

Q2 2020 Earnings Call

Company Participants

- Andre Fatala, Chief Technology Officer
- Eduardo Galanternick, Executive Director of E-commerce
- Fabricio Bittar Garcia, Commercial and Operations Vice President
- Frederico Trajano Inacio, Chief Executive Officer
- Marcio Kumruian, Chairman & Chief Executive Officer
- Roberto Bellissimo Rodrigues, Chief Financial and Investor Relations Officer

Other Participants

- Analyst
- Andrew Ruben
- Daniela Bretthauer
- Eugenia Tedde Cavalheiro
- Gabrielle Fazio
- Ravi Jain
- Richard Cathcart
- Robert Ford
- Thiago Bortoluci
- Thiago Macruz
- Victor Saragiotto

Presentation

Operator

Good morning, ladies and gentlemen, thank you for waiting. Welcome to Magalu's Conference Call about the Second Quarter of 2020 Earnings. We would like to inform you that this event is being recorded and simultaneously translated into English. And all participants will be in listen-only mode, during the company presentation. At the end of the presentation, we will hold a Q&A session. (Operator Instructions)

Now we would like to turn the floor over to Mr.Frederico Trajano, CEO of Magazine Luiza. Mr.Trajano, you may proceed.

Frederico Trajano Inacio {BIO 17269235 <GO>}

Good morning, everybody. Thank you very much for participating in our earnings conference call about the second quarter of 2020. Undoubtedly, one of the most

challenging quarters not only for the CEO, but for the whole team of Magalu and any CEO during this quarter faced one of the biggest challenges ever in their professional life. So in this context, -- we did a wonderful job here. We did an extraordinary job in a difficult context. And with a lot of insecurity, I would like to remind you that we are talking about a quarter.

Well, you know that we executives have been through some dire straits. And -- but not at the same time as social crisis, the health crisis and the weight on our back was not only weight in terms of guaranteeing jobs, et cetera, but it was also guarantee the life of people. Because with -- because the threat to their health and to their life was very big. So this was an extremely challenging situation and this required a very intensive job and a very strong union among all our professionals and a lot of care with our team, our professionals. And today, I am very proud and very grateful to our team. And I would like to share with you some of what we have done here.

Let's go to Slide number 2. On Slide number 2, in a period of so much uncertainty, the decision making process becomes even more difficult because the natural decision making processes having all the information but with this unknown virus that could have a very big impact and with this -- all this uncertainty and this decision making process has nothing to do with the protocol that we follow for decision-making. And you have to have a north, you have to have a compass, you have to be able by means of these principles, be able to make a quick decision. If you have a lot of mud on the road, you cannot go too fast and you cannot go too slowly either. So you have to have the right pace, you have to make the correct decision in order to not to cause an accident. And our principles were health and safety. We do not waive this ever. And at the beginning when we made the decision of closing 100% of our stores right at the beginning of the pandemic and closing all our offices. We didn't take into account the economics, and the economic impact on April.

We only focused on what we thought would be best for our team and also for our clients. So we shut down our stores, so that when we opened them again, we would have all the protocols in place and all the safety protocols and health protocols in place. So this is an extremely important principle and we took this very seriously over the month and all the committees involved in that. And we can celebrate today. And unfortunately the pandemic is not under control in Brazil, but we have 35,000 people working for Magalu and we have no hospitalized employees. And we already have 91% of our stores open. And we of course, we are continuing to take all the necessary precautions, but we have all the protocols in place and our team is being very strict in terms of following them. And right at the beginning of the crisis, we took measures to preserve both cash and jobs. The company got into this pandemic with a very good amount of cash, as we said.

And we decided to say, well, we're not going to lay off anybody right at the beginning. But of course, we took decisions in terms of preserving cash and we carried out negotiations with direct and indirect suppliers. And we took many measures in order to preserve cash and jobs, and a very strong job done by our team. And here, I would like to talk about our concern with communities? Right at the beginning, I announced a donation and I will refer to this later on. But we were concerned not only with the company itself, but also with our clients, with the communities around us. And Magalu had to take

stronger measures because this was required, that is to say, the moment was extremely sensitive. And I see today that investors and employees. But mainly our clients are recognizing our brand exiting the pandemic as one of the best brands ever to deal with this pandemic.

So I'm very proud of everything that we have done and all the results obtained. And finally, the acceleration of our strategy which is something that we promise all the time and we have a new strategic objective was to digitize Brazil and the Brazilian retail, and this is what we did. We accelerated this.

And I'm going to go to Slide number 3 now. We did -- let's say 15 months in five. And in fact, what we did in such a short -- in short time, this makes us very proud, and I believe in the delivery capacity of this team, I have always done. But project that should be delivered in a few years' time were accelerated. And the detail, we reduced our salaries, 70%, 80%, 30%. And so we had a reduction in our compensation, so that we could -- I think everybody has done everything that they could do. Everybody made personal sacrifices. And in spite of all that, we extended, we integrated the debit card of Caixa's virtual debit card. And with all the protocols and the logistics people were heroes. They never stopped working to guarantee all these safety protocols and increase in salaries for the team that worked so much. And a partnership with national suppliership from store was accelerated and the store pickup, cash back, pre-qualified by the BNDES for the FIDC. So you can see in one page that you see here on this Slide, we have done so much in such a short time.

We knew that our sales would be lower, that is to say, the revenue would be lower. And this was the Magalu team, they are true heroes and they delivered all that, that you can see on this slide. I'm not a superlative guy, I don't usually, use superlative words, but I'm using these words now. And I think this is the way to illustrate what I think about our performance, GMV of BRL8.6 billion in the quarter, 49% higher year-on-year. And we only had 35% of our stores opened on average, none in April, a few in April, a few in May, a few in June. So 49% growth in total gross merchandise value is something really incredible. And this is something extraordinary.

We grew more with 65% of our stores closed than the pre-pandemic, and we accelerated growth. We have already grown in the first quarter and this figure is a feat that nobody can take away from us. We have to celebrate. We have to understand that something very significant has been done in a very short period of time. And doing this and generating cash all the same -- at the same time.

Cash is reality, cash is what it is. And we generated this cash because we grew a lot, we have a positive cash cycle in average term for suppliers that is higher. And as we sold a lot, we had a very good turnover in our inventory. And with growth this generates cash, it's similar to what Amazon has done for their whole life. They have always grown with a sound cash generation and a positive circulating capital. And we agree with that. And I would add this issue of cash generation, the fact that we implemented Magalu Pagamentos. The whole processing of payment of our sellers got into the company, there was an inflow. And this generated a whole amount of cash in our assets, and Beto will be talking about that. And positive current capital and having the marketplace under our

assets helped a lot as well in terms of our cash generation. But Beto will be talking about that later on.

Let's go to Slide number 5, where I show you the result of the second quarter. We had the first chapter of this book, so to say in April, when we had only 8% of our stores opened. They were opened at the end of the month. We had a drop of 84% in our revenue from physical stores, a 138% growth in e-commerce. And because of that, we did this feat. In May, we had already opened some stores, e-commerce accelerated in spite of the reopening of the stores and growing 46%, and I had already put this in the last result of the company. And in June, the epic word is not superlative because it was epic. Many of the stores were still closed and you can see here, the purple bar. We see e-commerce growing 206%. The company growing 85% year-on-year. So this was a fantastic job done by the team. And we were able to grow a lot, although, we had a number of stores closed.

And I would like to show the performance of the physical stores on the next slide. We talk a lot about e-commerce, but I would like to refer to our physical stores, an extraordinary job done by our team. It is one of the highlights, although it doesn't seem to be. And we only work with 36% of our stores open in April, 35% open in May. On Slide 6, okay? And 64% of stores opened in June. With 64% of stores opened, we grew 80%; and in July 70%; today, 90%. And the number I would like to mention is same-stores sales, 25% in the second quarter vis-a-vis the second quarter of last year. Same-store, sales 25%. This is an incredible figure. Not even in World Cup months, we have this kind of figure or this kind of difference year-on-year, but this was due to an outstanding job done by our team. And all our initiatives of mobile, go to the stores. We do not classify them as e-commerce. So the physical stores are totally important for the company. Besides contributing to the growth in our revenue. It's a cash cow. They are cash cow in this multi-channel model. So the return of the physical stores helped us further improve our result.

And now going to Page number 7 talking about e-commerce. The performance of e-commerce 182% growth was extraordinary, taking into account that we grew on a basis -- over a basis that was already very high and had already grown 61%, '18 over '17. So we grew 182% over 66%, over 61%. And the major highlight here is the marketplace. One of the major highlights of the company. But 1P was very good. The new categories were very good. The app, fantastic job, and we celebrate this. It was 2.6x the growth rate of the former e-commerce market according to EBIT. If you look at Magalu in the last 10 year, the physical stores grew a lot at e-commerce as well. And one has never grown to the detriment of the other. And we never want one to grow to the detriment of the other. And we need to have both channels growing, and it's not taking from one pocket and putting in the other pocket. What interests us is to grow our total gross merchandise value. And what really generates results and gives --

And talking about result, we're now going to Page number 8. We have had this materialized for the first time ever in our history. We are breaking down our results per month. In the second quarter, we have that three chapter book, I referred to, April, May and June, and I wanted to show you the dynamics of the results. BRL140 million in losses in April, EBITDA margin was minus 10%, of course, because you maintain your whole structure. We didn't lay off anybody, we didn't shutdown forever any store and we continue to have our expenses and this generates an impact -- a very high impact on our

results as we had already anticipated in our material fact in April and our message from the management.

So we had already told that this would happen, because it would be impossible to keep the results without laying-off anybody and we didn't know how long the stores would remain open. We hope this is not recurrent. But a pandemic happens theoretically once at every hundred years. So as we started to reopen the stores, in May, we already reached breakeven, this was an extraordinary feat. Gross margin 22% to 24%; EBIT 3.2%. And then in June, we reached a level that was even better than the pre-pandemic BRL93 million net. As you can see here the gross margin and going back to a more normal situation. And I will tell you what we expect for the third quarter, but from the viewpoint of net income EBITDA margin will be better than the second quarter.

But I think it is more correct to analyze June as the basis for the third quarter, then April and May, that wouldn't be adequate. And for July and August and September, we expect a similar situation to June, exception made to the fact that we should go to 7.8% EBITDA because we need to hire people. We grew 80% in June. And we didn't lay-off anybody, but we hired new people. This generated a reduction in level of service, mainly in call center, and we have to increase our logistics. NPS dropped a little bit. And we wanted to use our network to deliver for 3P. But as we had all this growth, we used all our capacity for 1P and we are hiring 2,500 new people for distribution centers and the stores that became distribution centers and make investments in the lab and also in our call centers. So this was very good for our results, but our level of service was a little bit impacted. And we are going to invest in cash back. But I will be talking about that a little bit later. But the third quarter will be significantly better than the second in terms of margin, okay? And growth as well. Because as of June, most of our stores are open in July, I mean and August, the same, so it should be positive.

Okay. So let's see what generated, what were the growth drivers and I would like to mention our strategic pillars here. Digitalizing the Brazilian retail. And we have here new categories as one of the pillars and I would like to highlight the work done by the Netshoes team. This is a company that we have always admired, even before it became part of Magalu. They have a wonderful team and we were able to grow significantly and we became leaders in sporting goods and it was a positive net income for the first time in its history and crowned by a growth in sales and results.

And as new category, I would like to mention the Magalu mercado grocery. We sold 3 million grocery items. We saw that we had the opportunity to grow in this area. People didn't want to go out to shop in supermarkets, et cetera. So we have the highest number of items sold. And also cosmetics that Epoca a 167% sales growth, 1 million active customers, not everybody knows Epoca, but it is a leader in perfumery and beauty articles and goods and the Estante Virtual or the Virtual bookshelf also, with a very good performance in the quarter. So this was very good.

The second pillar is on the next page, on Page number 10, faster delivery, and our focus was always having the fastest delivery in Brazil. But with the closing of the stores, 40% of everything we sold, the clients went to the stores, it was store pickup. But with the stores closed. It would be impossible. So we made a very big change and the closed-stores

became DCs. In 700 of our stores, we started to deliver the inventory of that store directly to the consumer. So ship-from-store. So Logbee and MEIs and very small carriers or shipping companies. And it helped a lot in the growth of our e-commerce. That is to say, our logistics is extremely good, and it has been improving consistently. And these figures are even more significant for 1P, but you will see that in 3P, we will be focusing on that for the next few quarters. So the whole team of logistics with a very high volume and being able to really tackle the very big need and I'm very proud of that.

And we launched Superapp with cash back. We wanted to do this for the store public as well, because we are multi-channel, as you know, and our Superapp, now with cash back, we launched at the end of last year, but I would say that it was a pre-launch and the launch was really now. We brought him to make a campaign in Brazil to have this cash back campaign. And this is extraordinary, you download and it's totally integrated in our Superapp from MagaluPay to all the dominant apps have to have this. And only with purchases we can increase the frequency. However, we need the payment so that the app is present in the first row of the client's mobile phone after we launch the cash back.

In a few weeks, we reached more than 1 million activations. And this is proof that the product was very well-conceived. And I'm going to show a video of the Superapp launch just to give you an idea of how --

(Audio Video Presentation)

It was a very short video that I wanted to show you and we had many extraordinary campaigns that we launched during the crisis, we were very active in our marketing endeavors and very much focused on new categories and now Superapp with MagaluPay and cash back, and we are very active here, bringing our brand to a new level. If you have any -- if you had any doubt about our app, I think now you don't have any doubts whatsoever. In the pandemic, our brand was one of the most well recognized because of the digital footprint and a wonderful work done by our marketing team.

And now I'm going to Page number 12. I'm going to talk about marketplace. 1P was great. They did a wonderful job in new categories. In the traditional categories, they were very well, but marketplace, I would like to mention two figures here. The growth in SKUs, 115%; and marketplace sellers go from 8,000 to 32,000. And talking about -- they brought many sellers and we never waive the quality of the sellers coming on board. And in the Brazilian e-commerce, we have been talking about that quite often because some -- there are some platforms that have billers on board that do not issue invoices and we understand every competitor is entitled to make their own decisions, but it has to be fair play. You have to do things right. And I would never, never accept a seller participating in our platform without issuing an invoice.

And in Brazil, we have this fiscal problem. We have the tax problem. And so it's not acceptable to accept a seller that does not collect taxes. What is right is right and what is wrong is wrong. This is something that we always say here at Magalu. I do not admit that. And I think my colleagues and my competitors should not admit that because we can no longer accept tax evasion, and we cannot digitalize or we should never digitize or

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digitalize smuggling, for instance, or supplier that do not collect taxes or sellers that do not collect taxes. And many companies require this from the seller. That is to say, the issue of invoices.

And so we have Magalu as a service on the next page generating BRL3 billion and most of the total payment volume since launch. There is an important component of cash generation here. You have to have this on your balance sheet, and this is what we have done. And it takes -- it increases the take rate and improves your margin. And you have the automatic factoring of receivables for sellers and for small businesses. And the online sellers had a good performance during this crisis to during the pandemic.

And here at Magalu they can have the factoring of receivables with a much better rate. And we have been achieving fantastic rates, and this is very good for everybody because it's really a win-win situation. And I would like to celebrate the fact that we have been chosen as finalists by the BNDES for FIDC to provide credit to micro, small and medium sized companies. 80% risk BNDES, 20% us Magalu. And we will be able to help make loans to the sellers not only factoring receivables, but also giving them these loans which is beyond -- going beyond the receivables in our proposal of having BRL0.5 million, and we hope to be able to do this in the third or the fourth quarter the latest. And so this is a very good vehicle to make this happen. and we are very hopeful about that.

And going to Slide 14, I would like to talk about Magalu. 80% of the sellers are already served by Magalu Entregas. In the cross-docking model, 800 partners still a low figure and we will be focusing on that from now on, that is to say Magalu deliveries and in order to be able to operate that and in order to give our sellers a very fast opportunity. This is a huge opportunity and we -- all my additional capacity that was supposed to go to sellers had to be channeled to 1P because of the situation. And now you will see a focus on that part of logistics to do to others, what we have always done to Magalu that is to say, have faster delivery at a lower cost. We had 19 DCs to help these sellers to deliver faster and with a lower cost.

Page 15. We have done a lot of good things in the pandemic, but the Parceiro Magalu really was the item that made me the most happy or the happiest. We did a fantastic job in terms of launching and all our back-office people working, so that this could happen and helping the physical retailers that had their stores closed to sell online for the first time ever. We are talking about 60,000, 70,000 sellers that already sell online. And the marketplace today, they address the ones that already sell online and they do not take the ones that were analog. And we launched a platform to help the guys to have a physical store to become digital.

And the conditions are different because it's much more difficult for them to sell online than somebody that has always been doing this. So thousands and thousands of retailers. And we saved many companies, I would say. We have many statements by sellers that they are only keeping their doors open because of the Magalu as a Service in the pandemic. I'm going to show one video of one of these sellers. And then you will see the impact on them, okay? So you will see and I'm very moved by that because our purpose is to generate digital inclusion. And the Parceiro Magalu reflects this purpose.

Bloomberg Transcript

So let's -- (Audio-Video Presentation)

So this kind of testimonial, it really makes us feel great about it. The cool thing about this new strategic phase at Magalu is that we'll be growing by supporting others. Everything we've done so far, the IT that we deployed, the know-how and knowledge that we applied and used at the company level. We want to share it via Magalu as a service with third parties.

And now another highlight is independent players. We have Magalu partner and we also have individuals, which was Magazine Voc, which is now under a new name. It was an amazing job more than 350,000 individuals earned up. And it's something like a direct sale over the web, like Natura, Avon, totally digital now on the web. It's one of the fastest growing channels with the company. Not only did we have small companies, but also individual players to have an extra income for every sale. They are in the online store for individuals. And when they sell for their friends on Facebook, Instagram, WhatsApp, e-mail. For every sale, they have a commission. The check out is our, but they have their customer acquisition. So in addition to 10,000 sellers who are selling remotely now with mobile vendors, I have another 350,000 individuals, a big army of sellers and digital influencers who are selling Magalu and Magalu partners products. And that's so cool because these individuals Parceiro Magalu, they sell Magalu's and seller's products. So that's about this loop of the echo system that we set at Magalu. And once again, we want Brazil and retail to go digital. So on this line, we have a huge funding.

Now moving to Page 16. Last year we started with more acquisitions, we already heavily capitalized and we raised more capital to pay debt. And also last year with a promise to speed up CapEx and also to work on acquisitions. We didn't do that in the first half of the year, because we didn't know what the pandemic would be, but after June, we realized the business was doing fine. Cash was strong, so we resumed very strongly our negotiations and deals in order to have strategic assets to the group and few gaps in our ecosystem and work on new categories, Superapp, faster delivery, exponential growth of 3P and Magalu as a service.

This is all part of pillars that include acquiring companies and contribute even further to the pillars. For instance, for books and Netshoes, Estante Virtual for books, sporting goods, fashion, and TemNoMagalu, YouHaveAtMagalu, you have it at Magalu and now we have more recently Hubsales. We acquired this company from Franca which is the city, birth city of Magalu and it provides a very good service to help the factory to be directly with the final user. They already have BRL100 million GMV processed annually. In Franca, 700,000 orders processed on the platform annually. So these are amazing people. And they help the factory to sell directly online with no intermediaries. And then consumers can pay for a lower price and the factory can have a better margin. So it's an interesting win-win. And the idea is to take Hubsales to other industrial hubs. Firstly focusing on fashion, apparel and footwear, but maybe exploring other categories as well.

So we're very excited with the prospects of Hubsales. And all small companies like Logbee, Integra Commerce, even Softbox, generated Magalu partner all the companies we acquired.

In the ecosystem they had an amazing gain of scale. So the numbers grow a lot. Logbee is nearly 50% already of Magalu and we started in Sao Paulo. So when a good seed -- a good seedling comes into the ecosystem of Magalu with its breeding ground, it turns out to be a beautiful, fruitful tree to the company. So undoubtedly, this will happen to Hubsales and also to another two very cool acquisitions that we announced only last week, Canaltech and we also acquired Inloco Media platform, Inloco Media. The idea is to tap into amazing opportunities with Magalu Ads, have nearly all the Alibaba revenue in China. And the forecast is BRL13 billion with Amazon coming from app.

So we believe there is a huge potential to monetize because now with this additional 24 million to our 50 million, we have 80 million. That's a potential 80 million unique visitors across all platforms. Maybe a little bit less owing to overlapping, but maybe 70 million is quite a significant audience with great brands that certainly we want to advertise in our digital platform. So I think it's an amazing opportunity with Magalu payments. These are two major opportunities to monetize our audience, our investments. These are elements that will contribute to the company's margins in the future. Not only focusing on growth, but naturally we want to monetize it in the future.

So now, we have acquired the Embryo. And Canaltech, in addition to giving us advertising opportunities. I also believe a lot in having a good content to sell online. Just as you need a great seller, a talented seller, in online, you need great review of products, content, videos, blogs and Canaltech, as I see it, is the best channel, one of the best channels specializing content. I always wanted to go on this move. And I was thrilled that these amazing founders of the company accepted to be in our team. We are so happy 70 people and everybody absolutely amazing and they will greatly help us improve our content on our websites and also their channels with podcasts, vblogs, groups, WhatsApp groups, they're very strong and very cool.

So just to close these comments, I would like to highlight what everybody is saying right now. We have some very cool actions. This is a company with social responsibility. And in the pandemic, we were one of the first families the Trajano Garcia family were one of the first to announce this donation. At first BRL10 million, now BRL30 million and BRL58 million in total donated mostly to the public healthcare system and causes like violence against women. We bought a lot of ventilators and we supported many charitable hospitals in small towns. And we also donated a lot to the needy population with staple foods, mattresses and also battery radios and TV sets.

So many good actions. We already invested BRL10 million and now just announced BRL40 million, BRL20 million from the company, BRL20 million from the family. So the pandemic is not over yet. We still need to support the public healthcare system to fight this social inequality. And I think we have a strong role to play in this regard to do our share supporting also small suppliers and not laying off people. We are going to hire 2,000 people this quarter, and we announced that we are going to have solar energy in another 300 stores. So we have our functionality of a post in violence against women. It is a trending topic and a number of actions, they don't fit into this Slide, but the company showed, it was not only concerned with the income and cash generation and earnings, but rather showing our concern with the society problems.

The company is being increasingly more valued by suppliers, investors, but mostly by our customers and consumers who go to our stores and say, I bought from Magalu because it really supported during the pandemic with the right position, doing the right thing. And we see the same thing happening in social network post. We are very proud of our team and Magalu greatly contributed for that. Now what about the forecast and outlook for the future, before I turn it over to Beto.

We made a point in addressing July too, I shouldn't do that, but I think that during the pandemic quarters, we tried to be -- to provide more information to the market for better assessment. In July, our performance is here 82% increase in total sales, a 110% in stores; e-commerce, growing 162%, growth even -- well, Netshoes in July, full and full. So our performance is amazing for the second month and I attribute that to e-commerce. E-commerce has come to stay. The country is more digital compared to before the pandemic. I don't think it is just a timely thing. It happened in China. So people who bought online and had a good experience will keep on buying online and physical stores now that we open again performance will be better, and physical stores also help the company's profitability. So we have better prospects for the third quarter in terms of sales. We're still going to have stronger months and also in profitability not only just like June. Like I said, part of the margin will be used to hire 2,000 people investing in cash back and the marketing cost is also going to increase a little bit more.

The cost of acquisition of customer will go up in the third quarter and the cost of acquisition in the second quarter was low. And now we have to make an extra effort for people to buy online. They'll keep on buying, I'm very confident. I believe that what explains this strong performance particularly for physical stores is the Corona voucher. I believe the government will have a soft landing by year end. And as a reminder, we're going to have Christmas bonus and Bolsa Familia. So that's an extremely efficient program, maybe one of the best measures in the world. The platform was already good in Brazil and in the U.S., You have Corona voucher and you have a little check on your door. And now everything is digital, electronic.

So we do have platforms, public banks. It works fine, maybe one of the best measures of income distribution, very effective and boosting the economy. I hope the country helps with a cap on public spending, working with privatization, but this measure is great for the economy and we should try to stick to it as much as possible. I know there is an impact on public deficit, but we hope we save in the best way possible in order to maintain what supports retail as a whole.

I'm not saying that people use corona voucher to buy electronics. If you think about polls, 80% of consumers bought staples, but if they buy food in the market, the market owner can buy a TV. So certainly it helps a lot. It fuels the economy with a virtuous loop and the money goes directly to consumers. So I hope the government continues with that and if there is a hard stop, Q4 will be not so certain when it comes to physical stores, but I believe there will be a soft landing. And I feel bullish about Q3 and Q4.

So I'll end with our ecosystem, we can see that our ecosystem shows recent acquisitions with service, logistics, payments, customer, the seller in the middle, the seller is also my customer. And then we have all our brands, pretty much spearheaded by Magalu

Superapp. I think everybody, our suppliers, our teams, our customers, shareholders all our partners, thank you for supporting us throughout this timeframe. So it was an epic quarter. I'm very happy with our achievements and also encouraged about the future.

Thank you. I think I talked too much. But actually it was a very complex quarter to explain.

And now I turn it over to Roberto Bellissimo to briefly talk about the financial highlights, and then we will start the Q&A. Thank you.

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Thank you, Fred. Good afternoon, everyone. Thank you for joining our video conference call. Just very briefly, let me touch upon the financial highlights. A lot was said about total sales growth, e-commerce growth. The growth in June and also cash generation, total sales and net cash.

So on Slide 23, let me show you our working capital. We said in the last quarter that we invested in the first quarter in working capital. And as sales improved, we're already recovering the previous level. Inventory turnover was just amazing this quarter. From one turnover that between March and April was around 90 days, and the current one is around 60 days between June and July. I believe our inventory position, well, the inventory position is virtually flat between March and June, around BRL4 million and we sold much more. So it also shows the fact that our DCs are fully integrated and also multichannel would really make things easier and you can see as e-commerce grows.

In addition to great inventory turnover, we had anticipated a lot of purchases in the first quarter with an impact on suppliers. In the second quarter, things are back to normal. We sold a lot and the same average terms of purchase, the supplier balance increased. And in June, our supplier position is higher than inventory, as we usually have. Like Fred said, a positive cycle for us when it comes to cash generation and that's a trend for the future. Another very important highlight, which helps not only us to improve our working capital more than BRL2 billion from March to June and another BRL1 billion, this is also related to Magalu Payments. Now we count on another one with financing, which are sellers. And in Magalu Payments, we have onlending to sellers, which did not anticipate their receivables yet and therefore are paid when the purchase or sale happens and also sellers depositive and MagaluPay, which is a source of funding to Magalu payments. So we have more than BRL600 million with sellers, suppliers within Magalu Payments.

With that, we greatly improved our working capital. And then we can show that we also improved our net cash generation from BRL3.8 billion to BRL5.8 billion in one quarter alone, reaching a net cash position, which is nearly the same that we had at the end of the year, which usually in retail, is the best cash position considering seasonality. So for a second quarter, we have historical position, would greatly help us to lower our financial expenses. As you can see, it went down 50% from 3.4% of net revenue to 1.7%. And this includes interest with leasing according to IFRS.

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On the next chart, we break down our cash flow for the last 12 months. Actually here we increased the total cash of the company from BRL2 billion to BRL7.5 billion. So BRL5.5 billion, BRL1 billion came from working capital, another BRL1 billion, so we have BRL2 billion of cash flow from operations. And then we had investments, funding, interest cost and stocks with buyback. So the total BRL7.5 billion cash and our greatest cash position in the history of the company. So our balance sheet is very solid.

And on the next slide, Slide 25, we show that cash generation was not only this quarter or the last 12 months, we can show that we've been generating a lot of cash increasingly and consistently for more than three years? And at the same time, our sales are growing at a very fast level. We firmly believe we are a unique model combining both patterns, strong cash generation and strong growth. Just to close the highlights, Luizacred, another very positive highlight in our earnings. The Luiza Card base shrunk a little, 5 million cards because our stores were closed. So the issue of cards went down. We expect to gradually come back as we open our stores again and as the economy takes over again. On the other hand, revenues from our cards, we have a lot of market share gain.

The whole market of cards shrunk owing to social distancing. And our customers' expenses in Magalu decreased because our stores were closed. But outside Magalu, by and large the numbers were up, gaining market share and mitigating the impacts of the crisis on Luizacred's revenues. But the main highlight for Luizacred has to do with receivables. Like we said before, in April, we started below our expectations, particularly owned to the stores that were closed. And in May, it was slightly better as we opened some stores. And in June, we had a level equivalent or slightly above the crisis, and in July, way above the level before the crisis.

So our receivables have been just amazing. And they sped up as we open more stores and also the efforts of our store teams. And they had an outstanding job welcoming our customers. So we managed to improve our receivables in the portfolio. And the short-term overdue portfolio, so it takes a lot of provisions usually. And as we improve the short-term portfolio, we managed to have lower provisions compared to last year. The NPL over 90 days increased a little. It has to do with the pandemic and also with a temporary shutdown of stores, but the short-term NPL more than offset the long-term NPL. And overall speaking, we managed to maintain the level of total provisions with Luizacred between BRL1.6 million and BRL1.7 million, with a coverage index greater than 160%.

We said before that Luizacred's result had an upward trend since the second quarter of last year. It was already better compared to the first half of last year, and it was the same trend for the current half year. Last year, we were growing very highly, very on many new customers. So we were making up a lot of provisions in IFRS, way above our BRGAAP needs. And now the trend has reversed. And Luizacred is being profitable, BRL25 million profit in the second quarter and BRL35 million in the first half of the year, way below last year. So it was another highlight of our earnings and the behavior was similar to Magalu's. It was increasing over the quarter and also continued to improve over June and July. So we are in a very good path with Luizacred.

So with that, we close our financial highlights, our presentation. And now we'll be happy to take your questions during the Q&A. Thank you very much.

I would just like to highlight that all the managers are here, the executives, and I thank the Board of Directors of the company, we work very close to one another, with our committees, the Board and governance was great during the pandemic in terms of funding, investments, decisions made and everybody supported one another. The Board members also supported us a lot, and I would just like to acknowledge that and open the floor for questions now.

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Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) The first question is from Thiago Macruz with Itau.

Q - Thiago Macruz {BIO 16404924 <GO>}

Hello, everyone, good afternoon. First of all, congratulations on this quarter, that was just outstanding. My first question is about MagaluPay. I would like to understand your positioning. Does it make sense to assume that part of the strategy is focusing not only on end consumers but also impacted? And is it right that you'll be addressing to make it happen? And along the same lines, what is your view about the impact in MagaluPay? Does it make sense to believe that PIX can be a watershed in the friction of the manning of digital platforms? These are my questions. Thank you.

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

Thiago, thank you for your questions. I'll try to make some comments without disclosing more than I should. So our view is ecosystem-based. Remember the slide I show you at the end, everything we do here in terms of products, what I mean by products is apps and software, we want to connect the ecosystem. Obviously, we really would like to extend MagaluPay to all sellers that already use Magalu Payments.

Today it is not a corporate account, it is an individual account, but because I just want to have an integrated systemic ecosystem, if I want -- even if I want to hide it from anyone, it won't be possible, because we will get there somehow. So this is part of our strategy. And we had almost like an M&A. Robson Hubs who is now with Fatala's team and is one of the greatest experts on digital payment products, maybe the greatest expert. It took me three years to convince Robson to be with us. So I'm very happy he joined us. He knows a lot about products, financial systems, every bit bite. So we are absolutely excited and interested.

And my view about PIX, I think it levels the playing field. It arrived a little bit late when it comes to the big bangs, but PIX is going to level payments for everyone. It will be a breakthrough in payments, particularly when it comes to debit payments, bank slips and maybe in the future even with credit. So I see it as a great opportunity for us, because it levels the playing field and gives a lot of chance to MagaluPay to be on equal footing with the wallets already established and also, where more conventional payment systems in

the market. So will level the playing field. Like I said before, it's a white page, and we are ready to become relevant and I'm very excited with PIX.

Andre Fatala, our CTO is here. Fatala, would you like to add anything?

A - Andre Fatala {BIO 21479328 <GO>}

Gladly. It's along the same lines. PIX is really facilitating payments. Maybe we can see the payment slips depth because it does have an impact on e-commerce. And finally, convenience with cashing inside the account. PIX is going to make it easier to have the cashing process. However, I don't see how we can abandon what we're doing with a native integration with banks. Maybe we can tap into that in the future as well.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you for your answers. If I may Fatala, could you make more comments to us about your plan to open the platform? That was a topic discussed in the follow on time. I know we've been working on that consistently. Could you give us an update, what is the status? Is it still part of your strategy? That's my last question. Thank you. Do you think it's feasible?

A - Andre Fatala {BIO 21479328 <GO>}

Thank you for the question Thiago. The answer is yes. Since the follow-on we mentioned, this thing about the open platform, and this year, we are working on this and we built many things in Magalu in order to have multi-organizations like we said last year. And you already have some in-house initiatives given evidence that it works with our engineering teams within Magalu. And once we have maturity in house, it will be helpful to open up to the world having an open platform.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you, folks. Thank you for your answers.

Operator

The next question will be in English and comes from Mr. Andrew with Morgan Stanley.

Q - Andrew Ruben {BIO 20391468 <GO>}

Hi, thanks very much for the question and congratulations on the quarter. My question here is on categories and the expansion. And any update on how important acquisitions are to growth here? You've had success with Netshoes and Epoca. So how do you think about expanding the category base and the next categories that could be in focus here for acquisition and integration? Thank you.

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

Andrew, thank you for your question. I believe acquisitions are extremely important to us. We have three big acquisitions when it comes to category development. We had Epoca

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for health and beauty, Netshoes with sporting goods with an option of Zattini which is for fashion and apparel. And it was great. Zattini run rate is around BRL1 billion annually one of the big players in apparel and fashion. And now more recently, for books, we have Estante Virtual, which is one of the greatest book marketplaces in Brazil. So we can pinpoint some important categories to us. Everything about CPD, food and grocery items, we don't have any acquisition yet in this area, but that's an important category.

So anyway, we are also getting to agribusiness now selling agricultural inputs to small farms and also, we had a launch via marketplace. For fashion, Zattini BRL1 billion is still little. So we have all categories and we'll be growing organically. And if there are any future assets down the road, like Estante Virtual or Epoca or even omni-channel asset, we will keep our eyes open, doing the math, obviously. Because managers are also portfolio managers. We need to work on a good asset allocation. We have to know where to invest. So we try to do that very diligently without losing sight and track of opportunities. But certainly, this is on our radar. And even traditional categories, if it makes sense, we're keeping an eye on those.

Operator

The next question is from Thiago with Goldman Sachs.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Hi Fred, Roberto team. Congratulations on the results. We have two questions. The first question is about frequency. Can you give us more information about average purchase frequency in our base? And how many categories by consumer? And which categories and the number of customers this quarter? And secondly, about the grocery category. You mentioned M&A as a possible avenue for growth in this category. How do you envisage this growth? Do you believe the main strategic focus is via 1P or 3P? How do you consider opportunities down the road? These are my questions. Thank you.

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

Thiago. Thank you for your question. M&A, I just wanted to have a big agenda. We have five pillars. We want to be a one stop shop maybe they can include many including grocery stores, but not exclusively. No bias here. We have physical stores, online, omni-channel marketplace I think we can do these three things well. So I have no preference when it comes to make a decision about assets.

What makes sense is to have a rationale behind it. So once we believe we can work on the base and from this base, we can develop the category, then we'll grab it, no matter what kind it is without a lot of a specification. We can work on three channels 1P, 3P and physical stores. We know them all. So naturally not so much with new categories. That's why we bring acquisitions. We know what we don't know. We are humble enough to know that for instance, I don't know anything about this industry. So let's bring Marcio and his team to teach us how to work on this category. That's what we did. And I think we were successful. The same thing happened with EV Epoca and with other news in these categories.

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I just wanted to make clear that when we go for an acquisition, we keep these three things in mind. First, we have financial due diligence, which is critical. Then we have a technical due diligence, check in the whole due diligence. So if you want to buy asset and IT is very poor, we don't go in. We don't want to waste time with a good -- or a bad legacy system, which is heavy. Technology is important.

And finally, a cultural due diligence. The team is going to be part of our team. We don't want to layoff people. We want to add people to our core. So it's like hiring. You have to know whether those people really share the same values, the same culture. All the companies we acquired, the teams were integrated. We're already playing the same game with confidence. So I go deep into that. And this team seems to be here ever since our inception.

As for frequency, it increased a little, too, but we still have a long way to go. We come from a low frequency retail. And our challenge if you think about the future, categories contributed, Netshoes had a great performance to, but we still have a long way to go a big challenge to our team. We are far from being happy with the current increase. It happened, but far from what we really want. Think about Alibaba, like I said before 90 purchases or acquisitions per year, Amazon, 50. And including ourselves in Brazil, we are under 10. So we have a lot to evolve. Tough job, great challenge, but I trust and I'm confident in this team to address it.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Perfect Fred. Thank you. Just one last question. You mentioned on our talk about formal invoice. What about taxes? What about negotiations and discussions about a new tax rate for the digital invoicing?

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

There are two points here. The rate for digital operations, which includes a reduction in payroll costs. So it doesn't change that much to us. We pay everything and the sellers do that too. The administration say that they're not going to increase the tax burden. So I have no restriction yet. We have 35,000 people. So of the offset is a reduction in the payroll, it might even be a benefit or equivalent to us or not so bad.

Now there is another measure in Congress which is PIS and COFINS, demanding marketplaces or the seller or the marketplace to oblige the seller to have the tax collection. It is not a digital tax, but that's a requirement provided for in those measures submitted to Congress an absolutely in favor, because some marketplaces have unlawful attitudes and the bulk of the base has a take rate in sales without tax collection but I don't do that. I think this is not the right thing. It's not unlawful, I am not saying competitors are illegal, but their sellers are illegal and we have to avoid that. There are many marketplaces doing that, not one specifically. We want to prevent this from happening. Every marketplace that doesn't require the seller to invoice in my opinion is to contribute -- is contributing to tax revision in Brazil.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Thank you, Fred.

Operator

Mrs.Eugenia from J.P. Morgan.

Q - Eugenia Tedde Cavalheiro {BIO 20781536 <GO>}

Hi, Fred and Beto. Thank you for the call. It was very clarifying. I have two questions if you allow me. Expansion plan, will there be any change in your plan to expand physical stores from now on? And the second question has to do with the Magalu platform. Where will your focus be logistics? fintech? You said that you have to improve the service level something that happened now in the second quarter that you want to improve again or improve back? So where will your focus be?

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

Thank you very much, Eugenia for your question about the physical stores. Because of the epidemic, we have to postpone the opening of new stores. We were opening 150 stores every year up to now. Unfortunately, we lost, to say the first half of the year for that. And this has become more difficult, but we have already resumed this, and we are carrying out the whole selection and training of the people, the store people online and we do have some images if you want to see. And it's very great and very, very warm, so to say. And I'm going to call one of our officers to talk about that. And we're doing online training for the new team and with a very big warmth I would say. And we are we're going back on this. Of course, we are not going to open 150. We have already opened the kiosk of Lojas Marisa in Rio and we are very enthusiastic about the opening of new stores and we have a very big confidence on our model.

Fabricio, would you like to say anything about that?

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

Hello everybody. Yes, I think you have said it all. We have already lost six months this year practically. And we were going to get into new markets. And we have maintained Brasilia, the day after tomorrow. This is a very strong market. We should be closing the year with a 100 or over 200 kiosks of -- and we have already been -- already opened in Rio and now in Bahia and in Brasilia with kiosk can then stores. And next year, we are going to further accelerate this. So for next year, we will surely keep on track, our intention of opening new stores.

Q - Eugenia Tedde Cavalheiro {BIO 20781536 <GO>}

Thank you.

Operator

Gabrielle from Santander.

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Q - Gabrielle Fazio

Hello, everybody. Congratulations for the results that you have obtained, surprising results in fact, a very positive surprise. And my question is a little bit more on the technical side. Thinking about the speed of delivery. You mentioned one of the highlights in your result. And part of that I think has to do with the transformation of the stores and faster categories put in the stores. As you grow at the speed that you are growing, everything becomes very big. And it's very difficult for you to keep all this inventory inside the stores. So what about this situation. Do you have to open dark stores without any retail? What about your logistic expansion, taking this into account?

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

Well opening more stores undoubtedly the more stores we have, the more capacity we have, the more frequency we have. So you can have traffic of people and not only inventory and I'm very comfortable. We believe that we are going to extend and increase the number of assets, more technology, more intelligence involved. So we are not concerned with, let's say, a ceiling of capacity.

Q - Gabrielle Fazio

Thank you.

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

Thank you for the question.

Operator

Next question is from Mr.Richard with Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon, everyone. Congratulations on the earnings. Fred, I have two questions. The first question is about the role of the stores. During the pandemic, it was clear the important role of the stores. Did you start renting them as dark stores while they were already closed? My question is about what will happen after the pandemic? Do you have enough room to have the stores and use them as dark stores, and at the same time, start working with Netshoes products and sellers in 3P? The second question is about Netshoes. Both Netshoes and Zattini had a very strong quarter. I just want to understand if it was a natural move owing to the pandemic or if you're beginning to be more aggressive in terms of marketing and advertising for these two websites? Thank you.

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

Richard, I guess the same question was answered in the previous question. I cannot disclose too much because it has to do with our store strategy. So please allow me not to be so clear and be more evasive in my answer. But I can say that I feel comfortable with that. We have a vision about what to do without hitting a capacity cap or any significant physical asset. I am not speaking of mini hubs. We used to say mini DCs. So we have an

idea about what to do that in the future. So that's the vision we have right now. And unfortunately, I cannot share more details on this.

Answering the question about Netshoes, I think I'll turn it over to Eduardo and then Marcio. I think they have more to say.

A - Eduardo Galanternick {BIO 20410320 <GO>}

Richard, thank you for your question. With regards to Netshoes, overall speaking that's a category that in the beginning of the pandemic, we were concerned about it because in many countries, there was a decrease, a big decrease with specific footwear and apparel categories. What we managed to see here, starting late April and early May was a stronger growth in sales both in Netshoes, or in Netshoes, specifically suffering with the soccer and football category because it was idle. There was a heavy impact. But all the other categories like equipment for having a gym at home or running shoes, it was doing fine.

And at Zattini, we also noticed a more significant increase compared to what we had before the pandemic, but overall speaking, it was very sustainable.

In Netshoes, we're still trying to resume growth and go for a breakeven point. And that's why we don't have a lot of room for big investments. We don't have big investments in margin or marketing. It didn't go down. Actually margins increased a little. And the breakeven point there is an operational leverage because we increased the sale and also capture of synergies because now most of the back office is already integrated.

The last part was the SAP. We had the migration to Magazine Luiza and the whole back office is fully integrated now. So for the future, we do have the opportunity once we have a more structured and solid base. In the results. There is opportunity to go for further investment and increase even faster and stronger with Netshoes.

Marcio anything to add?

A - Marcio Kumruian {BIO 17765185 <GO>}

Good afternoon, everyone. Just adding to Edu's comments. Please bear in mind that Netshoes, more specifically, was growing when it comes to the recovery of several brands and franchises. So Fred was involved in meetings top-to-top, bringing big brands and recovering products that Netshoes had stopped selling over time. And finally, making marketplace stronger as a whole.

When we include marketplace in the projection, it hit more than 40% of sales in this time frame and once again, highlighting brands products we didn't have before and products at the top of the pyramid and in Zattini brand diversity. We are bringing more products using the whole Magalu's capacity, including the balance sheet. So these brands are increasing naturally, improving their frequency, penetration and synergies like Eduardo said, store pick-up.

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So we have a sustainable growth. And like Frederico said, reaching the net or the first net income of the history of Netshoes, specifically in July, and working with a sustainable growth in the team so we can raise the bar even higher and be in the journey.

It's important to remember that Magalu's products already being sold at Netshoes, and Netshoes' products sold at Magalu as well. Nets and Zattini. So all the synergy was captured over this first year of work. We are very happy a very strong team, and we'll move forward along the same lines. Thank you.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you Marcio, Eduardo and Fred. Thank you.

Operator

Mr.Victor, Credit Suisse. Mr.Ravi, HSBC in English.

Q - Ravi Jain {BIO 16135293 <GO>}

Hi, Fred, Beto and team. Had a question on Magalu as a service. You did some really interesting acquisitions in the last few weeks. The question I have is when you work with the smaller merchants on adding different services, is the idea ultimately to sell directly to the consumer or through Magalu's marketplace or both? I just wanted to check what your longer term vision for helping the smaller merchants is? And the second one is on the payments part of it where does it now make sense for you to start looking at an acquiring business or a sub-acquiring business given the size that you're going to be doing in processing payments and factoring et cetera? Thank you.

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

Thank you very much for the question. Regarding Parceiro Magalu, which is the platform that we launched for the small retailer, the retailer has both options. It was born totally linked to Magalu and this is valuable for him, because we are talking about over 30 million users of the app, 55 million in the digital platforms. So showing or showcasing the product for 55 million clients is a great way for them to bring new clients to their own platforms. However, they have the option of using the platform in order to reach their own clients. So it's one of the functionality.

So we can say directly, so these are functionalities that we are going to streamline as time goes by. But I believe that the bulk of the sales that these sellers will have will be coming from our millions and millions of clients. but they will be able to sell directly to their probably with the take rate that will be different from this one. But we want to give him the possibility of both things. We want to give him the option of selling directly. That I would like to remind you that everybody that sells through the platform, Magalu Pagamentos is already built in. As under acquirers, we are there at the platform of these thousands that have come on Board, and they are already part of Magalu Pagamentos.

Q - Ravi Jain {BIO 16135293 <GO>}

Thank you. That's helpful.

Operator

Mr.Victor from Credit Suisse.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Good morning, everybody. Thank you for the question. I had some glitch here in the communication. I have a few questions. I have the impression that the situation of the retailer that is dedicated to physical retail, the life became more difficult over the pandemic. So how do you see the situation of this retailer that is your competitor? And how could this help you in accelerating same-store sales? And the second point is the following. Going back to M&A. The company was very much focused on building the platform and having online M&A, and you did an excellent job in this regard. But at the same time Fred said that you're looking at everything. So you're considering physical retail as well. As you are looking at new categories, would it make sense to see Magazine doing M&As in other segments of the market and physical retail? And also the physical stores of Netshoes, the third question. Thank you very much. And once again, congratulations for the results.

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

Thank you for the questions. I think you have a whole series of questions here. I don't know whether I will remember all of your questions. Beto, you help me if I forget one. Well competitors and the physical retail, okay. Undoubtedly, in all crises, you have a natural selection. You have weaker companies that are less capitalized and they have still the negative impact more than the others. And one of the major players of electronics and they are with under judicial recovery, Ricardo Eletro, a very big player and some others have already left the business for the same reasons. So there are very big opportunities. And there are others who are not under a judicial recovery. But they are also facing, let's say, dire straits and but they can still gain market share. And I see this as an opportunity and Fabrcio's team is going to tap into these opportunities in the post pandemic world. In a normal situation of every post crisis.

We cannot say everything that we're going to do, what we're not going to do, but I don't want you to be surprised. When you are an ecosystem the scope of the company that you can acquire is very big. For instance, you take Amazon controlling a robot company and then CD or Diapers.com and Whole Foods which is physical. Probably 50, 60 or even more acquisitions Alibaba likewise, they made many, many acquisitions. So the spectrum is very broad. When you have a view that is as encompassing as ours, but it's not every part that fits into the puzzle. You can have all kinds of pieces and all formats, but if they do fit the puzzle, then we bring this company on board. Let's say we buy any kind of company, okay. But the only thing I want to say is, don't be surprised about Netshoes. So we are not going to say anything about exactly for the same reason. We cannot just open everything to you.

Operator

Next question is from Daniela with Eleven.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Good afternoon, everyone. I would just like to congratulate you all on the decision to open a summarized P&L with the numbers for the second quarter. I would like to say that we don't cover only retail companies, but of the 150 companies, we checked the only company that gave such a visibility to the quarter was Magalu. So I really congratulate you all. It really helped us to understand how the quarter unfolded.

Now getting to my first question, I was really amazed with the improved logistics network. I think it was very important to support the quarter's performance and it's absolutely critical for the future. If you look at the map that you showed on Slide number 10 about Logbee's expansion. What I'd like to understand if it was only Logbee or if there was some third parties of last-mile services to some of the players? And if for the future, you intend to continue outsourcing or if you'd rather do everything in-house? So how much do you still have to do to improve efficiency? And then I'll have another question for Roberto.

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

Dani thank you for your question and your comments about the way we disclosed the earnings. We thought it was important to make it easier for you and investors. Such a complex quarter. We don't like to disclose so much, but it was necessary this time. At the end of the day, we disclosed a lot of things about one month with online results from stores, a lot of information that we don't usually disclose. But we made that decision just to make it easier for you to do the job.

As for expansion, nearly everything was Logbee. We had a strong expansion in Logbee, accounted for half of our courier system, which is huge. So Luiza network was not courier. And Logbee, it was its year, Logbee year. It really grew and had a lot of proportion. It was an important exemption because with store pick up we needed a last-mile service for our end-users. It was a great job by Logbee and labs. They work on the systems to make it happen. Logbee had its own TP, and now we use the stores at TP, and it brings or it entails store integration and everything happened along the process.

The growth in Magalu's volume is so huge that we have to be a little agnostic here. Naturally, we want to have our network. We know there is an opportunity in Brazil to have our own network, but we still have to count on the post office partners as carrier companies I'd like to have both in the mix. Our own important footprint and work with partners and be supported. We shouldn't forget our partners, they are important and significant. And in some locations, they are better than our own network. So we have to be a little bit agnostic here. Having said that, we keep on investing in our own network because that's a competitive edge, but we can always use third parties. It's not something ideologically radical.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

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Crystal clear, thank you. And Roberto, could you tell us more about provisions at Luizacred? We've seen many banks this quarter, strengthening their positions based on over 90 mostly and I realize -- well, I believe you were more conservative. Based on your comment, it seems to me that you think it is adequate. But it drew my eye because not only banks, but also Carrefour, for instance; everybody was more aggressive or conservative. I don't know how you want to call it. So the question Roberto is the following: you said that receivables were greatly improved in July. But what about over 90? Do you also feel comfortable without the need to strengthen Luizacred's provision in Q3? Because Luizacred follows M&A. So I'm anticipating in order not to have the same kind of mistake in Q3.

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

Thank you, Dani. Great question. Let me explain both. Let me talk about Luizacred as well, but starting with Luizacred. In reality, the whole accountability, accounting treasury Luizacred processing is performed by Ita Bank. So that's the bank's model. And the calculation of the need for provision everything is based on Itau Bank's model. So we have no control or management over these calculations and dynamics. Obviously, we follow the approval rate, concession, granting important operational decisions are daily and monthly followed.

However, what I said is that receivables were really amazing compared to the beginning of the pandemic. In March, we already had an increase in provisions. The result of the first quarter was slightly lower, already owing to an increase in provisions. But then in April, the stores were closed receivables went down. But then we started opening the stores again, and we made -- we focused our efforts on receivables. And it was different, unique in the market I would say.

In June, we managed to go back to receivables equivalent or even higher than in the pandemic. And in July, definitely higher than prior to the pandemic. And if you check the final or total receivables balance, it was stable at BRL 1.6 million or BRL 1.7 million. And the total portfolio was also flat and over 90. It was slightly increased, but it is already provisioned. The coverage ratio is 160%. So on top of the portfolio over 90 days, this BRL600 million or BRL700 million provisions in addition to over 90 portfolio, the purpose is to cover the losses in short-term or the current portfolio and they are at a level that is better than prior to the crisis. So we have a very positive trend. July continues with the same high provision rate, provisions lower compared to last year and very much related to our efforts on receivables.

Our efficiency ratio at Luizacred was also very good. We also managed to lower our expenses dramatically, 40% was our efficiency rate, which is one of the benchmarks. And now we want to go back with our numbers and the number of cards, Luizacred stake in our business as our sales go up and our stores, while most of our stores already opened. And we're very confident. Delinquency completely under control. So we are very confident what Luizacred's result and the results for the med and long-run.

Now about Luizaseg. What happened was that we have a pro-rata approach. And because the stores were closed we sold fewer insurance and we had lower selling

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expenses related to insurance. And that's why we had this one-off effect. And as sales go up again, commission expenses and insurance expenses will come back too. But we had this benefit this quarter of having a lower level of expenses.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Got it now. And if I may, a third question, a followed-up question on your second comment about Luizacred. Something that drew my attention was the fact that we managed to maintain a growth of 25% in the fee income or service expense and you associated to MagaluPay and marketplace expenses. Do you believe that in the future now that the stores are open this line may perform even better? It was around 5% of sales. So even though stores were closed you managed to maintain this contribution in total sales. So it really drew my attention because we know that services have a very good margin.

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

Absolutely Daniela. That's for retail, right? Actually, we always had more service revenues in physical stores and less in e-commerce. This quarter in physical stores actually the fee income or service revenue went down, but they were offset by the increase in e-commerce, marketplace and particularly Magalu Payments. And for the future, we have an upward positive trend. Stores going back to normal and marketplace growing and Magalu Payments growing even more. Sellers anticipating receivables automatically even higher so chances are service revenues will be positive as well Dani.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Thank you. Congratulations again for your results.

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

Thank you.

Operator

Mr.Robert, Bank of America.

Q - Robert Ford {BIO 15127836 <GO>}

Good afternoon, everybody. Congratulations. Could you talk about the improvement in the shipping terms that is to save the time? And how do you intend to leverage this to the 3P? And what would be the situation of a faster delivery to the marketplace for the marketplace?

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

Thank you very much for the question. Well, the focus of our logistics is to deliver faster. And at the same time increasing the number of deliveries of (Technical Difficulty) Beto and his team and part of the Andr's team as well. They want to reduce the time of delivery and then they will have to find a way to do more volume for 3P. And this is where the focus is

Bob. This is and I cannot talk anymore about that because of strategic reasons. But you can track this number because you will see the results, deliver faster and deliver more for 3P.

Operator

Gabriella from the --.

Q - Analyst

What about your dynamic in July and August, now that you have reopened the stores? And what about click-and-collect and other formats that were more relevant before the pandemic? It would be great if you could give us some color. The sound was very bad. Apologies.

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

Thank you for the question, Gabriela. We have not published the figure for August specifically. But the line was very important, very high growth rate and this is the same trend by the end of the year. In August we have even more 95% of those stores are open. And the trend of e-commerce is of an accelerated growth and we accelerated and we changed the level. So we are tapping into this opportunity. So the trend is very positive. I cannot tell you specifically about any figures, but we are very happy with what we are doing over August as well. Was there another question? You were asking something else about August?

During the second quarter, we almost had nothing of this modality, which was very relevant for us in terms of faster delivery and freight costs or shipping costs. And it ended up affecting the level of expenses in the second quarter, but as stores were being reopened and we had confidence that the stores would not be closed again, then we reactivated the store pickup modality, and it is growing consistently. And very soon, it will go back to the levels of the pre-pandemic levels, about 35%, 40% of our online sales. And adding now the shipping from store, which is quick and cheap. So in this case, going to the client's home. So the return of the store pick up plus the ship from store, all this improves our cost and the quality of our delivery. And this one will once again be a competitive advantage of us in the second half of the year.

Operator

This concludes the Q&A session. I would like to give the floor now to Mr.Frederico Trajano for the final remarks. Mr.Trajano you have the floor.

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

Once again, I would like to thank you all for joining our conference call. Special thanks to the whole Magalu team, including the Board of Directors. Thank you very much.

Operator

This concludes Magalu's video conference call. Thank you all for joining us. Have a good day.

FINAL

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