

Y 2019 Earnings Call

Company Participants

- Eduardo Galanternick, Executive Director of E-commerce
- Frederico Trajano Inacio, Chief Executive Officer
- Marcelo Jose Ferreira e Silva, Vice Chairman
- Roberto Bellissimo Rodrigues, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Eugenia Cavalheiro, Analyst
- Irma Sgarz, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, welcome to Magazine Luiza's Conference Call referring to the results of the fourth quarter of 2019. (Operator Instructions)

Now I would like to give the floor to Mr. Frederico Trajano, CEO of Magazine Luiza. Mr. Trajano, you may proceed.

Frederico Trajano Inacio {BIO 17269235 <GO>}

Good morning, everyone. Thank you very much for participating in our call about the last quarter of 2019, and also the full year of 2019. I'm here with the whole Executive Committee as usual in order to present the results and the major highlights for the year.

Once again, reinforcing the strategic cycle of Magazine Luiza, we digitalized Magalu, and we want to digitalize the full Brazil. Starting with the Brazilian retail, this is a year of a lot of evolution in this context, and I will be making a presentation with the highlights of our strategic pillars and all the strategic-level initiatives that we had in 2019. And then I will give the floor to Roberto Bellissimo to talk about -- specifically about the financial results of the last quarter of 2019.

So let's turn to Slide number two, the incredible amount of initiatives that we had in 2019, one year in one slide, in order to present everything that we have done and that we have achieved this year. Starting in January, rollouting the shipment from store. In February, we had the pile for the cross-docking for the Marketplace, and we will be talking about it later

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on. Magalu as a service specifically, Magalu Entregas, in the cross-docking model. And we made a relevant acquisition. We bought a boutique consultancy company, (inaudible). And today, we have a team of dozens of people working in sophisticated algorithms for different things such as antifraud and -- both for Netshoes and Magalu. And this is the team that has been growing the most here in the company, such as the labs team at the Marketplace in April. We started the books category, we acquired a mini-software company or a development agency focused on apps and totally integrated to our Superapp labs team, and this helped us to develop the numbers of team.

We launched the Maga Mais, our virtual operator of telephony, and we are going to talk later on. Then in May, we reached 100 stores with Logbee. And we started a couple of years ago, less than two years ago when already with a very big weight in our -- to deliver our product of lower ticket. And this expansion has been exponential with a very good result. In June, we had the acquisition of Netshoes, and we are going to talk about that. And Marcelo is here if you wish to ask questions about Netshoes. And we inaugurated the two stores and the laboratory that we mentioned with Carrefour, one of the partnerships besides Marisa that we signed last year.

And one month after we announced the acquisition of Netshoes, we have the world of Superapp (Technical Difficulty) important milestone. Then in August and September, in Para, a major event, a B2B event with Magalu and another product with Magalu as a service with the management of small retailers and bringing them onboard in our system and very interesting management of small and medium retailers. The pilot with Retira Loja or store pickup in October, with 20 stores of Netshoes rollouting -- rolling out. And by the end of the year, all the stores of Magalu should be offering the store pickup service and we can go into details.

Then we launched Magalu Solucoes system for the installation of products such as air-conditioning and TVs, et cetera, and supplementing the offer of our more traditional categories besides the services that generate profitability to the company.

In November, we had the follow-on with BRL4.5 billion being raised, together with a very strong cash generation in the last quarter, led us to have an extremely sound balance sheet situation in order to continue our strategic development and automation of the Louveira DC and the Black of Blacks in the last quarter of the year, with a very good level of services and practically all the deliveries in up to five days in the greater Sao Paulo and other cities in Brazil. A very major investment, and we will continue to do this, with the two thesis of Netshoes are fully automated already, and we intend to roll this out, increasing the capacity of shipment and increasing efficiency. And in December, we opened the first kiosks of our partnership with Marisa. It was a year full of achievements, full of highlights and very much in line with our strategic drivers.

And as you can see on the next page, which is the exponential growth in 3P, Superapp and MaaS, as you can see new categories, faster deliveries with concrete deliveries, in practically all the fronts. But undoubtedly, now going to Slide number 4, the major focus of Magalu in 2019 was growth. I recommend you to read the message from the Executive Committee because we had more time to position our strategy and explain our focus. But

undoubtedly, we want to digitalize Brazil, starting with the Brazilian retail and then gaining scale at -- with another dimension, Chinese dimension or Chinese growth rate.

And talking about the Chinese level, and in the platform -- the digital platform, we explained this very well during the message from the Executive Committee with a multi-category digital system and also managing the value chain of others besides our own. So this is not a plan without a scale. The most important component to be a dominant digital player is to have the effect of the scale. And for a long time, we have worked to be the best and now we are working to be the biggest in most of the categories in which we operate. So we've radicalized our growth. We do not mean that we grew little in the previous years. But this year, in the last two quarters mainly, we saw a fantastic growth with a very high comparison base, much higher than the one that we had in the past. So in terms of total sales, we grew 51%. This is a rate that is more achievable for companies that are less than half the size of Magazine Luiza. And with a very high growth of -- the growth of Marketplace since the first quarter, 216%, vis-a-vis the previous year.

And I'd like to talk about Marketplace, because it reached 43 years to reach BRL1 billion in physical stores. And ended the third year here, we have already sold BRL3 billion in Marketplace. So this is a fantastic figure, and it is an exponential growth. It is real. But even in our physical stores, and I would like to highlight these physical stores because the target to grow -- or the growth that we had vis-a-vis the previous quarter was extraordinary, 26% growth in our physical stores; 13% double-digit growth with a very big market, a very heated-up market. And we grew 26% in total, 13% same-store sales -- and by itself is already a fantastic figure, but the delta from 13% to 26%, that means that the stores that we have been opening in the two few years have been extremely important for our bottom line.

We have been very fortunate in the opening of new stores, reaching a very good scale and the maturation of sales that is extremely good and a very fast one from the viewpoint of (inaudible). These were extraordinary figures, and this figure was reached with a very small trade-off of profitability vis-a-vis the remainder of the market. So we had a trade-off in profitability that we will be getting into details. In this quarter, margin percentage was a little bit lower, we absorbed Netshoes and -- with a breakeven and we invested more in service level, more people, more deliveries, more people in our call center, our NPS. But most of it was to improve the level of service for our clients. And if you look at the market, companies that grow much less than we grow have been going from very high margins to losses or a very high cash burn.

Now this was not our case. We didn't have any cash burn. And in the last quarter, we had BRL1.5 billion cash generation, not to mention the proceeds of the follow-on. So higher than the market growth with a much lower trade-off, and this is our big secret, we want to continue to achieve this growth, and Berto will be talking about that. But I consider that this is highly acceptable, that is to say what we have been doing in terms of investment, both CapEx and OpEx, in order to reach a level of growth. And we reached about 25 million, 46% vis-a-vis last year.

At the end of the year, 1,100 stores, 15,000 sellers at the base, over 3 million in offers. And there will be a relevant contribution from the Company that we announced, the Estante

Virtual, which means Virtual Bookshelf, which will be adding an additional 8 million -- 18 million. And small book sellers that will be participating, we will have over 20,000 sellers.

On the next slide, we talk about new categories, starting with the focus of Magalu, we reached the leadership. We have been -- we already close to the leadership in most of our traditional operations. We have a sound and profitable operation. And now with significant scale, and now we are going to focus a lot as of this year on the potential of these acquisitions that we have already announced and these new categories, led with the growth of e-commerce from now on. This is not going to come from the electronic, because it will not come from appliances and electronics. We already have a level that is similar to other countries. It's continued to grow, but most of the growth comes from new categories.

Fashion and beauty are two categories where we have a very strong base with the acquisitions that we made with Netshoes and Zattini, and we are talking about BRL50 billion in opportunity in order to reach the participation of e-commerce in these categories, the same as abroad, and bring this to our domestic market, so that the company may help Brazil to penetrate -- to increase penetration of e-commerce overall.

I have already talked about categories. And now let's talk about Netshoes and Estante Virtual. Netshoes, we have a focus on the integration of the logistics chain. Only (inaudible) are in the Retira Loja or store pickup, with a small participation in the sales of Netshoes. And we believe that when we integrate logistics, we are going to increase conversion of the product and mainly reduce the Netshoes operating cost. Our goal to Netshoes for the Company to operate with profitability. And in order to reach that, we must conclude the integration of back office but mainly logistics. And from the viewpoint of back office, we have to use Magalu's scale, BRL27 billion level, and share this scale with Netshoes. This is not something trivial.

There are many investments to be made and a lot of work to be done by the both teams, Netshoes and Magalu. And we will be focusing on that, and we believe that this is going to be very positive for top line and bottom line, but this will be a year of investment, a lot of endeavors in terms of integration, et cetera, so that we may reach this goal. And the same will be done for Estante Virtual. This is a business of BRL120 million GMV in 2019. And we have to make our integration endeavors and the catalog of dozens of millions of books, et cetera.

Now let's turn to the Superapp. We continue to be very successful in the Superapp. 56% of mobile sales are through -- of Magalu e-commerce comes from mobile sales. We were the first company, a large company to invest with this magnitude. And we have a MAU, a very high MAU installed base of 26 million in December 2019, and we review the total downloads last year, but we prefer to talk about the MAU and the installed base of the app. So we are going to keep these two concepts for you in order to avoid any confusion in the market. And also with Netshoes and Zattini and the Estante Virtual and having a one-stop shop, every time the client wants to shop going to the app -- and we launched in February MagaluPay, and we will be talking about this in detail, and we are rolling this out to stores as we feel secure, confident to gain scale. And the concept of MagaluPay, as we said during the Investor Day, is very much focused on integration with Banco do Brasil. So

we are the first digital account with integration with a large bank and native and the API. There are many digital accounts in the market, but this one has the highest level of integration with a large bank. We want to do this with other banks, we do not want to be a bank.

And it is an embedded lab. This is not an additional app, you do not have to download an additional app. In order to activate your account, you only need a name and a token for the 20 million in our installed base. So you have a much lower acquisition cost for the onboarding process. And another integration is with the stores of Magalu, both the physical and online stores. So you can make a deposit, a cash-in, you can pay your purchase in the physical store via the -- with the mobile vendors through the app. And the design is better. In order to scale the level of investment, a reasonable level of investment, but as it already start to integrated with the Superapp and with Banco do Brasil and with Magalu, the level of investment that we need is much lower than doing this all by yourself. So it's already within the context of a platform ever since its inception, and you can see this in our annual letter, faster delivery.

We already have 66% of our order delivered in up to 48 hours, 50% promised in up to 48 hours. We are raising the bar of logistics in Brazil. 40% of the orders are in-store pickup. This is very popular, and I am sure that this will help us a lot, as we roll this out. And we have 200 plus -- 200 stores which ship from store. This is one of the objectives for this year, to roll this out as well. In terms of logistics, we want -- well, today, we only have 350 [ph] sellers of the 10,000 in the context of Magalu Entregas cross-docking. And we are going to roll this out for most of the sellers. We already have 75% of them in the modality of Magalu Entregas, but we want to go to the second phase with the model of Magalu Entregas using cross-docking, and this is one of the major focuses for this year. That is to say, to roll this out, to roll out this service such as another service of Magalu as a service, of Magalu Pagamentos, we have already rolled this out for -- we depended on a partner in the past that was shown in order to do this prepayment of receivables. And now we do this ourselves in Magalu Pagamentos. We have an additional monetization of our GMV therefore and with an interesting margin.

And the cost for the seller is lower if he has this prepayment. And another important benefit in the context of guaranteeing the control of the payment flow is the way that we have to control the level of service from the sellers and authorize this prepayment. And Magalu Pagamentos has many advantages for Magalu and for the sellers. And in order to end my presentation and give the floor to Berto, I would like to say that we had Chinese growth, 68%. Undoubtedly, it's one of the highest NPS in Brazil and in the world. We are the only one having the RA1000. And our competitors separate 1P from 3P, and we put them together because we have a commitment for 3P, a formal commitment as formal as with our 1P.

And our service with a call center, 90% of the calls are solved in the first call and less than two minutes wait time. And we continue to be the most formal of all platforms. We are not a digital informal sales place. We want to comply with all the rules in Brazil, and we intend to help all the regulations, we want to help the government. And this is not very much discussed in the market, but this discussion will continue because there is so much tax evasion in Brazil, that Marketplace is going to help the government, and all the sellers will

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have to pay their taxes. We are not going to accept anybody that does not. So this is in an inexorable path. So if you have to pay taxes, you have to pay them. So you have to issue the invoice and collect all the taxes. If you sell, you must issue the invoice. In the 70s, this was not the rule in Brazil, but there were so many developments in the tax system of Brazil that it's getting better. And in order to finalize, we have our ecosystem here, shown here on this slide how all these pieces are connected among themselves.

Our focus is not one of them. Our focus is the connection between and among all them with a digital model. The beauty of the model is to make these companies perform a function for the system, and it has to be excellent globally and locally. All the acquisitions that we make have a role. They have -- they make sense in terms of our ecosystem. They have to perform a function for the whole ecosystem. So this is what we have put here on this slide. And following this plan, and only a handful of companies in the whole world have been able to do this, and we are the first company in Brazil that -- to reach this status.

Now, I would like to give the floor to Roberto.

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Good morning, everyone. Thank you very much for being with us in this call.

I will bring to you a few figures on Page 13, we have a few highlights, a huge growth. Our total sales were BRL9 billion, a growth of 51%, our highest growth since our IPO. Now talking about gross profit in the quarter, our gross margin increased 0.5 percentage point, basically, thanks because of Netshoes contributions, new categories, and Netshoes works with a gross margin that is much higher than Magalu had before Netshoes; and also thanks to Marketplace, which in the quarter has already moved over BRL1 million, and that contributes to our gross profit. About operating expenses, we highlight expenses with sales have increased and in line with what we are -- have been mentioning for a while, investments in service levels and customer acquisition and also thanks to Netshoes figures consolidation. But we should also say that as a percentage of total sales, the GMV expenses were stable in a very low level, around 16% only.

About the EBITDA, we reached almost BRL400 million in EBITDA, a margin of 6.2%, growing vis-a-vis last year but with a lower margin. But then we have brought down our financial expenses. We have a net profit of BRL185 million, basically stable vis-a-vis last year with a margin of almost 3%. And operating cash generation was one of the main highlights in the quarter. We reached, just in this quarter, BRL1.7 billion. The ROIC was around 24%. Once again, we were able to reach a high growth, high return and high cash generation. And our net cash position is up BRL6.3 billion and total cash -- net cash position, BRL7.1 billion, a very sound position.

On the next page, we have the results for the year, but the trend is exactly the same. I just should highlight that we reached a global EBITDA of BRL1.3 billion and a net income of BRL550 million. The net profit that was published with the IFRS and all non-recurring facts of the year was BRL922 million. And the cash flow of the year as a whole, BRL1.5 billion and ROIC over 25% in the year. And then which I cover, users evolution for the app. That's

very high, our active customer base, we gained 8 million customers, active ones in the year, including the customers that we gained with Netshoes. Significant figures, I should say.

So on Page 16, we have the number of stores, the total number, we opened over 150 stores organically this year, basically half of them in the last quarter, which has contributed to total sales in physical stores, and including here the five kiosks of Marisa, that are already increasing the number this year. We should have over 30 kiosks in Marisa stores. So, the expansion is there, and we invested as a whole over BRL500 million, in line to what we have been planning, over 40% in total investments as well.

After that, we show our quarterly progress of sales, reaching BRL27 billion. In the Marketplace, it reached BRL3 billion in the first year, gaining market share. The furniture and home appliances and electronics market has increased 6% to 7% in the year, and the e-commerce, 16%, so we've grown several times in the market. Then we have our gross profit performance. In the year, we maintained the margin stable.

Operating expenses, I already mentioned, though the expenses that increased were the ones related to sales. And naturally, that has to do with e-commerce, Marketplace, Netshoes and all logistics investments. Also, the acquisitions and SG&A are stable, though, and in the quarter they have been diluted. Now in equity income line, we have already seen an improvement in the results of Luizacred. That profit is growing again, even with the accelerated growth of the client base and multi cards. And the portfolio as a whole, Luizacred had a very positive result higher than the prior year with a low delinquency rate.

Then we have our EBITDA performance. EBITDA has increased 13% in the quarter, reaching BRL1.3 billion. And the variations, when we compare that to last year, we went from 7.6% to 6.2%, basically because of investments in expenses to improve our strategy. And with the effect of the IFRS, our EBITDA margin already is at 7.8%.

Now our financial results. In this quarter, there was a dilution of 0.3 percentage points already reflecting the follow-on funds, the cash generation in the quarter and also the drop in the CDI rate. This is a trend and -- to drop the financial expenses. For working capital, once again, we were able to generate over BRL500 million in cash. Starting from the working capital, we have the inventory turnover at 175 days more or less and the average term for purchasing that gave us around 20 days free in terms of our working capital cycle, including night shifts as well. And also, it had an improvement in its performance.

And with all that, we have increased our cash -- net cash position in over BRL4 billion, going from BRL2.2 billion to BRL6.3 billion almost. That increase in our net cash has to do with the funds coming from the follow-on. And that means the operating cash generation of the company, which is on the next slide is of BRL1.5 billion, was enough to cover for all investments, over BRL500 million investments. The acquisition of Netshoes, the payment of Netshoes, debts, dividends and everything else. So even if we had not done a follow-

on, we would have a net cash position over BRL2 billion in the year where we had a high level of investments.

And fortunately now, we have an even better capital structure. Then we have our net income performance, which was very consistent all over the year, reaching BRL550 million in the year as a whole. A lower margin, but a figure that is nominally very similar, thanks to an accelerated growth we were able to reach.

Now talking about Luizacred on the next page, we have increased our card base once again in 1 million cards. 90% of them are active, reaching 5.2 million customers in Luiza Card. And as you know, these are our loyal customers. They are very important for our strategy. They have a higher take rate, higher frequency of purchases. And the revenue in the quarter was highlighted, it has increased 30%, reaching BRL8 billion in the year as a whole. Luizacred also -- has sold BRL27 billion, most of that out of Magalu, fostering the activation of our cards. Our portfolio reached BRL8.5 billion, one of the largest credit card portfolios in Brazil.

And on the next slide, we have some indicators for Luizacred. Luizacred, the overdue payments in the last quarter, we see an improvement. It goes from 8.8% to 8.2% and in the shorter overdue rate, we reached an all-time low, 2.4%. So even for new customers, Luizacred has had a better performance in terms of delinquency. Therefore, our net income is growing again with a good trend.

And to conclude, on Slide 24, we stress that in the last two years, we have invested a lot, and we have let go 2 percentage points of EBITDA margin to favor growth, service level to our clients as well. And this has generated a lot of value to the company, for both the company, shareholders and customers. And we'll keep on following this trend. We have here four major investment areas in which we'll be focusing, accelerating investments. I should highlight the integration with Netshoes in this year. It will be much closer to Magalu in terms of logistics, back office and everything else. So it's very important for our strategy.

We'll continue investing a lot in Luiza Card and digital accounts and the digital account that we are rolling out now. And logistics efficiency, we'll be delivering faster and faster. We'll be opening new DCs, going into new regions and increasing the frequency of supply stores that also allow us to have faster delivery to end users. And also, significant investments in the apps, we are expanding the size of labs. That's also one of the reasons why we raised more funds, so that we could finance several initiatives for Magalu as a service.

And so, now we turn to the right side of the slide, the logistics integration, which will allow benefits for Netshoes, the quicker deliveries. Also an increased purchase frequency of our loyal customers for digital accounts and for Luiza Card, also reduce the delivery time. And also, we will be fostering our ecosystem with Magalu Pagamentos and all initiatives related to Magalu as a service.

I think now we end our presentation and we'll be available to take your questions.

Questions And Answers

Operator

Ladies and gentlemen, we'll now start the Q&A session. (Operator Instructions) Our first question is from Thiago Macruz, Itau BBA.

Q - Unidentified Participant

Good morning everyone. This is Emerson actually. Very well, I have two questions. The first one is, I want to understand the origin of the strong growth of same-store sales in physical stores. Can you share with us if the driver was more recurrent or new customers or maybe a higher conversion of your omnichannel customer going to the store? And second question, I would like to understand more about the gross margin. I know it was stronger. This was because of a better alignment with suppliers or you have a mix effect because of Netshoes? Thank you.

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

Good morning, and thank you for your questions, Emerson. Yes, in fact, we did have an amazing quarter. And physical stores, new stores, we already mentioned, the total growth, 13% same-store sales. We didn't talk much about it in December, but we did have an extraordinary Black Friday. We were waiting for the call to bring you the -- those figures so that we could celebrate that Black Friday. This was the Black Fridays of Black Fridays. This was an action that was special. We had a live program and multi-show. We had shows, and we had all categories in Magalu. So very similar to what they have in China, they do have a pre-Black show. So that was a huge impact for e-commerce, there was growth, but there is an amazing impact for brick-and-mortar stores as well. It was an extraordinary, all time-high Black, everything ran very well in terms of the systems and the store.

We have our checkouts by the mobile sales, our mobile checkout that decreases the line or the length of the line during the day. So in December, usually, we have a hangover coming from the Black Friday. But the last 10 days of December, a little bit before Christmas and after Christmas, we also had a strong promotional action, which helped us in a wonderful quarter. So we grew in all categories. So basically we can't go into the details. We gained a lot of share in the brick-and-mortar stores in this quarter. So basically, in all categories, we had the highest share in the year in these last two months, November and December, especially.

A - Unidentified Speaker

Yes, I think we had a very good quarter. Sort of in terms of promotions, we hit our highest share in history in the physical stores, over 3 percentage points in share in the quarter. We have grown two digits in all categories, two digit -- high two digits. So this was a very good quarter, yes. Like Fred said, November was great, and December was excellent and despite having a very strong Black Friday. Gross margin, Berto?

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

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Good morning. About gross margin, yes, the increase that you see in the consolidated is very much related to Netshoes, that works with a gross margin of around 40%. If we remove Netshoes, gross margin is stable, a little bit lower than what we had last year. And in this figure, Marketplace has contributed a lot, over BRL1 million in sales in the quarter. So if we do not consider Marketplace, then we will have what we said here. This is a quarter where we have Black Friday and it has always had and everything. So everything was very much within what was planned and executed, both related to items, Marketplace growth and the consolidation of new categories.

And one important thing is that when we talk about margin -- investment in margin, it's really investment and even with 50% discount, cash back of 30%, that's very easy to do. So we have seen an aggressive competition in terms of pricing and Magalu never liked this game. We rather be aggressive in other types of investments, to have quick delivery, on-time delivery, to grow in the app. So, we rather have investments that are more sustainable in the long term, so that investment in margin is much more in level of service for customers than in subsidizing prices.

I see some situations, so they were sellers are selling products and when they say the price in the Marketplace, they get scared because they think they are not going to get any money because it is 50% of the amount that he would price. So, that type of subsidy, we are not doing. That's not our practice. We look for growth, a rational growth. But it -- so we do have growth, but it is in expenses and our EBITDA. Of course, that if we need it, we'll do it. Our focus is to have scale. We might do it in the future, of course, but whenever we can, we want to do these investments in a sustainable fashion and not selling below the cost price or below the amount that the seller has to sell. That doesn't make any sense.

Q - Unidentified Participant

That's great, everyone. Thank you.

Operator

Our next question is from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. Thank you for taking my questions. I have two of them. First, I would like to understand and to know more information about an update on Netshoes. If you can tell us the growth that you see there, what is the market trend? I know you had some movements on the suppliers, and Nike in Brazil was acquired by Centauro. And if you can comment on how the integration is going, regarding Nike's products in Magalu's app.

And my second question is about fulfillment in Magalu's network. You mentioned that you already have some sellers in the cross-docking. If you can give us a little bit more color, how do you see that for the next 12 months or 24 months in order to ramp it up, both in cross-docking as also on the fulfillment? I would like to know if you have that structure to bring in the seller under Magalu's structure to have the inventory in the DCs. Thank you.

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

Good morning, Irma and thank you very much for your question. I will start the answer, and then I'll turn the floor to Marcelo and Edu to add to my answer.

Well first, as we could see, Netshoes is doing very well. We were able to balance out the operations even before the integration that was going to happen this year. So, we are very close to the breakeven in EBITDA. This is a fantastic figure, we're able to do that with the team that we have there, a little bit of funds and a lot of work and you also have seen the sales growth and the behavior of e-commerce in the third and fourth quarter. We did not disclose much details in the third quarter, but the figures are very similar both for Magalu and (inaudible), January started strong. Marcelo will give you more color on it because in fact, this is a planning after the acquisition.

So I mentioned in the last call that we have a period of time to plan for purchases. Now we are working at normalized inventory levels. And then before I turn to Marcelo, Netshoes' focus -- and Magalu is going to go into several product categories. Estante Virtual, we acquired Estante Virtual, Epoca Cosméticos. And here, Netshoes has a sporting goods, but also, it has a huge category, very important one, which is Zattini. It's a fashion category, BRL140 billion market, still the largest market, it's still Zattini's market, it has a lot to grow. But I think all acquisitions are in the ecosystem concept, to look at the global. We are not going to be a category filler, in all the verticals we go into. Our focus in the ecosystem, the whole, not the part in itself. So within this whole, some specific movement of -- or any competitor in different category is not that relevant.

If you look at Nike in Magalu, it's 2% of our GMV. So it is important for Netshoes, but it's 2% for Magalu. So it doesn't have that huge of an impact. But I will go into the details because financials, that's important, and then Edu can tell you more about the integration.

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Okay. Thank you, Irma, for your question. I can tell you that when we were in Mexico and Argentina, we from Netshoes studied this model. That's where you have other partners managing Nike's inventory. But on the other hand, Nike will continue controlling segmentation and distribution. So the strategy for all Latin America is going to be held by Nike. And you know we are online and Nike, of course, is a relevant customer. So we now believe that, in order for Nike to remain competitive and remain as a leader here in the market, and the consumer is not suffering any changes -- going through any changes, very important that the rules are clear, and we are working on that, with Nike right now.

There are no signs that anything is going to change for Netshoes. On the contrary, right now, we are dividing forces and dividing that with Centauro. With Nike, we'll be able to grow more and Netshoes is already working on that with the other brand, and we will be working on a model that Fred mentioned of globalization and working on the strategic drivers for Magalu. That's what we are working on right now. Some data have been provided to you in this call. Inventory levels are normalized. We are able to improve that inventory management, generation in cash.

In the last quarter, it was a strong Black Friday, a very good campaign for Netshoes. And now we are working with doing an integration in the system so that we can -- we improve logistics and at the same time for that Magalu quickly can also sell fashion apparel and sporting goods and now app as well. All brands are in it. You asked about Nike. Nike, we are talking to them. So very soon, we'll have news for you.

Now I'll turn to Edu, and he will give you more details on the integration.

A - Eduardo Galanternick {BIO 20410320 <GO>}

Hello. This is Eduardo speaking. In the past, integration concentrated on what was possible to be done in terms of businesses without any type of developments. And we were able to have margin gains in -- so last year in terms of negotiation power with some partners, so that we could have that Black of Blacks, we have sponsorships and a referral sponsorship for Facebook airing. So also, we have the creation of the mundos or worlds that help the category growth as a whole.

Now in terms of logistics, we are already using Magalu's logistics network to cater to Netshoes last year. And also, we have 20 stores in Sao Paulo that received Netshoes products and you can have an in-store pickup. And also, both (inaudible) delivering financials and also an in-store pickup have shown us the impact of that and how important it is to roll it out. Now in 2020, we'll be doing it.

So now turning to this year, to 2020, the priority -- the main priority is to use the logistics network for Magazine Luiza in Netshoes. We will have conversion gain, therefore lower prices and higher sales. And in addition to that, we have the business integration. We have 33 areas that have been mapped for potential management integration, and 21 of them, we have already delivered it. Even though the system is not integrated yet, the management is integrated, and we have detailed plans to execute it all throughout this year. So, what we expect over the year is to have joint efforts and also to allow that good environment for Netshoes to grow. So that -- and in the last half of last year, we already had the growth higher than the average of the online market. This year, we want to grow even more but without losing sight that we want that financial balance. And we believe that we will be able to get it.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you very much.

Operator

Next question is from Eugenia Cavalheiro, J.P. Morgan.

Q - Eugenia Cavalheiro {BIO 20781536 <GO>}

Good morning, Fred and Berto. I have two questions if you allow me. The first is about Magalu Pagamentos. Can you tell us how the rollout of this initiative is, if you have any challenges, any friction points, if it is in line with your initial expectations?

And second question is about the expansion plan for physical stores now in 2020. Do you have a figure in mind to -- in terms of store openings? And also, you can give us a breakdown, the type of stores, traditional stores, if you have kiosks and MRAs and also the geographic distribution of these openings. Anything that you can tell us about openings in 2020, that would be great. Thank you.

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

Good morning, Eugenia and thank you. About Magalu Pagamentos, we started the rollout in January and should end it in March. So everything is moving smoothly as we have predicted with no major differences in terms of the expected results, the results that we have shared with you. And starting in April, basically all sellers will be in the new platform, with all the results that we were expecting to have in terms of prepayment volume or prepayment rate and results.

Magalu Pagamentos is a new company that we have created in the sub-acquiring area and that already has a significant volume because our Marketplace is growing a lot, and it has significant volumes. So we are very happy about the rollout of this new service for sellers. And over the year, we'll be sharing the results with you. By the end of March, we should conclude that rollout.

Now stressing what Berto said, I celebrate not only that. Well, considering this is a very affordable rate for salaries, it's a no-brainer, so we have no problem rolling out that. We'll reach that volume, and that's not going to be a problem. But I think that now everyone wants to play as banks. But when you're working with somebody else's money, that's a huge responsibility. And I think we are working on it, and one of our concerns really was to reconcile everything to have no flow problems, the sellers getting exactly what they had to receive. So all that reconciliation in the balance sheet and the managerial controls, everything is very well oiled. This product is starting in a very sound fashion. We took a little while to launch it. And when we launched it, it was already very stable. Therefore, I sleep well at night because in fact, when you are working with millions in terms of prepayment, you have to be very careful not to make any mistake in the process.

So this is another positive thing about this integrated sellers. Now we can't give you guidance about the stores, but the trend is that, we are doing in the past few years will be following the same flow. We should add the kiosks of Marisa by the middle of the year, 300 of them, and we should be opening stores, right?

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

Yes.

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

I think we're going to go into the federal district, right?

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

Yes. Magalu was in Rio for New Year's eve. So this is very emblematic, right?

Q - Eugenia Cavalheiro {BIO 20781536 <GO>}

So, that's it. I understood it very well. Thank you.

Operator

The Q&A session is closed. And now we would like to give the floor back to Mr. Frederico Trajano for the closing remarks. Mr. Trajano?

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

Well, we only had three questions today. Analysts are very, very busy with the IPOs in the market. Well, that's very good for Brazil, all of these offerings. Well, I would like to thank our team, over 30,000 associates and the net people and the acquirees. I would like to thank everybody for contributing to this result delivered in 2019. And we would like to thank our clients, our shareholders, our Board members, our partners, our suppliers, our vendors and we are very optimistic regarding the macro scenario of Brazil. But in the very short run, we have a few challenges.

We had a lot of rainfall in January, in February as well. And this is not quantifiable yet, but this impacted the dollar rate, and this makes our process a little bit more difficult. But in spite of all these situations, we still see the macro situation is very positive. And our focus continues to be gains of scale, not only GMV, but also growth in the KPIs and the frequency in shopping. And the focus now is even broader than the GMV because we have the annual purchasing frequency or shopping frequency, and also the categories that have a good potential for growth. And the trend is for us to continue to invest wisely, including margin, in order to reach the growth level that we want in the important and strategic KPIs, so that we may really become a digital platform with the network effects.

And we believe this will happen still within this year. And the lower margin vis-a-vis last year was not -- the previous year was not a surprise, but the trend will continue to happen in 2020. So it's important to stress this, at the end of this call. So thank you all very much, and have a very good afternoon.

Operator

Magazine Luiza's conference call has come to an end. We thank you very much for participating, and wish you all a very good day. Thank you.

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