

Q1 2021 Earnings Call

Company Participants

- Andre Fatala, Technology Director
- C.
- Eduardo Galanternick, Executive Director of E-commerce
- Fabricio Bittar Garcia, Commercial and Operations Vice President
- Frederico Trajano Inacio, Chief Executive Officer
- Roberto Bellissimo Rodrigues, Chief Financial and Investor Relations Officer
- Silvia Machado, Executive Director of Fashion & Beauty
- Unidentified Speaker

Other Participants

- Analyst
- Daniela Bretthauer
- Gabriela Montoya
- Irma Sgarz
- Joseph Giordano
- Luiz Guanais
- Ravi Jain
- Richard Cathcart
- Robert Ford
- Thiago Macruz

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Magazine Luiza Conference Call about the results of the first quarter of 2021.

We would like to inform you that this event is being recorded and translated simultaneously. And all participants will be in listen-only mode during the company presentation.

Afterwards, we will start a Q&A session. And questions must be asked by telephone. Questions asked by a webcast will be answered afterwards by the Investor Relation's team.

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

Frederico Trajano Inacio {BIO 17269235 <GO>}

Good morning, everybody. Thank you very much for participating in our call about the first quarter of 2021. May is a very special month for Magalu, because now we are completed 10 years of, since our IPO, we had our IPO in May, 2011. And with very positive results in order to show to the market. And we show you the whole context here of other quarter, that has the impact of the pandemic on our business.

And I would like to start by this characteristic. In fact, what happened was that, we thought this quarter would no longer have the impact of the pandemic and everybody said at the beginning of the year, that it would be the first quarter post pandemic and strong coming back of the physical stores. However, unfortunately, here in Brazil, we have a second wave, which is worse than the first one, during this quarter.

And on this chart, you can see that in 03:54 some stores had already to be closed, and in yellow, we have the percentage of open stores last year. The orange represented of stores opened in 2021. You can see that we had a lower percentage of stores opened already in January, 94, then 93, and we closed most of the stores in the southern region for Rio Grande do Sul, Santa Catarina, going to 40% of stores opened only in March. So, you can see that this is a very important figure.

Even if you consider last year, when we started closing stores are after March 20, that ended quarter -- with the third quarter of 25% of our stores were closed. Not only Magalu but a whole retail in Brazil.

And if you look at the next slide, what happened was the opposite of what we estimated. There was no problem with e-commerce, Magalu or the market as a whole, e-commerce continues to be a very strong and people who could not go to a physical store, they went to the online channels and the best operations in terms of surface level and brand recognition. They benefit from that. And it was the case of Magalu. As once more we grew much more than the market in e-commerce. You can see here a 140%. And with a different that we had the most difficult comprehend of market, because, in the first quarter of last year, we had grown 73% with the 2019. So, the comparison -- if we compare the first quarter of this year to the first quarter of 2019, in e-commerce 3.6 times more than the first quarter of 2019.

And moving average of 90% in these two years, the moving average of the two years according to data that we gained 4.9% market share online. And already a trend, that is to say, Magalu, for some time has already been growing more than the market at gaining market share.

And then, I will refer to what is very unique about us. Some companies had higher growth, but not with our level of profitability.

FINAL

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

And just to give you an idea, some stores, although they had closed doors, they sold about 70% of what would be in open stores. The salespeople were able to keep the level of productivity of sales and with a very big evolution in our system of mobile in remote sales, and a highlight. Because, we book the sale of the salesperson to the store. So, we book this to the store -- to the physical store, so the system helped us hold onto our sales. But, even if we -- well we put this in our niche -- in our message, if the stores were opened, we would be able to add an additional BRL750 million. If the stores were really opened. So, this is a very big number.

Overall, we -- next slide, please. It generates a general growth of 63% in the company, with e-commerce representing 70% of our sales, and IPO it was 10% and now it's 70%. But this has not been my goal, because it's very interesting to grow all the channels, and physical stores have been growing in double-digit in the last 10 years as well. And this shows that our model is not a mono channel, one channel model. It is really multi-channel in practice and reality.

We know that it is very much so on practice, because the business is growing. As it grew, it's not taking from the physical store pocket and putting it in the pocket of e-commerce. Marketplace is not going to come to the detriment of 1P. We like to add a note to exchange, that it was a shifting sales from one channel to the other, but the multi-channel model is better expressed, not only in the growth of other 02:51 channels, but on the next slide, as you can see growing with profitability.

And I remember that in the last call, I answered many questions from analysts about competitiveness and how Magalu was going to do in order to further grow. And the market conditions that we had were very aggressive in the market, already last year, everybody giving free freight, and subsidized tax rate, and many other kinds of subsidies. Some of them do make sense, but many of them, they don't work because you buy market with no sustainability, with no logic. So Magalu does the trade-off, but very conscious, the ones that really make sense in the long-term and Magalu maintained during this year.

The EBITDA margin and we were able to grow 56% in our EBITDA vis-a-vis last year, because we went from BRL274 to BRL227 in sales and Roberto is going to get into details about that.

We had the recurrent net income of BRL80 million, which is much higher than last year. But what is really important is to show the operating leverage. May be the number that I have -- makes me very proud of the work that we do and that we express is what is a real

Bloomberg Transcript

FINAL

multi-channel company, is our operating expenses. That were 20% only. We have the lowest operating expense over net revenue in the market. And within the operation as efficient as that, we have all the right conditions to be competitive and to have competitive prices for our consumers, we have operating leverage, and this numbers shows that the company thinks more with less. It doesn't do necessary trade-offs. We make options. We make choices for the long brand.

And I'm not talking about results only, I'm talking about care generation and that too we'll make it very clear that in the last (inaudible) BRL2.7 billion in operating cash. A company that is able to grow with profitability, we had some trade-offs in margin last year. But always doing this with a cash flow and LTDA over cash once again. And another benefit from multi-channel operation is the service level. So, when we created this concept of multi-channel, and it was even before the IPO, we introduced the concept of multi-channel 20 years ago at Magalu, when -- not even in the United States or China, they had started to talk about that. We were really pioneers and we saw that, it would be very good for shareholders and for clients as well, because with the support of the stores and the DCs that serve the stores, we are able to have a much better service level at the market. And this year, we had an excellent result and the percentage of deliveries of our own operation went from 5% on one day to 51% in D plus 1.

So, you can see that the scaling of the level of surface was very fast, because before the pandemic, our stores were just click-and-collect. And with the stores closed, we transformed them to shift from stores. So, we increased and improved the operation, the capacity of shipping from the stores and all the structures that were necessary to do that. And today practically, we have 1,300 that already work in this way, the consumer buys with a SuperApp and receive the product, if we have this in stock from the store that is closer to his home.

So, in the 1P operation, certainly we have the fastest delivery in the market and the cheapest one. Because, as we have a very short radius to travel, we have a cost that is lower and we extended not only the stores, but we also extended the dedicated structure of supply. The logistic units up 26 to 103, and a very exponential growth and these units came from the acquisitions that we made. And along the 01:12 therefore we united the operations of both and today they have a 103 between distribution center that we already had.

And last mile hubs that are close to areas of a very big concentration or even where we don't have a store and they do the last mile for us. And this year, most of our investment will be to further extent that. So, we have a 103 exclusive logistic units plus the 1,300 stores at our thesis as well. So, it's very difficult to be better than a store that has or an organization that has all that, that helps us have a very fast logistic and a very efficient one for the consumer.

One detail with that, this year, we are doing a pilot of 50 of the 1,300 stores to deliver in one hour. So, we already have 50 stores, and Fabricio, our Operations VP will be talking about that. And they are already operating in the context of delivering in one hour. And now with picks at the checkout, this further accelerated approval and we have many sales. And in one hour -- and if you don't have these 1,300, you have to have a very

concentrated logistic, and tender again to DCs. So, if you have an operation like that, you will not be able to deliver this level of service. And everything that I'm saying is for 1P. So, the idea of this year, beside extending this network and improving 1P delivery from going from one day to one hour.

On the other hand, we also want -- on the next slide, we want to transfer this differential, this competitive advantage to 3P. We want to roll this out to have for 3P, this excellent level of service. And this is going to be for 3P in marketplace.

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

And another important point is the storage shelf. The storage shelf is a very big differential for 1P and its going to be for 3P. We have 415 stores enabled for 3P in-store pickup, we buy in the SuperApp and they take the product up in the 415 of the 1300 stores. So, this multi-channel operation that made Magalu the undefeatable, we are bringing this to 3P, we're bringing the benefits of multi-channel. We want to be a multi-channel -- multi-channel ecosystem. We want to drive this to 3P. We want to vote this out for the 3P.

And the, another important point is that the stores are helping us heading the ranking of sellers. Hunty and Tommy of new sellers, most of the stores are helping Magalu to get new local sellers to the Parceiro Magalu, which is the platform that we launched last year. And later on, I will be referring to this. So, we have a whole army.

15,000 people in the stores, but part of these people will be bringing us, will be helping us to bring these sellers on board and showing that our store will be a major part of our ecosystem and had transformed a lot, vis-a-vis the old retail that the only objective was to sell. Of course, we have the objective of selling and the stores are also distribution centers. And they are a support to the sellers and to the Magalu ecosystem. And during the Q&A, we can go into details about that.

We had an exponential growth in the number of sellers from 26,000 to 56,000. And the major catalyst here was the Parceiro Magalu, a tool that we developed two weeks after the beginning of the social isolation measures put in place last year. And that saved literally physical retailers that had never ever sold online.

Today, practically all the marketplaces fight for the sellers that are already digital, they already have integrated stores and we develop the tool for those who don't have anything like that. So, less than a 100,000 sell online. Most of them are physical store retailers that don't sell online. And we develop this to, so that they could sell online. So, this was really a trailblazer. It was created very fast by the team and this is a very big vector of growth for our marketplace.

We went from 15 million to 30 million items as well. And what is important is that, I'm bringing local inventory, that is to say, the last mile, and this also generated competitiveness from the viewpoint of cost of delivery, and the time to deliver.

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

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Thank you very much. Thank you for being with us during our video conference. I will talk very quickly about the financial highlights.

Let's -- Total sales rose to BRL12.5 billion in the quarter, 63% total sales growth, over a 100% -- 114% e-commerce and 4% in physical stores. Highlight of operation cash flow from operations, almost BRL3 billion in the last 12 months. EBITDA of BRL427 million growing by 5.2%. BRL259 million net income, including non-recurrent gains and adjusted net income, net of non-recurrent BRL81 million.

I would like to highlight the fact that non-recurrent have to do with the reverse of our tax provisions related to default. And the difference is that the tax rate of the state which is charged in the designation in the interstate sales. This was something that we were provisioning for, and we need additional deposit. And with the recent decision by the SEF, we were able to revert these provisions.

So, over the next few quarters, we will have these trends -- the transformation of the digital deposit into cash. So, let's go to the next slide, where we show the margin evolution. So, we have maintained EBITDA margin at 5.2%, in the quarter of gross margin went down two percentage point, totally associated to the change in mix.

E-commerce one year ago, was a little bit more than 50% and now in this quarter it was 70%. So, a very big change. And e-commerce brings us a lower margin, but our model and our operating expenses are also much lower. So, we totally offset the reduction in the gross margin with the dilution of operating expenses and the improvement in the results of our equity income of Luizacred as well. So, we were able to dilute all the operating expenses, in spite of the fact that we had more stores closed. Investing in improvement and invest in speed of delivery, service level and we reach the administrative expenses, for instance historically very low, one percentage point of administrative expenses. So, you can see that it is much -- selling expenses as well, because of the fully integrated multi-channel model.

EBITDA. On the next slide, we show you our adjusted working capital and adjusted net cash, in March vis-a-vis last March. We further improved our working capital. And with a lot of effect in the last March of closed stores impacting the turnover of the inventories over the year, over this semester, we see such as we saw last year, inventory turnover going back to normal. So, working capital should go back to normal such as happened

last year. And regarding the acquisition in December, there's a seasonality plus the temporary effect of the closed stores.

And when we look at the variation of the net cash, we see that in 12 months, we increased our net cash by BRL400 million, in spite of making many investments, which is something that we show on the next slide.

On the next slide, we show that how we were able to build this from cash flow generation started with BRL600 million in net income in the last 12 months. Then non-cash expenses and the variation of working capital and other short and long run assets of over BRL1 billion. So, we've reached BRL2.7 billion in operating cash generation.

And then how we invested this BRL2.7 billion? We invested in acquisitions and PP&E, then paid dividends, and we bought back stock. And we had about BRL400 million, that is the increase in the net cash that we showed before and adding to the BRL800 million that we did in funding. We increased by BRL1.3 billion our cash, which is almost BRL6 billion position in the end of March. So, these are the main highlights of Magalu.

Now, about Luizacred, we accelerated the sale of Luiza Card since the end of last year, such as we have been saying, we're selling Luiza Cards at a very accelerated pace once again over a 150,000 per month and of course, Magalu Card as well. And the total billings of Cart?o Luiza was over BRL8 billion in this last quarter, growing a lot vis-a-vis last year.

And I believe that the best news on the next slide is that the results are improving significantly, delinquency at the best level historically; NPO, short-term NPO, one point less from 3 to 2 and the long term, and additional three points better going from 8 to 5, and the lowest level of delinquency historically. The highest level of coverage in provisions to over 200% to 116% in fact and. Even with more provisions, we have been able to increase our net income in IFRS and then we are GAAP, highlighting that we are a GAAP almost a BRL100 million in the quarter, reflecting the significant improvement in the past two portfolios. In IFRS, it was slightly lower because of higher provisions, because of the closing of stores that happened in March, and it always has some impact on what we receive, because many of our clients pay their bills at the stores. But this has recovered over the next few years with the reopening of the physical stores. So, we are very enthusiastic about the operation of LuizaCred and Cart?o Luiza, Magalu Card and collection. And these were the highlights.

And now, I would like to give the floor back to Fred.

Frederico Trajano Inacio {BIO 17269235 <GO>}

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

In the last quarter, which was the closing of year 2020, we showed you how much we still envisage opportunities in the future. Magalu closed a cycle. And I guess the figures are a

FINAL

Bloomberg Transcript

great evidence of that, that we had we had an extremely well-performed digital operation, Magalu went digital. And for the future and for a long time now, our efforts and projects are more ambitious in terms of digitalization of Brazil. We want to have a digital Brazilian retail, we want to be a multi-channel digital ecosystem that will turn out to be Brazilian retail ecosystem. We had a successful transformation. We learned a lot, and now we want to share it with small and mid-sized retailers in the future.

FINAL

If you think about opportunity in e-commerce in Brazil, we can see it's a huge opportunity. Brazilian retail is BRL1.2 trillion, and our penetration is still very low, 10% of penetration post pandemic. So, that's a fact We have been broadly discussing by analysts and also in the press, in the media, in the sense that e-commerce over the year 2021 will have a very high comparison days starting the second quarter vis-a-vis 2020.

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

In this market, there are some pockets of opportunities and we are tapping into them via organic and inorganic investments, and I would like to mention a couple of them. How we're going to have Brazil digital? What are the main sectors of grater opportunities? The first one is the food industry, and consumer products. Magalu introduced this category last year during the pandemic. We realize people needed to buy and have quick access to groceries. We bought consumer goods and had a great inventory of non-perishables and beverages. Today, nearly 1,300 stores have, in their back office, inventory levels of these goods as dark stores. These products are available as a mini DC for those who buy. And in the first quarter of last year, in less than one year after we launched this category, 40% of the SKUs sold in 1P Magalu were from groceries. So, that was a very significant growth. It's a higher strategic category not only in terms of being the greatest in Brazil in retail BRL500 billion, but also because it carries a precious asset to any company that wants to be an dominant player in the digital platform. It brings frequency, frequent sales, frequent consumption. So, we started strong 1P, but we know we wanted to be a good and grow and strong player. We also need a 3P strategy. The problem is that grocery stores are not necessarily there online, so we have to go digital since -- from scratch. That's why, we acquired VIP Commerce in March, and it's a specialized e-commerce platform for this category. So, it has hundreds of customers already and the idea is to scale it up supporting the small retailers to sell online with their own side and also connecting their catalogs to our SuperApp. That's a big opportunity, very strategic at Magalu.

Next slide, please. We also see a very good opportunity in the fashion category. Correcting myself, food delivery first. So, in September last year, we acquired AiQFome. It's one of the greatest food delivery tools, pretty much focused in the countryside of Brazilian states. AiQFome had exponential growth. 2,600,000 orders in April this year alone, extremely high number. If we annualize the GMV, it's over BRL1.2 billion in only this number of cities, 5,000 municipalities in Brazil. So, we're supporting AiQFome to grow organically, but we also invested in a couple of assets that we also support AiQFome to

FINAL

grow even further, like for example, GrandChef for restaurants and Tonolucro which is a similar operation to AiQFome, but focused in the Midwest. So, AiQFome is growing very strongly. And the idea is to plug AiQFome to the SuperApp to increase the base and plug it in the third quarter of this year. So, another player in order to increase the frequency, the relevance and improve possibilities in level of service provided to our consumers.

Another pocket of opportunities where we can go digital and we also can have multiple VR strategies; beauty, lifestyle, sports, beauty. So, we had very positive progress in all these categories, both inside Magalu SuperApp, because all of them are fully integrated and also Netshoes catalogue, Zattini catalogue, and Epoca cosmetic course catalogue and they also have their own channels which are also growing well.

For instance, just to give some highlights, Epoca was just awarded as the most or top-of-mind brand in the category. Zattini is also growing. We are structuring the area. We have to be supporting us in this context. We also created executive directors for fashion and beauty, led by Silvia Machado, exports by Julio. So, these are teams that are fully independent, they have marketing, purchase, planning, product development departments. So, we created this setup in the category reorg to give more autonomy for these categories to run their business and develop and indirectly acquiring Hubsales, which is a platform that connects the plan directly to the end users, particularly in the fashion category. We expanded the base, it used to being Franca. And it's in (inaudible) which are very important fashion hubs for this category, and that is evolving.

And Netshoes, although it's purely online, it's already a leader in the category, has been growing very strongly and the results are appearing in our equity income shown by Roberto. And we still have a lot of things to show you in the coming quarters. I am very excited with our progress in fashion and beauty and core categories.

So, 13 million SKUs of 3P, new categories, grocery, food, fashion, beauty, finding a product now is super, it became harder. You have more SKUs and algorithms need to be smarter and smarter. So, one of the most strategic acquisitions early this year was SmartHint. Basically, it's a company, a search engine with intelligent algorithms and they're specialized by category as well. So, the idea is to bring search and smart recommendation for our customers, providing the best experience we have, the same that we had when we had fewer SKUs. So, we have intelligence behind it. And there are also client outside Magalu's universe providing retail deck for instance. That will greatly help our search and recommendation, operation at Magalu and we also have Luizalabs with a strong team that will be added to this new team with SmartHint. So, very happy with the SmartHint with us.

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

FINAL

We already have assessment scores that are very positive to our account. So, it's doing great, and it was also onboarded. And now, it has a fellow that is very relevant, which is the digital card, Magalu, like Roberto said, to issue cards to brick-and-mortar customers. And this product is 50% of the sales and brick and mortars sold by a card. And now, the customer can be used outside Magalu stores. However, in e-commerce, penetration of the card was too low and that's why, we launched a dedicated card from this digital audience, no annual fee, cash back, integrated to the SuperApp and the account. Whenever you use the card at Magalu, you have cash back that will be deposited in Magalu's account and its a virtuous cycle.

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

And if we put it all together, I guess the key behind digitalization with our consumers and turning the ecosystem into something user-friendly is the SuperApp, account, bills, the card, fashion, sports, foods, everything will be here available with no friction, very usable via Magalu SuperApp, which is increasingly getting more consumers, 38 million MAUs, 70% of our e-commerce sales already come via mobile. So, the world will be online only and Magalu started on this wave way back when we are growing with sustainability. We do that in a very consistent manner, LTT over CAC and the customer stays with it. Doesn't uninstall with, it's not deleted. Our idea is not to be high in the rank of audience. The idea is to be high in the ranking of engage customers who are frequent users to the platform and which rate your service well.

So, now, I'd like to mention and to talk about two big avenues for monetization of everything we've said so far, TAMs. We already made big efforts to dilute expenses, low expenses. We are having a good profitability level. But we also need to build avenues to be more profitable in our GMV and to monetize GMV and we have two great avenues. One of them is Magalu Pagamentos. Basically, it's a soup acquiring platform that we launched last year. This first quarter, had BRL2.7 billion as advance, highly profitable. This is in line of the balance sheet of our company. We support the sellers to have advance with user-friendly tools. And this year, we also launched --this quarter, in the first quarter of the year, FIDC, our own FIDC, which is a non-performed loan for sellers in addition to receivables. That doesn't have seller still in the pilot phase, but we believe there is a very big opportunity to generate results and monetize our ecosystem by using credit operations and loans to our 55,000 sellers and certainly the number is going to increase over the year.

And last but not least, I would like to highlight another monetization avenue, which is ads. We acquired four media assets. Over the last couple of years, Canaltech is one of them, reaching now the historical level in April of 25 million unique visitors. They are increasing more and more their content, becoming more and more relevant. They generate content. Their support sales in Magalu via e-commerce. They are a selling machine to our retail as well with all this content. We also acquired Steal the Look in the universe of Zattini fashion and fashion inside Magalu. The content is highly qualified. The girls are absolutely great, generating trends and relevant information for consumers who are interested in this

universe of fashion; not only fashion, it also covers other categories as well. And also support and generate interest in these products. The idea behind this content is to make this content available via SuperApp as well. The consumer is not only checking to buy, but also for the sake of content.

And the last acquisition, very high profile, which was Jovem Nerd, Young Nerd, one of the main entertainment platforms to talk to the Nerd audience, which is growing a lot interested in gaming, interested in entertainment. Jovem Nerd has a very strong power with its audience and the idea is to have very colabs integrating this content in Magalu. We are growing a lot in the gaming universe and the category. So, all that add to one another improving our audience, which will be monetized with our ads, soon to be launched in the third quarter, and we are adapting, we acquired in local media last year and we want to have a high level of service to monetize the 80 million Magalu users including mobile site, apps and desk and all these channel or content channels. It's going to be a great monetization avenue of our operations, having ads to add to our profitability line; seeds that we are sowing.

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

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will start our Q&A session now. (Operator Instructions)
Mr.Robert Ford from Bank of America.

Q - Robert Ford {BIO 15127836 <GO>}

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

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Bob, as I said before, I'm going to distribute the questions to our officers, who [ph] would you like to answer the question?

A - Unidentified Speaker

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

supplementary, and regarding competitiveness and consolidation these are -- well, Brazil is a big country. There are always important (Technical Difficulty) components, we see more consolidation, more urban centers. But be it [ph] and P1 or P3 we will be able to be connected to the large market by means of our 1P operation, so we will have the possibility of having a very relevant presence in the market.

Q - Robert Ford {BIO 15127836 <GO>}

What about it from the data perspective?

A - Unidentified Speaker

You mean data that we are collecting?

Q - Robert Ford {BIO 15127836 <GO>}

Yes.

A - Unidentified Speaker

Well, the well the original focus, is in fact to increase the digitalization in the market category, if we see an opportunity regarding monetizing data, this is not the focus of the company now. The categories key, it brings frequency, it brings more users to our SuperApp. So we are very much focused on making the penetration of this category faster. We cannot do this with 1P only. We need to grow with help and helping others as it [ph] -- said, we are focusing on all kinds of -- well because of the size of the market, our focus is more on the small and medium companies in this area. Thank you.

Operator

Our next question comes from Thiago Macruz from Itau.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon everybody. My question is more conceptual. When we look at Asia, we see very high frequency players having a lot of success getting into new categories. So there are examples in China, and when I look at the Brazilian experience, I've see Brazilians more willing to deal with a multi app world.

Fred, what is your opinion? Do you think this has to do with maturity and that as time goes by things will be going towards the Asia [ph] behavior or is there a cultural component here? Given the success that you have been achieving in recurrence and traffic with all the M&A that you did recently this was rather impressive. So how do you think about this from now on?

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Thiago, nothing is for free, what happened in China, was driven by a very competent execution, a more horizontal view of category killer or the part of the Chinese entrepreneurs and their team. So well -- we're very dominant in this category. I'm

FINAL

dominate in retail. The market is gigantic, so I'm going to grow laterally, so I'm going to do this exploring the connections of the digital world, and that is not given by the physical world, the digital universe gives us more laterality, the borders or the frontiers are less defined, they are more blurred.

So I think this has to do with somebody wanting to do this. We believe that we have the capacity and the competence to do this. And I believe that, as far as users are concerned, it is easier to have one single login, one single account and do all the interactions this way. And then Brazil, I already see some companies becoming more lateral, I'm not going to mention companies, but some events are being successful here in Brazil companies that were in one category and started to get into another category with a degree of success in the universe of the App, delivery apps that do food and that's how supermarket apps of Fintech's that are doing retail.

So these lateral expansions in Brazil are already going on. You have one option, you can be a category killer and expand internationally or you expand laterally and Magalu, we know, Brazil [ph] we have our mission here in terms of digitalizing the country and we have a powerful branded the digital universe. It's possible to do that, we chose to expand laterally and not internationally.

So it's a title like option. I don't know whether we will be successful. I hope so we were very successful in multichannel. So we believe it will be very successful in our ecosystem. We're going to work very hard and we have very competent people working on that -- in our lab and I believe that the summation will be bigger than the individual values.

Q - Thiago Macruz {BIO 16404924 <GO>}

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

Operator

Our next question is from Irma Sgarz with Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. Thank you for taking my question. Fred, I think you're already touch an important point about the evolution of the role play by the store. How do you visit the store of the future, in terms of operations? Should they have the same size of the current store or should it be larger or smaller to have an official return? And what about the financial aspect, should we assume that something will change in the future, in terms of point of service or support, or third-party goods.

I would like to better understand, I know you're not going to had answers for all my questions, but maybe have a better understanding of your vision. And also, perhaps mentioning a couple of examples that you've seen in the world about this transformation taking place and inspirations that you've got.

My second question, if I maybe. If you were to separate and break down the GMV in the first quarter via acquisition, compared to GMV of the organic operation. What is the contribution paid by contributions, just to have an order of magnitude? I know you cannot give us annual numbers. But I believe there is a growing curve over the year. I don't know, if you in the first quarter, you could share something to us, in a linear manner. Thank you.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Hello Irma. Good afternoon. Thank you for your question, Fred, speaking. I'm going to turn it over to Fabricio, just to give an introduction of first part.

Actually, that's an operation and nearly everything that we achieve right now was stand [ph] from our own inventory 1P motor channel. And you have this vision and conviction that we managed to shift the bulk of this uniqueness to marketplace so a multi-channel marketplace. Multi-channel digital echo system, as we like to say and the design of the new store is pretty much in this contact [ph] this new strategy.

In the sense of a store being an active player, a leading role in our ecosystem, so Fabricio is going to tell you more about this new store and what we're planning to do and the kind of new services that the store can provide and then I can come back to address the second part of your question.

A - Fabricio Bittar Garcia {BIO 17269261 <GO>}

Good morning, Irma, thank you for your question. Let me try to answer in a broader context. With regards to the size of the store, it will remain the same as it is today, we're not going to make larger stores. We're going to slightly increase the back office area, in order to support the new categories and 3P. So we already have a new set up to optimize the space and the warehouse at the store. Operationally speaking, it's going to change a lot particularly in back office, considering all the processes and level of inventory. We decided to increase even further digital tools. We're also deploying a system like a mini WMS smarter warehouse system compared to what we have today. We're going to virtually double the number of SKUs, we currently have.

So we should expect to see some new categories at the store with some killer [ph] products. Maybe some impulse purchase or recurring purchases and the store will turn out to be a big center of service, and also supporting the seller. We are having the store for the seller to drop-out the products, as if it were a postal service. And then we also have the -- for me -- for local sellers. We also trust this model with a local seller, a large scale. It can also give or provide a very interesting assortment for that location with quick and inexpensive delivery. So we have three major pillars at the store. One of them is category, the other is logistics, and the third one is the 3P engine or driver. So in a nutshell that's the future store, the store of the future.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

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

Q - Irma Sgarz {BIO 15190838 <GO>}

Got it, thank you.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Thank you.

Operator

Our next question comes from Joseph Giordano with JPMorgan.

Q - Joseph Giordano {BIO 15875778 <GO>}

Hello. Good morning Fred, Fabricio, Roberto, thank you for taking my question and congratulation for this strong quarter. So we have SincLog, Logbee, AiQFome and everything about doing farming, leveraging the store manager in order to have the inventory of the seller close to the customers. So I would like to understand the level of integration of all these operations, Fabricio mentioned briefly, this progress in the store model, but what about the last mile part?

How are you working on it? Apparently seems that we are having an ecosystem for the delivery agent. So I'd like to have a better understanding about this front. And perhaps even consider the integration with your FinTech, if you are considering for instance having an RP, more sophisticated RP-- ERP to for smaller retailers, not only have in a basic financial solution, but this solution coming back to Magalu as a service. Thank you.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

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

A - Andre Fatala {BIO 21479328 <GO>}

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

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

FINAL

Bloomberg Transcript

FINAL

Addressing the second part about financial services and also the potential ERP that are two avenues here. You mentioned development of an ERP with more basic functionalities, something to support the sellers management area, and finally integration with existing European [ph] market and allowing to have a connection in order not to have to simply start from scratch. It makes sense, having this solution. But some levels that are more advanced, sometimes we have sellers that already have an exist in European, we can be connected to them. So that's the idea. And as for financial services that we can deliver to the seller. I would like to invite Hobson[ph] who was also on call, to talk to you.

A - C. {BIO 1404446 <GO>}

Good afternoon. Thank you Joseph for the question. That's an interesting question. In-house today we already have a Magalu or sub-acquiring [ph] platform and even the inventory which is a point-of-sale, with a very advanced solution. Like Fred said, this year the FinTech is going to play a key role, a leading role to be an infrastructure to all the solutions that we are planning to see.

So today we already have the sub acquiring, we've build a very extensive layer of services, connections and where the acquisition of hub FinTech, late last year and was recently approved by the Brazilian anti-trust agency we're going to have a full fledge platform for financial services, purchases financial services Card, everything fully integrated. And not only the existing tool, but also other tools that we have in house.

Q - Joseph Giordano {BIO 15875778 <GO>}

Thank you.

Operator

Luiz from BTG.

Q - Luiz Guanais

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

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

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

If I think about frequency, the row of adding SKUs by our sellers and mainly the category and the services that we talked about the market in delivering groceries and delivery -- in the short run, they're going to impact frequency more initially than the FinTech. The objective in the short run is to increase loyalty and monetize, but for frequency in the short run, it's not going to make a huge difference. And about the second item, could you repeat it, please?

FINAL

Q - Luiz Guanais

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

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Well, it's very difficult to estimate because nobody foresaw the boom of 1P and it is growing exponentially very much, driven by the interest in the categories. Now we have many with Netshoes, Zattini, Epoca Cosméticos, not only durables but many other categories as well with the presence of leadership and the Brazilian e-commerce.

Category that we're not penetrated yet. So, I see a lot of room for growth in 1P, and I see this very pragmatically, as I said at the beginning, we grew ecommerce not to the detriment of physical stores and we do not intend to do with the other way around either. So we don't have this rush of growing this indiscriminately. It has to grow with profitability and making stents [ph] and we have one advantage, we have a profitable 1P sustainable, and this is growing and generating cash.

So we are not desperate to make this with creepy. We have to do this. Our delivery time is totally, much faster than all the others. So we are going to continue growing consumers who continue to buy and as a service in 1P is very good. We will continue to gain share and it is going to remain very important for the long run and 3P as well, because the comparison base of high last year, is not always very high for e-commerce in general.

If you look at the perspective and the future opportunities, we have the opportunity to grow proportionally 3P, but we are going to do this in a very rational manner. And with LTV over CAC, CAT and with the universe of rationality and not just to show what investors want to hear. I cannot tell you in the long run right now. Well 3Ps going to grow more than 1P, but in the short run, no I'm not so sure, it will happen depending on the consumers interest and the market characteristics and in a very correct manner.

In the long run, well, yes, it's going to grow much more. We're making a lot of investments at a platform and getting many new sellers on board and there is an important trigger. We're going to need some time to do 3P delivery in one day and one hour. It will -- we have to work for a few quarters or maybe a few years for them to get there. But for one day, two days, a few quarters and some years for one hour. So we have a lot in our hands, but we will get there. However it's not going to be in the very short run. There are many things that we have to do structurally and we are focused on that and putting all the time in energy and dedication there. But the most important message is that we are not going

to do this irrationally only because it sounds beautiful. We are going to do this if it makes sense in the long run and provided it generates value for our shareholders.

Q - Luiz Guanais

Very clear. Thank you very much.

Operator

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

Q - Ravi Jain {BIO 16135293 <GO>}

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

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Thank you for the question. Half, Magalu-as-a-Service plays a role to digitize the seller. Turn the guy who would walk into this star into a digital guy. Sometimes we think about charging an amount for that, but the idea is not having a very relevant number in our P&L [ph]. We believe that the ability to monetize with our ecosystem as it FinTech is higher than the capacity to monetize with subscription-based SaaS.

So we think generating revenue is good to have a revenue stream in order to pay new investments, new developments. However, we don't want to be so profitable here, it's not our focus. The purpose is inclusion. I cannot charge that merge if I want to go digit. If you weren't to have high margins, we are not going to be inclusive, which is our goals. We want to enable more sellers to be in the echo system. So just a hundred thousand sell online, so we can bring more companies to the echo system. And Magalu as a Service, is going to charge revenue not just to give it for free, as people can value it but it's not going to be relevant to P&L. It's not our strategy.

Q - Ravi Jain {BIO 16135293 <GO>}

Thank you so much.

Operator

The next question comes from Daniela, XP Investments.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Good morning or good afternoon. Thank you for taking my question. I have two questions. The first question is about the recent change in the commercial policy being more aggressive vis-a-vis, what Maria does. So do you still have a more stringent policy of free shipping mostly related to the App?

FINAL

Bloomberg Transcript

But Fred said his very vocal that he would like to give free shipping for everyone provided it's feasible. So, do you consider revisiting your strategy vis-a-vis free shipping, considering competition. That's my first question. Second question still about competition, and a follow-up about international players, but with a different thinking process, there is an interest of Alibaba and Amazon in the country with more investments open DC's improved shipping system. So do you see this cross-border players, mainly Alibaba as a risk, and not only about cross-border, but their moves of getting into the local marketplace, choppy already has this initiative Alibaba, give some signs of interest to begin to work on this. And then they would focus on smaller sellers and maybe there could be an overlap with your long tail. So how do you see these moves? Thank you.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Good afternoon. Thank you for your question. I don't like to talk much of our competitors particularly in an earnings conference call. I have not much to consider. Maybe I would like to go back to my previous answer to Luiz. In the sense that we are rational, we only do a move if we believe it will be sustainable in the long run.

So we give free shipping in the App, because there is a logic behind, it wouldn't make sense in the desktop, because in a desktop the P&L is different. I depend more heavily on the media. So, we prefer to give benefits for customers, who tend to be more -- the recurrent in the app, in the app I don't realize so much on media.

So there is a rationale for LTV over CAC, in terms of our benefit decisions and that's very dynamic. It changes all the time. I can give you an answer today, and it will be different tomorrow. Everything or anything, I can promise is that we'll always keep an eye on sustainability and not just because it's beautiful or to increase in the 3P line. So if it makes sense to invest heavily within a rationale that provides long-term returns to shareholders would make sense. And it's not just short-term, something that makes sense of the long-term scenario. Then we would do it, otherwise we won't. It's as simple as that.

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

So that's my answer. With regards to competition, overall speaking, like I said before, today we are not in a FIFA or soccer video games fortnight, so dozens of competitors coming from many areas in the world Brazil, FinTech, work in a retail cross-border with local marketplace, our competition If you think about Amazon, we went public 10 years ago. Think about the major question in the IPO Amazon. And we're here today, we are leaders in 1P E-commerce, growing way above the market average with profitability. So I believe our track record is the greatest evidence. We respect all competitors were mostly focused on consumers, providing good level of service to them, and make it all happen with a lot of sustainability to shareholders.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

It's clear. Thank you.

Operator

The next question comes from Richard with Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon, everyone. My question is about Netshoes and Zattini. I think you mentioned in the release that results were stronger this quarter just like to understand the dynamics about growth and margin? And my second question about the same topic do you envisage any need, perhaps to leverage the purchase experience. As we have more specialist in the fashion, and in other areas to. Thank you.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

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

Q - Richard Cathcart {BIO 16457807 <GO>}

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

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

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

A - Eduardo Galanternick {BIO 20410320 <GO>}

Hi Richard. Thank you for the question. I guess the first part of the answer has to do with the dynamics or results of Zattini and Netshoes, ever since the acquisition of the company, we've had two early goals. Firstly to resume growth and second have a balance account. Allowing you to be profitable, like Fred said, all our goal, lies in trying to reach higher growth levels in a sustainable manner.

So firstly we have to balance so that later we can speed up and managed to do both in the Netshoes Group. We managed to maintain levels of growth, come to a balance and have a dynamics including expense efficiency via integration and also improving our operations as it expected, and we still have a couple of things to do in the future, it's not over yet, we still have to work hard this year to capture all the benefits.

And certainly, this will be converted into further growth. If you think about the same categories within Magalu, in our structure Richard, the teams in charge for sports beauty and the app [ph] in all channels. So when we assess the categories in Magalu, we see them as highlights percentage-wise with a greatest rates in the business, naturally with

FINAL

lower sizes compared to other core categories, but in a very positive trend. What you refer to experience, once again I think we have two challenges I had. Firstly one in the platforms Netshoes and Zattini, they want to keep on evolving, and they already have a very good level, but they really want to make headway. And in Magalu, we also have to make progress. So we can really grab a larger share of growth and relevance in the category. It's important to make that clear, these teams are focused on the category multi [ph] discipline, so they have marketing, commercial planning and when it comes to products, that make a difference, they also have dedicated teams to work in the platform's of the brands, but specially in Magalu. So that's an overview and then Silvia and maybe other colleagues could add something to my answer. Feel free do that.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Silvia, go ahead, go ahead Silvia.

A - Silvia Machado

I would like to add something about the experience mentioned by Richard, you talked about specialists and experts. Like Eduardo said, we understand that -- yes, it is extremely necessary. There is an opportunity to improve experience inside Magalu, one of the major goals of the restructuring and to create this vertical was precisely to benefit from the audience, the big audience in Magalu. And just as a highlight in this vertical, we've been having very positive results in terms of conversion in these categories.

So, we've been working on improvements to the experience. In terms of navigation or bringing more content to the product page, several improvements related to the categories, but very positive results with a conversion of the categories, as Eduardo said before, and that's inside Magalu.

Q - Richard Cathcart {BIO 16457807 <GO>}

Great, thank you for the answers. for the answers.

Operator

The next question comes from Gabriela form BlackRock.

Q - Gabriela Montoya

My question has to do with an amount of cash. Net of receivables, there is a debt, I understand this quarter, what it comes to work in capital is not favorable. Whatever -- what about, however, what about growth in the future and acquisition of companies that have been successful over the last month? So how do you see this level of debt that you have right now?

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

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

Bloomberg Transcript

FINAL

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Hello Gabriella. Good afternoon. Thank you for your question. Our net cash position is over BRL4 billion. So we are in a very comfortable position as for receivables. This is cash or nearly cash. We'll have a lot of liquidity. We can turn receivables into cash very fast, if you want to do that. And we're generating a lot of cash as well in 12 months, we generated nearly BRL3 billion cash.

So we are accelerating investments. We also have a very healthy and sustainable growth plan generating cash, improving, well our working capital profile is also very positive, which allows us to generate further cash. So when our cash position is the best in our history. Since our last follow on, when we had BRL4 billion, now we are net [ph] cash. And we are in one of the best times of growth with profits, cash generation -- and BRL6 billion is our cash plus receivable. So when it comes to capital structure, we are very well-prepared for the current moment at also concern, during our trend for growth and investment to keep on growing way above the market and being profitable and generating cash as well.

Q - Gabriela Montoya

Just another question. Considering receivables as cash -- shouldn't we consider this as payment with that.

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Gabriella our current position involves inventories, and suppliers and that's healthy. Usually, the inventory turnover is faster than the average purchase time, allowing us to grow generating cash from this dynamic. As for receivables, basically, the purpose is to finance our clients. Accounts payable basically are backed by inventory and receivables are here to fund our clients. And because we sell a lot in instalments, and we also have Luiza credited to finance our customers. We have two types of receivables one from Luiza Card which can be a discount with Luiza Credit anytime and receivables from third-party cards, which can also be discounted anytime with the acquiring, party or with banks.

That's a very liquid, very low risk asset. And considering our performance, they are performed revenues that are even desired by the market. So we can discount these receivables, we can add them to cash, and keep on paying suppliers with the sales cycle and inventory turnover normally. We don't need to discount more receivables to pay suppliers, we don't have this need, I don't know, if my answer was clear.

Q - Gabriela Montoya

No, it's perfect. Crystal, clear. Thank you.

Operator

Thank you. The next question comes from Fernando [ph]with Morgan Stanley.

Q - Analyst

Bloomberg Transcript

FINAL

Good afternoon, everyone. Thank you for taking my question. Could you tell us more about content and advertising? You have three content acquisition started with Canaltech and then you have Jovem Nerd. So could you tell us more about the integration?

How are these channels generating traffic to Magalu and other brands like Netshoes, and Zattini. Do you think you can relate traffic to the source? Could you tell us more about the results. And if you think about advertising in market plays Magalu App. Could you give us an update about what's happening or maybe give us some color? All the profile -- the sellers, which higher the service, are they large or small in terms of category, anything would be very useful for me to know? Thank you.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Fernando, Good afternoon. Thank you for your question. The acquisition of these content channels have multiple goals. I'll mention three. One of them is sell -- selling. I firmly believe in what we know as content commerce .

In the digital world, you don't have assisted sale. However, it's very important when the customer is considering to buy, it's very important to have qualified accountant to support the decision making process. So it's already very significant source of revenue for big US players, content commerce. And the business model to is like an affiliate. So you post a review on the product or you make comments on a launch and this contact generates interest and then you'll click on it and you'll go to the APP or the desktop to buy.

So you move from Canaltech get into Magalu, and then we track journey and when we sell, we can check it was generated for instance by Canaltech. And a positive aspect is that we don't rely that much on paid media. I pay to myself, to my echo system --at the end of the day, we generate something like old media. So all these channels Canaltech for IT products, steal the look for fashion and beauty products, and even decoration and driving to -- all products in this super niche of the Nerds.

It will have this profile of content commerce to. The second line is content. We want to bring this content into the SuperApp. So we are creating, designing an architecture. So consumers can grow into this SuperApp, not only to buy products, but also to use content, generating more frequency and more use of the SuperApp. So the idea is to work on this content. They bring from outside, it is very specific for Canaltech, we have a goal to generate sales, it's not closed, but it's way above the average.

They're covering what was expected in the business plan in the variable component. And I'm confident that steal the look and Jovem Nerd will be on the same wave and thirdly, we going to launch our platform -- our ad network. And we are designing it based on the codes [ph] and the team that we acquired from in local media.

Today basically we have big customers, big clients and assisted sales support. It's not scalable but already monetizing part of our audience and the idea with at network, you have a service for small and mid-sized players to work on ads without necessarily having to need a support or service making it more scalable, and we expect to launch this

Bloomberg Transcript

platform, we're going to have pilot studies in the second quarter, but actually wrote it out from the third quarter onwards.

Q - Analyst

Perfect, thank you very much.

Operator

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

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

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

Operator

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

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.

FINAL

Bloomberg Transcript