

## Q2 2021 Earnings Call

### Company Participants

- Andre Fatale, Vice-President of Platform
- Eduardo Galanternick, Vice President of Business
- Fabricio Bittar Garcia, Vice President of Operations
- Frederico Trajano Inacio, President
- Roberto Bellissimo Rodrigues, Chief Financial Officer and IRO
- Robson Dantas, Head of Fintech

### Other Participants

- Daniela Eiger
- Joseph Giordano
- Luiz Felipe Poli Guanais
- Robert Ford

### Presentation

#### Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to Magazine Luiza's Conference Call to discuss the Results for the Second Quarter of 2021. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. Afterwards, there will be a question-and-answer session. (Operator Instructions)

Now, we'll turn the conference over to this Frederico Trajano, CEO of Magazine Luiza. Mr. Trajano, you begin the conference.

#### Frederico Trajano Inacio {BIO 17269235 <GO>}

Good afternoon, everyone. Thank you for joining our conference call related to the second quarter of 2021. A slightly unusual time for this call, 4 p.m. Friday. A very hectic week with several results being published, so that's the slot we managed to find. I'll try to be very to the point. In this presentation, I will speaking myself and then Robson Dantas about fintech and Roberto Bellissimo the financial highlights.

And right after that, we're going to start a Q&A session. All the managers of the company as usual will be joining us in this call. We'll try to work on different questions so they can also help with the answers. So the second quarter on the first slide, the second quarter started with a hiccup in late March. We had somehow to go back to last year's picture and

shut down all the company stores. With going through a second wave, it was like a nightmare after everything that we've been through last year. The difference being that actually we consider to be well prepared this time, better prepared to shut down the stores. Many stores already had a mobile remote system with 70% of the billing, even though all stores were shut.

The online operation was very fine-tuned, very robust in order to have additional volumes coming from stores that were closed. So despite this hiccup, even though we didn't want to have Brazil going through the same moment again, we were calmer to go through the second quarter. And luckily, the second wave and social distancing moves by the government became more effective.

It was intense. And on April 20, we opened the stores. So we had 20 days closed. And we had approximately 2/3 of the stores open throughout the quarter. And last year, over year 2020, we had 2/3 of closed stores. So this is more favorable now. And like I said, the more robust, better prepared condition, including physical stores and remote sale model in order to hold our billing.

So despite all difficulties in early April, we already went back to normal in our operations over May and June. And for the quarter, I think the highlight to explain, if you think about the sale now on Slide number 3, we managed to have very significant growth at the company, particularly owing to the stores. Like I said before, 2/3 of the stores were closed last year, and more than 2/3 of stores opened this year. So we have it easy base.

Like I said in the beginning of the year, the base of the second and third quarter would be easier than last year. We had a hard time owing to the pandemic. And this year we were easier, growing 102% in physical stores. But if you compare sales in physical stores in the second quarter of this year, year-over-year or better saying 2019, many analysts are right about considering this base. We increased 16%, soon managed to hold our sales at the stores by increasing the area. But even with same-store sales, we had a positive territory and which is good because Brazil is a whole, went digital after the pandemic.

Speaking of digitization on the next slide, the big highlight this quarter, this year was e-commerce growth on top of the most challenging base in the market. Last year, we had a second quarter that was brilliant in e-commerce, growing 80%. Compared to the other companies, we had the highest growth. And the whole market expected earlier in the year to have a stronger impact even coming closer to levels in 2019, but we managed to increase by 46% e-commerce into this base and total growth over 2019 of 313%, the highest average for the last few years.

With a big emphasis on 3P. If e-commerce as a whole increased by 313% over 2019, 3P increased more than 400% with a very good market share. We had BRL10 billion online GMV and 3P from 3P. So we highlight e-commerce as a whole. And 1P was well above the average of the market. We increased also 40%, but 3P this quarter alone increased 60%. So once again, e-commerce as a whole 300% vis-a-vis 2019 and 3P 400%, showing the robustness and resilience of our business.

FINAL

And at the end of the day, any retailer who wants to grow the business at large. So on the next slide, we can see that by managing to support our growth and having good numbers of stores and having exponential performance in e-commerce, we increased 60% vis-a-vis last year total GMV of the company, including 1P, 3P, physical stores at 50% growth, which was already extraordinary in the previous year, vis-a-vis 2019, 140% growth.

Anyway. The big highlight, no doubt about it, this quarter was our growth and managing to support growth on top of a significant base, particularly for e-commerce as we had last year. And the highlight here and what really puts ourselves as unique in the market is that we can do that with profitability. Obviously, last year because the stores were closed, the company had an EBITDA margin, which was lower, 2.5%, the stores were closed. We had to pay the rent, employees were there, the store closed. And like we said in the second quarter of this year, this result eventually goes down dramatically, but that was temporary.

And after the pandemic, now the profitability level, EBITDA percentage is around 5%. Like we showed in the last quarter of last year and first quarter of this year, once again of its second quarter of this year, a more normal profitability level with a company that is growing at the rate that we are with the positive EBITDA territory growing 210% on top of a very bad base last year and BRL89 million adjusted income.

Roberto is going to give you more details later on, but we are heavy capitalized. So the company consistently delivers with growth and cash generation. That's not something for a couple of years. For the last five years, Magazine Luiza the only company in the e-commerce Brazilian market managing to grow. We're the fastest growing company over five years. By far the biggest in Brazilian e-commerce, but the only company that can do that with profitability and consistent cash generation. It is not being profitable one quarter and not the next one. We have consistent result generation.

The only time we were not positive was last year, like I said because the stores -- nearly all stores were closed. But even in 2020, we generated cash. Cash generation with consistent results, which is our approach. And early in the year, we had this concern, a big concern about this quarter, owing to a low comparison but out of competitiveness. And because we don't have competition in the market, it has always been competitive. But our model once again proved to be resilient, and grow in, in a positive territory both in results of cash generation, regardless of competition. Because every year we have different competitors. Investors always can see we have different competitors, but we keep on delivering and adding new elements and finding new avenues for growth at the company.

Roberto is going to tell you more about it. And speaking of growth, I would like to highlight again our arrival in Rio. A lot of what we did in the quarter is to sow seeds for the future. And very intense efforts, even though we opened Rio stores only in early July, all the preparation for Rio happened in the second quarter, very intense work, training thousands of staff, renting -- renovating stores, dozens of stores. So we got into the second largest consumer market, about 15% of the consumer market in Brazil, 11% of Brazilian e-commerce in Rio. And our penetration was only 5% of our e-commerce in Rio, 0% physical stores.

FINAL

So the arrival in Rio is a game changer when it comes to market share of the company. And Rio expresses very well, the power of the multi-channel. We already opened 33 stores. Later, we can talk about expansion in Rio, and we'll be opening another 50 stores by year end. We had a distribution center, the only physical operation in Rio was a DC of 130,000 square meters. And it's shading where (inaudible) was born. And we'll also open via -- three hubs that are cross Dawkins in order to speed up delivery in Rio. And with 50 stores, 30% of the area is for delivery purposes. And we'll be accelerating more than twice the delivery time and delivering by half -- reducing by half the delivery time, increasing conversion and taking Rio to more significant levels in our revenues, and therefore, have more share.

So Rio is the evidence of multi-channel and we had a very robust entry plan. We got into Rio in a very comprehensive manner, 360 degrees presence in BRT, bikes in Rio. And we also have a sun screen, so illuminated the -- (inaudible) in blue. So the first impression is very important. And naturally, we delivered an excellent first impression in Rio.

Another highlight for the quarter, like I said before, when it comes to GMV growth in marketplace, more than 60% this quarter for 100% growth vis-a-vis two years ago or three years ago. 3P is the fastest growing in Brazil. We've posted amazing results and also they interest sellers. For the last four months, we have 34,000 sellers into our platform, active sellers, generating revenue. And naturally we have a criterion to report the number of sellers, which is very robust.

They have to be active and deliver significant sales to be in the platform. And 84,000 sellers is more than what we've had in the 15 prior months. So in four months, we were equivalent to 15 months before, speeding up with 10,000 sellers per month into our platform. And important is to highlight that half of them come from a platform that we designed last year to save physical retailers in the pandemic. Partner Magalu, clean water this time rather than approaching sellers who already went digital. Now, we're focusing in more than 7 million to 100,000 analog sellers in Brazil. 7 million, 100 [ph] in total. Only 100,000 selling online, and the rest are physical. They're not online. And we created a platform to make these companies digital. It is Partner Magalu launched in the pandemic. And today, it is a driver for growth in our marketplace, bringing new sellers with a different profile, local inventory, regional inventory. Very important to our ambition to have a hyper local marketplace in the process.

And the physical store, that's a very important thing to say, our point of uniqueness in our approach for marketplace and our marketplace vision. Our marketplace will be multi-channel. So the physical store is both a hunting and farming and seller point. And also as I would say later on, a logistics point. So this multi-channel approach is a uniqueness at Magalu. And Magalu now for the last five years had the fastest growth and the best profitability in the Brazilian e-commerce. And this is what really makes a difference into 3P and certainly will make a difference in the future. It's a different model, no longer the same. It's a marketplace model, which has multi-channel. And checking the ranking, half of the sellers come from local stores. The stores are helping us bring local commerce in the neighborhood. And it does make a difference for ranking which is not so obvious.

FINAL

So this is the year of YouBlinkedItArrived, PiscouChegou, logistics. We've been heavily investing in logistics. 4 billion primary in follow-on. And this funding has several goals, but undoubtedly, one of the most important use of proceeds of the funding is to invest in logistics. We have the fastest delivery in Brazil, 50% of our deliveries are in one day. In June, we launched one-hour delivery. The logistics team was just amazing, 140 stores are ready to have their inventory serving customers who want to have one-hour delivery. We have 30 cities. We want to take one-hour delivery to all big capital cities, including more cities until the end of the year, and conversion when we offer one-hour delivery, which is something new to Brazil. It increases by 60% compared to conversion when we offer 48-hour delivery. It's a very high conversion rate.

We believe marketplace operations, which don't have a physical presence, e-commerce operations, which don't have this presence, will never get to one-hour delivery. So that's an important differential to the company. And to make it more robust and give more capillarity to our growth, we had another strategic acquisition. Another one in logistics after Logbee and others. We have Sode now, it was already a partner these ultra-fast deliveries. And it's in a fleet model that is more similar to motor bikes and bikes. And it's going to grow. And together, we're going to expand very significantly in this one-hour delivery process. The bulk of our revenues will be available there, and we are confident it's going to be a sustainable driver for growth. It is not only that is temporary that you do with high-cost or excess marketing expenses, but by providing a good level of service.

And with these delivery times, we are going to have all-time high here. Just to give an idea, in 1P, our NPS is 85. Generally, the company, we are reaching 77 NPS in e-commerce. It's the highest NPS in the market. And we expect to increase it even further by bringing 3P into the game.

On the next slide, a couple of words on this. Like I said, the whole uniqueness we have from multi-channel, which allowed the company for the last five years to generate cash, be profitable, grow above the market, this will be used for 3P as well. I already talked about ranking sellers, now focus on logistics. We have 590 stores ready for online and 3P pickup. By around more than 3,000 stores will be enabled for that. I know it doesn't sound very big, but we launched this modality very recently. And today, more than 10% of all customers who buy 3P at Magalu decide to have a store pickup. They don't want to pay the shipping fees, sometimes there's nobody at home, there is not a porter. So click-and-collect, which was very good for 1P, is now uniqueness for 3P and helping us grow above the market average. And certainly, going forward, it's going to be even more significant growth-wise.

And another highlight for physical stores in 3P as well is Magalu Agency. Our stores now have partnership with a postal service. So some stores are ready to do that, about 600 stores by year-end. And the seller who sells the Magalu's platform, rather than leaving the product at postal office unit, they can have it at Magalu store. So they can have the drop-off inside Magalu stores and use the truck that was there to deliver a product. Like click-and-collect or supply the stores, the truck goes out empty. And we are going to use this truck to distribute the sellers' goods. We always optimize the chain a lot. And certainly it's going to be another differential of ours.

We already -- (Technical Difficulty)

On the next slide, by investing in area and physical points for the first time since our IPO, since we went public, since our IPO, for the first time, we have a guidance for our operations. We're going to strongly invest, so we can have the most capillarized, dense and regional distribution and logistics in Brazil, which will equally serve 1P and 3P from 1 million square meters of storage area to 2 million by the end of 2023. 185 DCs and hubs, 400 in total and 1,400 to 1,700 stores. And this is for storage as well, it's a DC. So more than 2,000 points of storage and delivery and cross-docking in Brazil serving the bulk of the Brazilian market and Brazilian cities. This capillarity if you don't have a physical store and if you don't have all this investment, hardly ever will this be backed. And this seamless operation for 1P and 3P is quite a differential.

The Chinese which come with pure marketplace without one-day delivery, one-hour delivery cannot beat our level of service, including pure market player that have 20 or 30 DCs or 40 DCs, they cannot beat this capillarity of 2,000 points we have. So it's a great point of uniqueness. It was a differential for 1P. Multi-channel approach brought us here, and it will also take us forward and help sellers sell more and convert more.

By the way, we have our Expo Magalu. This is for our 90,000 sellers, and this is going to be held next Tuesday. We have Magic Johnson with us who will be a keynote speaker next Tuesday at Expo Magalu. Ricardo Amorim will also be there. I'll be speaking. Luiza Trajano will also be there. Nathalia Arcuri, Rebecca from the Olympics is also going to be there. And all our management will be sharing news of this 3P universe, including news on logistics, like Agency Magalu and 2P. We're going to let you know all about it next Tuesday. We're very excited with the possibility of exchanging information with sellers, mobilizing everyone and showing that e-commerce has come to stay.

And we also had very emblematic acquisitions that I'd like to highlight. Two of them which were recently announced. One of them is KaBuM!. We have a pillar of new categories. We also have a brilliant performance by Netshoes, an amazing performance. It was having losses for many years, but we had a turnaround. And from Q1 this year, it's posting very significant growth, a leader in the Brazilian sports market, ensuring the capacity of the company to deliver via SuperApp and generate results from acquisitions. And also Epoca Cosméticos is amazing as well. And we just got into another vertical, actually is a super niche, one of the fastest-growing markets in the world, which is the gaming market. We acquired one of the most amazing e-commerce companies in Brazil, KaBuM!. The consumer base is very loyal. 2 million active users, BRL3.5 billion as revenue, very profitable, BRL300 million, very well managed by the founded members. And they will be with us for a couple of years at least.

And I'm very happy to see that we just concluded the acquisition. Actually, we're just awaiting for CADE's approval next month. And we're very excited with the arrival. That's a niche, the gaming niche that is the fastest-growing in the world, 95 million gamers in Brazil, investing more and more in physical and digital products in the gaming environment. And KaBuM! Is going to be just amazing for us to grow and explore the super niche just as we did with other players that we acquired. And certainly, they'll be adding value and bringing SuperApp catalogs and bring all this capillarity and logistics.

FINAL

KaBuM! Has already delivered these numbers with just one DC. So just imagine 2,000 distribution centers. This is what happened to Netshoes, increasing profitability. And certainly, KaBuM! Will deliver the same success for the future.

Finally, we acquired some other companies in the fintech universe from fintech. And we had already acquired way back then, but the approval by the central bank only happened at the end of June. And fintech is obviously one aspect of our business, which is not very well known in the market. And our objective from now on is to grow this business and freed irrelevant. It's already big, it's already profitable, but the potential is huge if we look ahead. We have a very clear objective here with these acquisitions, with everything that we do in the fintech universe. And we are already existing operations, for instance, with (inaudible) and with Itau, credit.

And we want to take advantage of the scale of the digital world and give this fintech the possibility to grow on top of our scale, on top of our business. And the fintech will be, on the other hand, monetizing our ecosystem. So we are placing our bets on the fintech to help to monetize and bring more profitability and bring the profit pool. Well, the profit pool is huge with the fintech. And we will certainly see over the next two quarters and years, a bigger wave of the fintech in the revenues of the company -- but mainly in the top line.

And I would like to ask Robson to explain our fintech strategy, the product so that you meet Robson, because he is the head of our operation, and he's the one who will be leading this business. We already have over 500 people.

### **Robson Dantas** {BIO 21853544 <GO>}

Thank you, Fred. Good afternoon, everybody. I came here today in order to talk about something that within Magalu, has become a higher and higher priority. And in the short time of operation has already shown exponential growth and a huge potential. And we are placing a lot of efforts here. And this image of the infinite represents what we have here.

Let's talk about monetizing the ecosystem. And in practice, this is already happening, and we develop products that today connect or promote connection in the Magalu system. And this exponentiality of the company allows us to bring besides monetization, another important component. So as we are able to gain scale, we lower our operational cost, and this represents a gain for the whole ecosystem.

And there is another point that is very relevant, which is to bring frequency to the chain. So besides monetizing, we also look at frequency, and I will be talking about MagaluPay. But by means of the fintech, we are able to bring new clients onboard, clients that are not necessarily trying to buy something in order to bring frequency to the SuperApp. This is very important. So this quarter was an extremely relevant quarter for us, many investments that we started making last year, we put them in practice already within this quarter. And Fred talked about the Fintech Hub -- well, Hub Fintech. With the regulatory approval, it brings us a regulatory framework, which is very important for us to grow and

to add scale and give access to the Brazilian payment system, besides bringing a very robust team and the structure for the processing of prepaid cards. We have already started all the integration. And later on, I will be talking about this in detail.

And the second big acquisition was the Bit55, which is a platform for the processing of the credit cards. And this platform besides contributing to the strategy of the hub, that is to see, it brings another role of services. It contributes for the strategy of Magalu as well. Because in the concept of fintech, credit is one of our top priorities, and this is what we are working on.

On the next slide, I will start by talking about MagaluPay. I would like to remind you that we launched MagaluPay last year, and we reached 3.3 million accounts. We started with cashback, and we evolved the product in order to become a digital wallet. So I always say that we have a very close connection between cards and the wallet. And one of the points that we've worked over the quarter was a connection of the new Magalu card, which is a top hit. We launched this card at the end of the third quarter, beginning of the second. And we have been able to double the volume of monthly issuances of cards. So 6 million cards with a total credit balance of BRL13.5 billion. And the product that is offered to the cardholders, and they have a personal credit already of BRL1 billion. And in this quarter, we closed our operations with BRL10 billion [ph] TPV. And we have a roadmap to make this experience card wallet become more -- become better and better. Cashback is already a reality. So client that buy in the ecosystem, they have cashback. And MagaluPay has been helping increase loyalty. And we are able to place many benefits for those who have the card so that we may bring in the concept that I mentioned, recurrence and frequency.

Next slide. And here as Fred said, the blue ocean are acquiring operation that works with sellers. We have an infinite potential for growth. I would like to remind you that we launched Magalu Pagamentos last year in a vision of capturing electronic transactions for the sellers, and factoring of receivables is really the most important. And we launched FIDC in order to offer credit to the sellers. And we see that part of these loans that we give our sellers is used in order to drive their operations with us. So we are spending a lot of energy in order to improve the journey and to grow. And we started to scale this. And then we get into the very big news that have to do with the acquisitions that we have made.

If we take the TPV that we had in the last quarter, we are talking about BRL4 billion. As if we had picked, we reach 5. All this money basically does not stay in the hands of Magalu. It is sent to the account, where the sellers have the money and with a Hub Fintech arrival. We launched the digital accounts and this money that the sellers have in Magalu, it can be deposited to this account. This is for free, free of charge, starting with a prepaid card. And with the Bit55 acquisition, we will have the functionality of credit card in the platform.

And Fred has already told you what is going to happen. On the fintech side, we will be launching our devices during our event. And these little devices will be divided into three audiences. One for the entrepreneur, one for a stronger establishment. And another one fully integrated to the Magalu, Magalu Partner where we bring about the digitalization you can sell online and offline.



Now, well, that's what I had to say. And now I give the floor back to Roberto to continue the presentation.

## **Roberto Bellissimo Rodrigues** {BIO 17269312 <GO>}

Thank you very much. Good afternoon. Also thank you very much for participating in our call. I'm going to mention first our main highlights. Let's talk about our financial highlights, which are six, the main highlights that we have on the slide. Just to repeat or reinforce, 60% total sales growth from a very high base. E-commerce, 46% growth. 112% total physical store sales growth. Almost BRL14 billion total sales. BRL455 million adjusted EBITDA, increasing threefold vis-a-vis last year, margin of 5.1%. And net income 89%, net margin of 1%.

These are the main financial highlights. And on the next slide, we explain the evolution of our EBITDA margin. We doubled from 2.6% to 5.2%. Gross margin was practically stable in this quarter. And the big highlight here was the dilution of expenses. In spite of April, where part of the stores still closed, mainly in April. But even with the situation, we have been able to have a very big operating leverage. And we grew net revenue over 60%, and our expenses grew a little more than 40%. So in fact, this is a very big leverage of our administrative expenses, lower than 3 percentage points, a very big dilution here. All in all, with a dilution of 2.6, 2.7 percentage point dilution, which explains the leap in the EBITDA margin. And overall, we have been keeping our SG&A around -- between 20% and 21%. And it is one of the lowest historical levels ever. Once again, it is because of our multi-channel model. It is fully integrated. And it is able to combine growth and income and cash generation.

And talking about cash. We go to the next slide, where we get into details. First about working capital and showing the history in March last year when the pandemic really hit, we had the need of BRL500 million in working capital. Then the e-commerce sales accelerated very quickly, and we grew very fast. And the variation of working capital was of about BRL2 billion last year when we generated a lot of cash. And then afterwards, we continue to evolve working capital, reducing our need for working capital over the year and not this year because of the seasonality and the closing of stores again. Our need for working capital went up to BRL900 million, better than March last year. And now in June, we have improved this, again vis-a-vis March, something around BRL200 million. We're not yet in the same position of June last year because of a strategic decision of reinforcing our inventories and preparing ourselves for the second half. And we have to look at the coverage of our inventory for the second half. Last year when sales went up very steeply, we ran with a very low inventory level, and we had some stock-outs. And this year, we have reinforced our inventories and with a lower risk of any kind of interruption.

On the right, we show the adjusted net cash, and it is a consequence of -- a direct consequence of the evolution of the working capital and also of the investments that we have been making and that we will be showing on the next slide. And here, I would like to mention that with a follow-on, we would end June with a cash position -- a net cash position of BRL7.7 billion, almost BRL8 billion, our best position ever. And very well prepared to make the investments that we will be making from now on.

On the next slide, we show cash generation for the quarter. Again, another quarter with a very strong cash generation. And if you add the depreciation in valuation of the working capital, we generated BRL400 million cash. We invested BRL300 million. We paid leasing and interest of BRL200 million. We bought back shares and paid dividends of BRL400 million. We had a funding of BRL700 million, and a follow-on of 3.9, reaching a cash position adjusted of BRL10 billion. Once again, our highest ever cash position.

On the next slide, we get into details about cash generation in the last 12 months. We had BRL800 million net income, depreciation and the variation of working capital associated to the inventory that I said. All in all, we generated almost BRL1 billion in cash flow from the operations. We invested BRL1 billion between investment and acquisitions. We paid leasing BRL600 million and interest. We bought back and paid dividend BRL1.4 billion. And once again, the funding and the follow-on in order to reach the BRL10 billion cash.

So you can see that our cash position is very, very sound. And we are very well prepared. And on the next slide, we'll be talking about the results of consumer credit, Luizacred had another spectacular quarter. We had already talked a lot about the Cartao Magalu, the Magalu Card. And we also talked about it extensively. And we doubled the pace of sale of new cards reaching 6 million cards in this quarter. And the total volume also grew, the TPV to almost BRL10 billion, over 60%. And in the half year, also very accelerated, a very positive for the result of Luizacred as a whole.

And on the next slide, we show another highlight, which has to do with delinquency. Short-term and long-term delinquency also going down, and the coverage ratio went to over 220% vis-a-vis 160% last year, and provisioning very strong. And even with this very strong provisioning, Luizacred was able to double profit to BRL48 million, and in the half year, more than doubled to BRL84 million. And here, just for comparison purposes, NBR GAAP [ph] which is the way we report, BRL200 million net income in the half year. So you can see that it is even higher than the net income in IFRS, reflecting the quality of the result and the quality of the portfolio of Luizacred.

And on the last slide, just reinforcing the follow-on. We concluded this in June. We had a primary funding of almost BRL4 billion. A very strong focus on investments in logistics, technology and acquisition, strategic acquisitions such as the hub, such as KaBuM!, Sode and all the others.

And with that, we end our presentation. And now we would like to open for questions. Thank you very much.

## Questions And Answers

### Operator

(Question And Answer)

Ladies and gentlemen, now we will start the Q&A session. (Operator Instructions) Mr. Luiz Guanais from BTG Pactual.

## Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

Good afternoon, everybody. I have two questions here on our side. And the first point has to do with the service platform you have been talking about this for quite a long time. And could you talk about this so for Magalu. What about the evolution of that from now on? The second question, getting more into the engagement on the part of the seller, do you see an increase in this engagement with the initiatives that you have been developing mainly on the payment side, so maybe you could talk about that as well?

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

Good afternoon, Luiz. Thank you for the question. The mini apps, well, this is something I didn't tell you about during the presentation about the launch of some operations within the context that you mentioned in this one. So, Fátala, could you play answer this question? Thank you.

## A - Andre Fátala {BIO 21479328 <GO>}

Well, regarding the mini apps, we launched the first mini app, that was built for the IT forming [ph] and it is already published in the Magalu app. We are operating in big cities, taking a lot of feedback about the utilization on the part of users and having some improvements in the experience. It's running very well. We are already developing another one with a external partner.

Regarding the development kit and we have all this learning curve and we are getting feedback of third-parties using this solution and we are having an integration with Magalu Pagamentos as well. Doing everything through Magalu Pagamentos and we should have some news to impart. And when we have a very good structure already up and running, we will be rolling this out for other companies in the group so that they may connect by means on the SuperApp. And also, we will be publishing the SDK APIs for third-parties involved with solutions, that will be published also in the SuperApp.

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

Thank you, Fátala. About the seller engagement, when we see 400% growth of 3P vis-a-vis '19, we have a very robust growth of GMV sellers. And when I considering the seller world, you have two large groups in fact. There are more segmentations, but are going to simplify, you have the big sellers. The one that have practically in operation in which, they don't even need services like Electrolux and Madea, Mendes and big sellers, and they don't really need a very big array of services, be them financial or logistics.

They have been growing of course, but our focus is the base of the pyramid. The small sellers or the medium-sized sellers, many as I said during my presentation, coming from a Blue Ocean. The analog sellers and who are selling for the first time digitally without, and for these sellers who are the focus on Magalu, they're growing much more than 400%. And so, we are totally focused on these sellers in the sense that we have a very high level of services we issued their electronic invoices and which is a very big difference, because these sellers were not used to sell online. And we do factoring of the receivables and we have the delivery part and now the weather drop off, it will be much easier for them to

use their services. So that they may both the product as of our store and we will always work to be better than the government postal office.

So I don't have a disclosure of their engagement, but you can see that the growth of the active base of sellers is huge and also the GMV growth. These are the sellers that really need Magalu. Magalu has a purpose to digitalize and help Brazil to become digital and digitalize the Brazilian retail in general. And bring access to everybody to the message, our focus has always been the method. Magalu has no location for the big sellers, but the small and the medium ones, we are doing it work of food service and Leandro Soares and his team, they are working very hard to guarantee that we may deliver the best level of service and the fact that we have the local support in the store, not only bringing the sellers but supporting them in their basic needs helped a lot.

And not to mention the education, because we have courses for them of all kinds. So we give them training, so that they can be a total -- totally digital to be able to use the platform. So I'm super, super enthusiastic about it. And we're talking about 70,200,000 analog sellers and we are going to help them become digital. We are going to grow with their help and we are going to help them increase the penetration of e-commerce in Brazil and bringing this up to the great that we have been more mature countries.

#### **Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}**

Thank you very much. And I think there is another effect, which is the growth of the regional e-commerce.

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

Yes, undoubtedly. And it has everything to do with our focus, our marketplace, the multi-channel. When I talked about that way back, then people said, well, this is not going to be any different and our 1P today is totally dominant, it dominate. And you can see that it grows much more than the market is very much because of multi-channel. And I'm sure that multi-channel brought our 1P here and it is also going to bring our 3P. It will be as nobody does that today, many investors do not understand this differences, competitive advantage, but you can be sure that the 3P is going to be a make a very big difference.

#### **Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}**

Thank you, Fred.

#### **Operator**

Joseph Giordano from JPMorgan.

#### **Q - Joseph Giordano {BIO 15875778 <GO>}**

Good afternoon, everybody. Thank you for the question. About the ecosystem that you are creating regionally. With IT forming and others, how are you evolving in this connection of sellers and grocery shops. And what about synergies from the regional logistics view point? And another point that I would like to ask has to do with the digital platforms that

you are setting up? And how much you would be able to leverage credit for non-digitalized consumers and those who do not have a bank account for it and how could you leverage this with third-party platforms maybe?

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

The first question is the following, yes, our top priority now e-commerce already has 200 clients. Supermarkets and they have a very good penetration in Brazil. And the focus of e-commerce is to integrate this catalog to the SuperApp. This is more or less what we did with IT forming that Fátala described. And the idea is to do a little bit differently conceptually but bring this catalog here. And at the same time, they are growing their client base and I think the following, for product that are domestic product.

The product that are easier to plan, buying non-perishable products and with a very high turnover part of these products, we can have here in in-house with the 1P, 40% of the 1P items sold by Magalu market items. But most of what is sold today in the market are very regional, with very complex logistics involved. And operating a chain nationally with perishable products and product that are too regional, because they are not all perishable, but they are sometimes very reasonable. And it's difficult to become relevant in this segment without having the marketplace, without having the 3P operation. So the focus of e-commerce is to integrate that take the catalog of 200 and deliver the services for payment and even logistics for these networks. Once you plug them here, you also plug Magalu delivery, Magalu (inaudible), MagaluPay, Magalu Pagamentos.

And this is the focus of the logistics team and the e-commerce team also have the objective of increasing the number of sellers and extending their 200 change to others and half of Brazilian retailers are supermarket -- supermarkets. This is the biggest segment and 1% penetration online only, so our focus is to help these companies increase their online participation. About the credit for sellers, I'm going to give to Roberto to add to have some. Then Roberto add.

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

Sure. Joseph, good afternoon. Thank you for the question. I'm going to address your question in two parts. First part, when it comes to distribution channels, Fred, already told us more about it in the beginning of the presentation. Magali -- Magalu has a very strong sales force and a lot of experience in offline and online. Naturally, our strategy is going to be mixed. We cannot just say that we will be online only. The test we ran in recent months gave us good insights on how the operation model should work naturally in our strategy, we have a whole mix of formats that we're working on and actually if you through digital and physical using our sales force.

Second point about scalability, funding and operations, which is the main point of your question. Today, we structured our own FIDIC, our own capital. We use partners to support in the concession process. And we've been working a lot in experience. We understand the most simple to the point and timely experience, the better traction we can have. To what extent is going to be like that in the future or if you're going to levered using third-party capital or having quoted in the market. It's too early to say anything.

There are several possibilities, but right now, the strategy is to work on experience, run test and then begin to scale it up.

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

Roberto, anything to add? Perfect. Well, I believe this is it. I think you've said it all. It has to do with origination and the ability to generate and manage and also including seller relationship. Funding Joseph, I think it's the easiest part, we have FIDIC, which is our own capital but easily we could also resell credit and have the origination the -- or share of the risk. There are many ways to lever, leverage the FIDIC and other financial institutions, we can use to provide funding. The value lies in origination, that's a fact.

**Q - Joseph Giordano** {BIO 15875778 <GO>}

Thank you.

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

Thank you.

**Operator**

The next question is from Robert Ford with Bank of America.

**Q - Robert Ford** {BIO 17150724 <GO>}

Good afternoon. Thank you so much for taking my question. Could you tell us more about apparel and personal care. I know the rates are low. But what about the behavior once consumers go back to shopping malls? And how do you expect the 3P proposes to stay or to compete with the integrated rivals, like groceries, for instance?

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

Hi Bob. Thank you for the question. Eduardo is going to answer the first part of your question.

**A - Eduardo Galanternick** {BIO 20410320 <GO>}

Thank you. Hi, Bob. Thank you for the question. These verticals or categories are very constructive adding sellers assortment. We have a number of developments taking place and novelties, particularly, for the second half of the year. Naturally owing to the nature of the category or it was not so significant in the past, but it has been growing very significantly now. If we think about the growth rate, it's among the highest. So I think we're very excited with what we are to build. We know these are drivers for growth in the future and to some extent, this is it, unfortunately, we cannot give a teaser of what we're doing, but you'll hear from us soon.

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

Thank you. As for the market, I think I spoke a little bit about it, right, Bob? The way how we think about it. We believe local operators and regional operators have a very strong

FINAL

power in the market. This market is not so concentrated yet and it's not by chance. And that's because region and proximity to local consumers is still very important. So our approach once again, is to be 1P with categories that are easier to be run. With better economics, good turnover, more predictable and high demand. And the long tail for categories and sellers. So having local networks, regional networks and supporting them with their own e-commerce and plug their capital into our platform via 3P. So, it's more 3P rather than 1P.

Overall speaking, 1P is important, but the focus, the main focus of the category for the future lies in 3P and e-commerce helps us because at the end of the day that small and mid-sized networks or change, they don't have something for or as a platform. So, VIPCommerce is a pioneer for grocery stores. They specialized in grocery stores, so the idea is to grow in mid-sized networks and also in small chains, mom and pops for the future. So our strategy is the long tail and being regional and absorber 3P and as for high inventory products, we can have 1P at Magalu, that's our focus.

So proximity should exceed integration in terms of cost of delivery and local scale. I think it also involves regional knowledge. If you know the industry well, it's very specific, the mix is very different, sometimes you have different mix by cities, for instance, or by region, Brazil is a continental country. So it's not only that, it's hard to work with a centralized operation. That's what I mean. But obviously, it involves economics and local inventory. No doubt about it.

**Q - Robert Ford** {BIO 17150724 <GO>}

Thank you.

**Operator**

Richard from Bradesco.

Hello, good afternoon. Could you talk about the one-hour delivery from the technological side and the operational side? What are you doing or what do you have to do in order to map the product that will have a higher demand for one-hour delivery? And what does your road map to road this out for the next few months?

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

Hi Richard, I'm going to ask Fabricio to answer your question. Yes. Specifically, in terms of technology, Fatale, will cover. Thank you very much for the question. I think Fatale --

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

Well, the acquisition of Sode was very important for our strategy. And because of this, we will be able to scale and roll out this modality very quickly. We know which are the best sellers, we have our algorithm in the distribution area and replacing the store. The items that have this very high turnover and that can be delivered locally by bike in the future and we are very well adjusted. In July, we launched the shift from seller, another modality, and we will be able to place ultra-fast delivery for them in terms of structure. Of course, we

have to recruit the couriers and prepare the stores in order to serve this modality. So everything is very well-adjusted already. The product that has to be separated is done -- well, this is done in 15 to 20 minutes and then it is delivered in up one-hour and our goal is less than one hour. Today, we already have a 184 stores in 40 cities and by the end of the year, this will be present in all the capitals and 400 stores. This is our rollout -- roadmap. Fátala, would you like to add something specific?

### **A - Andre Fátala** {BIO 21479328 <GO>}

It was very well said. And as we understand the demand on the part of the consumer by means of the weapon of their channels, we can -- in which the models of our algorithms in order to be able to send the product that has the highest demand for ultra-fast delivery. And we have doing -- we have been doing a lot of work in software in order to manage these items in the physical stores. As it -- like a mini DC, for instance, and we are working on that and as Fabricio said, it is simple to do the roll out to all the stores and be able to send the correct products to these stores in order to be able to offer this to our client that is to say has auto fast deliver in up to one-hour.

### **Operator**

Thank you for the answer.

The next question is from Daniela Eiger with XP Investments.

### **Q - Daniela Eiger**

Good afternoon. Thank you for taking my question. At the end of the day, my question is recurrent in the industry. I'd like to better understand your mind with these competitive dynamics. We have this concern in the industry at large of having the take rate drop or some are more aggressive in marketing. So what is -- what are your thoughts about possible levers or drivers, take rate, cash back, free shipping. So I'd like to better understand the vision of the competitive scenario that you're facing right now? Thank you.

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

Daniela, I think I answered this question, a couple of times to you in previous calls, and it's very important. It's a latent point of concern. And ever since we went public, I answer questions about competitors. You have a different cycle of competitors, it's always changing. So for many years speaking of Amazon and more recently now, the Asian ones. So, our industry is competitive, I always say that it's fortnight game not FIFA. There are several competitors simultaneously including banks with their own marketplace. So I hope it has come to stay. I hope it's always a competitive market. I wouldn't enjoy to be in a monopoly or oligopoly. It's important to be a winner. But once you have good competitors and you start overcoming them, our style remains the same, Daniela. That's a style of working on the sustainable intelligent competition.

If you check our track record, we've always grown without concessions for this growth. So I tend to say that growing by using investors' money and subsidized and sellers and end users without generating a positive long-term effect or a good LTV over CAC ratio. This



FINAL

means to destroy value of those who are betting your business shareholders, so we don't want to bring shareholders value to an end. We want to increase the share value over time. So we want to grow by building a sustainable foundations for growth. So everything that I've said before, Daniela, to some extent is for that purpose, when our delivery for instance, or making it available drop off to sellers at the store level or click and collect, these are intelligent solutions, services that we are delivering with a marginal cost to us, because we already have brick-and-mortars, we have the truck going and coming back from the store, and I can benefit from this motor channel approach to provide higher level of service.

So if you have high NPS as we do, if you have grade level of service, if you have ultra-fast delivery much faster than our competitors and you can do it at a very low cost. You don't need to work on irrational concessions. If you check our trade-offs for growth in the past, vis-a-vis the margin, they happen, you're right. We might do it in the future but not because of our short-term practice just for the sake of competition. We only do that because we want to grow more and because there was a good LTV over CAC ratio. So, for instance, this quarter its worth investing, because we managed to find a good equation to monetize this customer in the future and will be profitable with cards with sellers.

But if you check, our results, our EBITDA margin this quarter was the same as we had in the first quarter of the year, the same of the last quarter of last year. So we've been managing to support it. And we are building a new monetization vehicles like fintech and other aspects that we mentioned before. So competition is an average variable that is going to be here. So our option by and large is to be in this competition by showing a unique value proposal both for end consumers, our clients, and our sellers who are also clients of ours. So if you have a unique level of service for the end user and for sellers, at the end of the day, you'll grow with fewer concessions that are not sustainable or not so intelligent.

### Q - Daniela Eiger

Crystal clear. I'm sorry to insist, but that's a point that we always want to know to understand the dynamics, which is very lively, like, I said, you have different competitors coming up and strategies changing their shape, but it's crystal clear now and congratulations on the results.

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

Thank you.

### Operator

Our Q&A session has come to an end. We would like to turn the floor back to Mr.Frederico Trajano for his closing remarks. Mr.Trajano, you may proceed.

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

FINAL

Once again, I would like to thank you all very much for your presence, this is rather an unusual time, Friday afternoon, thank you very much. So all analysts who have asked questions and our team with the brilliant execution and with a very strong comparison based from -- base of last year. And I would like to say that we are very enthusiastic looking ahead, 10% penetration in e-commerce in Brazil. And that you can see that there is a lot of room for growth and for improvement of our digitalization of the country and show that more retailers may experiment the growth potential of their businesses by means of participating in the digitalization of the country. And we are sure that we can help because we have done this here at Magalu, and I and I am sure that we can help them and transferring all this experience and also, our will to help these companies looking ahead. So we have a huge opportunity ahead of us. We are very enthusiastic about it and we want to obtain the same success in the future as we have been obtaining so far. Thank you very much. Have a very nice weekend.

## Operator

Magalu's Video Conference has come to an end. Thank you very much for participating and we wish you a very good afternoon. Thank you.

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

Bloomberg Transcript