers, especially if you bring on more than the high-frequency part. And my second question is, how are you going to bring your card, which is in partnership with ItaÃ°. So that you have -- you can benefit from the full potential of the superapp and use the wallet as a means of payment?

A - Frederico Trajano InÃ¡cio Rodrigues {BIO 17269235 <GO>}

Thank you for your question. This is a very good opportunity for us to elaborate a bit more on our vision, which is very simple to understand. The focus this year or the long-term view is not just the superapp. As we said today, the frequency in our view is low in terms of the use of apps in general in Brazil vis-Ã-vis what is in China, like the Alibaba app. They use it like 8x a day. Then when you look at the most used app, people use it 4 to 5x a day. So on average, it's very low. Our mission, therefore, is to help consumers to do everything in the environment of the Magalu app.

But this is a biannual build because it will take us several years to reach the level that China is today. And I know, it took them several days to reach that level. I mean for the superapp in India, both the Alibaba and the WeChat app. The view for this year, just to be more objective, is that we have to tackle 2 important areas or 2 important initiatives to increase the frequency of active users and not-so active users. First of all, we have to expand the category and also expand the SKU and available offers. We already evolved a lot because we went from 40,000 items to 4 million items. We are just challenging people because everybody that talks to us would say, okay, look for a product in our app, if you don't find it -- I mean, it's very difficult for you not to find a product in our app. The exception is only in a few categories.

We already have 4 million offerings. And with the growth of marketplace, this number will escalate further. So that's why -- very seldom you will not find a product in the app. But there's still some categories that needs to grow. These are categories of higher frequency. And we already said that we want to get into fashion, not particularly through 3P. But this is a very strong category and we are going to look at it. This year, we already inaugurated the Magalu market, which is a very high-frequency category. It doesn't give us a lot of GMV. But it gives much more frequency. Nonperishable supermarket items. This is something we ventured in about 1.5 years ago. And we want to go into, like, 2 and 3P. And there are other categories to be launched throughout the year to increase utilization frequency. This process generates new users. So we don't have to invest a lot in marketing because our installed base is one of the largest in Brazil in terms -- and in terms of the app, we can only -- all we have to do is to encourage this installed base to be more -- to use the app more often. So as what you said, payment and credit. Today, we have 3.7 million active customers of our cards. And very soon, we will reach the market, 4 million of active credit card customers. And they are not using that product a lot, digitally speaking. That's why we want to migrate the use of the cards to our app. All we have to do is to integrate our systems. We have the API from the app. And that is, the transactional base of the card lies with ItaÃ°.

FINAL

So what we want is to help customers make further use of the card through the app and, at the same time, to make some payments through the app as well. In addition to that, there are other payments that, as we said during our Magalu Day, we want to launch our digital wallet and digital account. So these are things that are still in our pipeline. And these will certainly encourage users to use our apps more often. So we have, we want to increase payment credit and expand the use in different categories. Now to answer your question about other investments, I don't see the need to invest a lot in the superapp. We may introduce third-party services by opening APIs to the market. But I don't have myself to build all of these services. I can just integrate to other bases and use that in the mindset of marketplace-wide. And this is pretty much what the Chinese is doing. You -- if you take some of the services from their superapps, some are proprietary. And other services are offered through mini apps inside the superapp.

So this -- I don't think this will be our case. But this is a very capital-intensive strategy. In fact, all of our strategy looking forward, not only the superapp. But other platforms like Magalu sales, et cetera, all of our strategy is more asset light when compared to previous decades. Because when I talk about how much the market is investing in opening DCs and stores, we are talking about API. So it's much more asset light. Some other competitors are investing more heavily in physical assets because they don't have that base that we have.

Operator

Next question is from Thiago Macruz from ItaÃ° BBA.

Next question, from Ruben Couto from Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

Still talking about the superapp. You have that number of 6 million active users. But just around the comparative basis, could you give me that number that you had at the end of 2017? And when we talk about 6 million, this is -- don't you think this is a good enough critical mass that would allow you to have a subscription model, like you have Clube da Lu, which is something close to that but not necessarily the same thing. I just want to know your -- I just want to understand your mindset in terms of having a different subscription or different format or whether that is a possible path forward?

A - Frederico Trajano InÃ¢cio Rodrigues {BIO 17269235 <GO>}

Okay. Thank you for question. I already talked about the subscription, Ruben. Sometimes, we try to import a model from abroad. In China, there is no subscription. In -- so there is another model in the U.S. that maybe could apply better to Brazil. So we are offering free shipment in 24 hours for those who buy through the app. So I'm not charging anything, it's free shipping. And the purchasing power of Brazilians is much lower than that of Americans. So they have their subscriptions of \$100 a year for credit packages or whatever benefits are involved.

Here, the subscription model will be for certain niches of products or maybe products that do not appear so frequently or -- and not necessarily for a loyalty program because, in

Brazil, no paid loyalty program has succeeded. So you have to just give rewards for purchase frequency. So I do not want to emulate the products or models from abroad because there are other platforms that are Brazilian. They were able to grow without applying the Amazon model in their countries. So I'm not going to copy other models.

Q - Ruben Couto {BIO 20636571 <GO>}

Okay. So that 6 million base, does that also include returns?

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Ruben, the growth was about 140% vis-à-vis the end of last year in compare -- in compare basis -- in comparison with what we had.

Operator

Our next question is from Thiago Macruz from Itaº BBA.

Q - Marco Calvi {BIO 19854632 <GO>}

In fact, here is Marco. Fred, my question is a bit more subjective. When we read the message from the management, even though you had an exceptional growth in 2018, maybe I think that the company decided to hold on to its growth just to give a bigger leap, particularly in marketplace in 2019. Is my interpretation correct?

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Could you repeat the end of the question?

Q - Marco Calvi {BIO 19854632 <GO>}

Well our understanding is that despite your exceptional growth in 2018, or maybe more recently, the company made a few decisions to hold back that growth in order to give a bigger leap this year. And maybe, this leap would be focusing more on marketplace. I just want to know whether my reading is right, my interpretation is right.

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

I'm just curious to learn what led you to think that because it's just the contrary. What we wanted to say in our management report is that despite we grew so much last year because we grew 35% or 60% growth in e-commerce and 19% growth in same-store sales and physical stores. So we still believe that we can grow even more in the future, especially because of the nature of marketplace. Because marketplace has been very relevant to our growth last year. But looking forward, it tends to be even more relevant to increase the total GMV of the company. So what we mean is that we want to grow even more looking forward.

We want to grow more than what we grew in the past few years. Well certainly, 2018 was an exceptional year. And the base becomes even more difficult every time. But I want to say that whenever I talk about growth, I'm not really talking only about GMV growth, I'm

FINAL

talking about our integration with consumers. My focus is not to grow total GMV that was close to BRL 20 billion last year. But it's to grow the number of 17 million active customers and their frequency of shopping, the shopping frequency. So that's what we want. We want to grow our customer base and how much they buy from us. So this is the focus, this is our KPI. This is how we are moving towards the future. What I wanted to say is that, looking forward, what will allow us to continue to experience even higher rates when compared to the past, even though it will be hard to run a comparison, is marketplace. So this is the focus.

Operator

Now we close the Q&A session. I would like to give the floor back to Mr. Frederico Trajano for his closing remarks.

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Thank you very much for participating in our call. I would like to congratulate the whole team of Magazine Luiza for the results obtained in 2018. Thank you very much.

Operator

Magazine Luiza's conference call is closed. Thank you very much for participating. We wish you a good day. Thank you.

Bloomberg Transcript

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.