MELI Q1'12 Earnings Conference Script

Date: May 8th, 2012

MERCADOLIBRE 1Q12 EARNINGS CONFERENCE CALL SCRIPT

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended March 31th, 2012. My name is Alex de Aboitiz and I am the head of Investor Relations for Mercadolibre. Our senior manager presenting today is Pedro Arnt, Chief Financial Officer. Additionally, Marcos Galperin, Chief Executive Officer, and Osvaldo Gimenez, Executive Vice President of MercadoPago, will be available during today's Q&A session. This conference call is also being broadcast over the Internet and is available through the investor relations section of our website.

I remind you that management may make forward-looking statements relating to such matters as continued growth prospects for the company, industry trends and product and technology initiatives. These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable, in view of the currently available information, you are cautioned not to place undue reliance on these forward-looking statements. Our actual results may differ materially from those discussed in this call, for a variety of reasons, including those described in the forward-looking statements and risk factor sections of our 10-K and other filings with the Securities and Exchange Commission, which are available on our investor relations website. [PAUSE]

Now, let me turn the call over to Pedro.

Part II: Overview & Financial Results – Pedro Arnt

Thank you. Hello, and welcome, everybody.

Before I jump into a recap on the results of our most recent quarter, I´d like provide you with an update on our current efforts, as they relate to our ongoing strategy, and as new initiatives gain speed in our quickly evolving e-commerce market.

A little under two years ago now we set out an ambitious agenda that involved re-writing our entire platform architecture to make it more flexible, open, and adaptable to new technologies. We made the decision knowing that it was of strategic importance not only for the optimization of our existing business, but also to allow us to better respond to new challenges and opportunities that our ecosystem faces in the rapidly changing and evolving technology landscape.

Today, as we re-cap how 2012 has started, it is important that we point out that we are pleased with how we have been executing against the strategy we outlined. Our "new world platform", as we have called it, already makes it easier for us to advance on the ambitious product and service roadmap we have set out, enabling parallel improvements and a faster pace of innovation across our different business units. Not only has this allowed us to pick up our pace of innovation , but it has also enabled us to start thinking ahead and making up for lost ground as we make our initial forays into mobile-commerce, social commerce, verticalization of our category offerings, expansion of our payments platforms, improvements in our customer service levels and more.

This quarter, and most of this year will be about continuing to build on the solid groundwork of our New World project, advancing on key improvements to the user experience across our marketplaces, payments, advertising and shops services. We look forward to bringing you quarterly updates in the advances we make, starting with this quarters highlights.

During the first quarter, we saw sustained momentum in our metrics while continuing to focus on executing the abovementioned strategic initiatives.

Improvements made in the second half of 2011 to the way users shop online on our properties continue to drive additional growth. A quicker registration process built into our buying flow has consistently brought us a strong inflow of new users. Now, in the first quarter of 2012, 3.6 million new users registered on MercadoLibre, a 37% growth versus 2.7 million in the first quarter of last year. Simultaneously, the redesigned buying flows have kept unit sales growth above the market rate of growth, as we believe we continue to gain regional share of market in both units and volume.

To illustrate the sustained strength of our business let me first highlight some key metrics for the latest quarter:

- 15.0 million items were sold on our marketplace, versus 10.9 million in the first quarter of 2011, a year-on-year growth of 38%.
- Gross Merchandise Volume was $1.3 billion, versus $954 million in the same quarter of 2011, a year on year growth of 45% in constant currencies, and 39% in USD.
- We had 4.9 million transactions on our payments platform, versus 2.6 million in the same quarter of 2011, a year-on-year growth of 85%.
- And, Total Payment Volume reached $370 million, versus $245 million in the same quarter of 2011, a year-on-year growth of 61% in constant currencies, and 51% in USD.

These metrics illustrate the health of our e-commerce ecosystem from the perspective of both marketplace and payments, despite foreign exchange headwinds.

This solid execution is a consequence of improvements in the way we enable users to shop on our platform. Many of these Q1 improvements have been gradual iterations on previously launched products, services or features; while others have been recently released product innovations that we believe will generate important long-term value. Among these newer initiatives I would like to mention a few:

- We surpassed 2.1 million downloads of our mobile application since it went live, promising a significant source of future volume. Additionally, during the quarter we launched an HTML mobile version of our website, and continued to improve the native IOS and Android versions of the application, meaning that you can now complete the entire purchasing flow from search down to checkout on the mobile app.
- We also made progress on verticals, which, as I mentioned earlier, is an important initiative for future growth. While consumer electronics still represent more than 50% of what is sold on our marketplace today, vertical categories such as sports and apparel are just beginning to show their potential, and we believe we can speed this up. In the first quarter we launched the first phases of vertical fashion categories in Brazil, making it quick and simple for our sellers to offer more variety in terms of colors and sizes, and improving the visual interface for apparel product pages with better pictures and zoom capability. We are very excited with initial results and will continue with more subcategories throughout the second quarter.
- In the meantime, it is exciting to see another of our strategic initiatives, social integration, making its first steps. We are increasingly exploring innovative ways to leverage existing social networks, integrating them with the experience of buying and

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selling on our platform. Although actual GMVe being generated through social networks is immaterial today, we believe we are laying a solid foundation by increasing the amount of commerce content distributed by our users throughout their social graph. We are already seeing multiple millions of users per day streaming MercadoLibre products through their social networks, and we see potential going forward.[PAUSE]

- In beginning to match optimizations made to the buying flow in the second half of last year, this quarter we increased the pace of improvements made to selling flow and seller inventory management tools, with the objective of ensuring that sellers on our platform have the proper tools to manage increased traffic, transactions and information generated by our platform.
- Our Classifieds marketplace has also benefitted from new vertical functionality rollouts, as its own vertical features have undergone significant improvements over time. In the first quarter we made substantial progress on our real estate platform, with a newly launched quick-view feature, more prominent highlights of our most popular offerings, and an open API for realtors to bulk list properties onto MercadoLibre. These enhancements, and our focus on professional broker/dealers in motors and real estate, are all driving the current success of this business, as reflected in a very solid topline growth.
- And finally, during the quarter we finalized the first stage of our migration over from a proprietary CRM that had served us until now to Salesforce. This initial milestone means that all customer service queues are now running on Salesforce, and we can now advance with greater efficiency on the constant process of improving customer interaction processes and service levels.

And now, before I walk us through our financial results, I would like to address our payments business' quarterly performance in particular.

After a thriving holiday season, our payments volume decelerated in the first quarter of 2012. A solid transaction growth of 85% year over year was partially offset by lower average payments in dollars, as we experienced:

- FX headwinds year-on-year,
- Saw a lower proportion of multiple item or large-ticket payments after the holiday season
- and witnessed less demand for installment options as well.

To a lesser extent, and on a more positive note, lower average payments year-on-year also resulted from our impressive off-platform payments growth, which has brought a variety of new e-commerce players into our ecosystem, such as group discount sites and a diversity of other stores that generate lower ticket payments on average. We are very obviously pleased with this particular lower average ticket driver, as the growth of payments outside of our marketplace occurs across a diversity of different players, allowing us to grow with them and further develop the e-commerce ecosystem in the region.

While factors behind our decelerating first quarter growth were mainly, as I just mentioned, seasonal or FX-related, in part this deceleration was also attributable to the fact that most of our MercadoPago programming efforts in the first quarter focused on long term initiatives, as we:

- continued transitioning from old to new architecture in payments (a few quarters behind marketplaces in this sense),
- completed our migration to a new and more flexible gateway,
- and kept improving our scoring and CRM models, helping us to ensure that the growth of MercadoPago occurs alongside with steady improvements to our user experience.

This focus on the back end came at a cost in terms of short-term growth rates, witnessed in decelerating growth as a consequence of two factors:

- less innovation on consumer facing features on the MercadoPago platform during the quarters
- and some non planned downtime during the March migration to the new architecture generating operational backlogs and loss of TPV that have been fixed by April

Moving to our financial results for the first quarter of 2012, we believe our e-commerce ecosystem continues to perform well because of the additional value it is providing our users year after year. As our ecosystem grows and develops, we are retaining our focus on offering increasingly better service and satisfaction to buyers and sellers alike. We are convinced that this is the right strategy, and we must continue to focus on executing against it. Once we do so, we trust that financial results will accompany regardless of other external factors such as macro conditions or competitive landscape.

Allow me to highlight some of our key financial metrics before going into further detail on our performance in the quarter. I will call out year-on-year growth rates unless specified otherwise.

Specifically, in the first quarter of 2012:

- Net revenues grew 36% in US dollars to $83.7 million, a 44% growth in local currencies.
- Gross profit margin was 74.8% vs. 76.7% in the first quarter of 2011, and 76.0% in the fourth quarter of 2011.
- Income from operations grew 29% to $24.9 million, with an operating income margin of 29.8% vs. 31.4% in the first quarter of 2011. In local currencies, operating income grew 36% year-on-year in the first quarter.
- Net Income before Income/Asset Tax Expense was $26.9 million, representing 34% growth.
- Net income was $19.6 million, a 40% growth year-on-year. This represents a 23.5% net income margin versus 22.9% a year earlier. In local currencies, net income grew 47% year-on-year in the first quarter.

And now for a detailed discussion of these results starting with our top-line.

Since our core marketplace fees represent a majority of our revenues, gross merchandise volume growth remained a principal factor behind our year-on-year revenue growth.

Final value fees continued to grow at a very solid pace, also driven by year-over-year pricing as a consequence of processing more payments on our marketplace, and charging for greater value delivered. This was partially offset by a greater share of promotional GMVe than last year, as Mexico and Venezuela did not offer free listings a year ago. Let me remind you that these free listings continue to be an important part of our strategy as they are a seller acquisition tool and improve selection for our buyers. In the meantime, upfront fees accelerated this quarter, due to price adjustments in the first quarter on our optional listing formats that offer better placement.

TPV growth also contributed to our top line not only through bundled pricing on-platform, but also through off-platform payments that contributed stand-alone processing fees on significantly more volume than last year, as this business expanded organically, and geographically. Mexico and Venezuela contributed growing off-platform payments in the first quarter of 2012, while these operations had not been launched in the first quarter of last year.

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Additionally, financing revenues contributed to revenue growth on the basis of a higher payments volume choosing installment options versus one year ago, partially offset by a shift to lower installment purchases that carry a lower spread.

Topping off our revenue growth, Classifieds and Advertising, as mentioned earlier, grew at a very good pace on the basis of enhanced features and a larger client base than last year. Classified and ad sales revenues for the first quarter of 2012 grew 43.4% combined over the first quarter of 2011.

In summary, the underlying drivers of each of our revenue streams were healthy, as indicated by the following growths on a country basis:

In local currencies, consolidated net revenue growth was 29% for Brazil, 85% for Argentina, 35% for Mexico, and 66% for Venezuela.

In terms of units, sold items grew 43% for Brazil, 31% for Argentina, 33% for Mexico and 42% for Venezuela.

And now for a detailed look at our cost structure during the first quarter:

Gross profit grew 33% to $62.6 million, representing 74.8% of revenues, versus 76.7% in the first quarter of 2011, and 76.0% in the fourth quarter of 2011. Year-on-year gross margin contraction is attributable to increased interchange fees associated with processing additional payment volume, as well as $1.2 million of incremental other costs of goods sale mainly related to MercadoPago.

Operating expenses for the period were 45.0% of revenues, versus 45.3% in the same period last year, 30 bps of improvement in operating leverage which would have been higher in the absence of certain events specific to this quarter, which I will describe shortly.

In absolute terms, Operating expenses totaled $37.7 million, a 35% increase versus the first quarter of 2011.

Specifically:

- Sales & marketing remained the largest line item expense, increasing 32% for the quarter to $17.4 million, and continuing to show cost efficiencies, having decreased as a percentage of revenues to 20.8%, vs. 21.5% for the same period last year.
    - Aiding the natural leverage in this expense line, in the quarter we received a reimbursement of 0.6 million dollars from one of the banks that process our payments in Brazil, for amounts erroneously processed in the second quarter of last year, a charge that we had absorbed in our own P&L in that period.
    - We attained this leverage despite chargebacks increasing year-on-year at a faster pace than revenues, as the driver of this cost line is our rapidly growing payments volume. Spending on these fraud loss provisions in the quarter totaled $2.4 million more than in the first quarter of 2011. [PAUSE]
- G&A grew 34% year-over-year to $12.7 million in the first quarter, impacted by the accrual of $1.0 million pertaining to our long-term retention plan, based on our higher stock price in the quarter. In addition, this quarter we accrued $0.9 million corresponding to a claim from Venezuelan tax authorities of previously unpaid taxes. As a percentage of revenues, G&A was 15.2% vs 15.4% in the same period last year, though leverage would have been more significant without the one-offs discussed.

- Product & technology expenses grew 47% to $7.6 million compared with $5.2 million for the first quarter of 2011, mainly through increased investments in head-count and technology related services, as we continue to expand and strengthen this team which is essential to the plans of the business.

One additional point of note pertains to seasonal salary and wage increases: the first quarter has the largest sequential increase in payroll costs due to annual inflation and merit compensation adjustments. Total salary and wage expenses in OPEX for the quarter grew 24% on a sequential basis, and 33% versus last year as headcount grew by more than 60 employees sequentially and more than 250 employees versus a year ago.

Operating income for the first quarter of 2012 was $24.9 million. Operating income margin for the quarter was 29.8% vs. 31.4% in the first quarter of 2011, a decline primarily driven by increased chargebacks and one-off expenses.

Below Operating Income, we benefited from $3.1 million of interest income, aided by higher cash balances and interest rate yields in Brazil.

With that we arrive at a pre-tax income of $26.9 million, 34% higher than in the same quarter of last year.

Tax expense was $7.3 million in the first quarter of 2012, resulting in a blended tax rate of 27.0% versus 29.9% in the first quarter of 2011 and also 29.9% in the fourth quarter of 2011. Year over year tax improvements were mainly driven by greater mix coming from Argentina, were we have our lowest tax rate, and certain tax efficiencies we benefitted from in Brazil this quarter.

Net income for the three months ended March 31, 2012 was $19.6 million, reflecting an increase of 40% when compared with $14.1 million during the same period of 2011. This represents a 23.5% net income margin, up from 22.9% for the same quarter of 2011, resulting in a basic net income per common share of 45 cents.

Property & equipment and intangible asset purchases for the quarter totaled $3.7 million, and consequently, for the period ended March 31, 2012, net cash provided by operating activities less Property & equipment and intangible asset purchases, totaled $15.3 million, versus $12.2 million last year.

Cash, short-term investments and long-term investments at the end of the quarter totaled $201.7 million.

Wrapping up our first quarter results, we think the solid momentum of our business reinforces our focus on product and execution against the strategic initiatives I outlined earlier on. I look forward to a year that will continue to bring many new improvements to the user experience we deliver; improvements that over time have proven the most effective driver of growth to our business. As our suite of e-commerce offerings keeps broadening its already unmatched selection, we will continue working on the most efficient formats to bring buyers and sellers together and allow them to transact online as efficiently as possible. I am eager to report back to you on our progress as we strive to make this happen throughout 2012.

With that, we will now take your questions.

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