



MELI Q1'11 Earnings Conference Script

Date: May 4, 2011

MERCADOLIBRE 1Q11 EARNINGS CONFERENCE CALL SCRIPT

Part I: Introduction and Disclaimer – Investor Relations

Welcome everyone to MercadoLibre's earnings conference call for the quarter ended March 31, 2011. Company management presenting today are Marcos Galperin, Chief Executive Officer, and Hernan Kazah, Chief Financial Officer. Additionally, Osvaldo Gimenez, Senior Vice President of MercadoPago, and Pedro Arnt, VP of Strategic Planning, Treasury and Investor Relations 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. [PAUSE]

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 Marcos.

Part II: Overview/Summary – Marcos Galperin

Thank you. I would like to welcome everyone to today's conference call, in which Hernan and I will address our first quarter 2011 results.

I would like to start off by sharing a few of the key indicators that bring into focus the overall health of our business during what I believe was an excellent first quarter, and an excellent beginning to a year that we all feel very enthusiastic about. Hernán will later provide greater detail on our financials.

So, let me begin with a few key metrics in the first quarter. Please bear in mind that growth rates are year on year unless otherwise indicated:

- Confirmed registered users were up 24%, indicating that our strong flow of internet visitors translates to actual growth in users with the intent to buy and sell.
- Items sold grew 31% as transactions on our site are not only growing through additional users, but also with increased user engagement and additional buying and selling on a per capita basis.
- Gross merchandise volume growth was very aligned with the growth in items sold, increasing 30%, totaling \$954 million in the quarter.
- Our payments operations continued accelerating their impressive growth momentum, with a 149% increase in number of payments made through MercadoPago.

These growth rates demonstrate the strength of our business, and underscore positive secular trends that we continue to see in the region. More importantly, we are delivering solid growth even as our latest IT efforts remained primarily focused on our mid-term goal of revamping our platform architecture, prioritizing our future competitiveness above initiatives that might have an impact on immediate growth.

Our business model has kept us on top of the fast-paced growth of e-commerce in our region, as our unparalleled marketplace constantly enriches its selection, and as we continue to build a network of relevant, value-adding services around it. The successful evolution of our ecosystem is evident in the momentum of each of our businesses, which I will review separately in a moment.

First, let me provide an overview of how this positive operational momentum flowed into our results:

In the first quarter, our company generated:

- Revenues of \$61.5 million, an increase of 34%;
- Income from operations of \$19.3 million, an increase of 24%; and
- Net Income of \$14.1 million, an increase of 46% ...
- ... resulting in EPS of \$0.32.

As you may recall, our year-on-year revenue comparisons for the first half of this year are negatively impacted by a change in MercadoPago financing operations, as revenues generated from installment-related financing charges are now reported net of the cost of discounting credit card receivables. Had financing receivables also been pre-sold in Q1 2010, respective year-on-year growth:

- in net revenues would have been 44%
- and in income from operations would have been 50%.

Let me now turn to a review of first quarter performance for each of our business units, starting with our core business.

One of the strongest attributes of our marketplace is its unparalleled selection, as shoppers on MercadoLibre have access to the richest array of choice of any online platform in the region. In this context, I am always interested in signs of a vibrant supply that continues to outpace itself.

One very good indicator of a broadening supply base in the first quarter was a live listings growth of 48%, as our “list for free and pay for placement” approach continues to be extremely successful in reaching out to new seller profiles, and as we see increasing engagement among our existing sellers as well.

In the first quarter we saw growth of:

- 35% in total unique sellers
- And 53% in new listings

The launch of free listings over the past quarters also contributed to our new seller growth this quarter, allowing newcomers to test our marketplace at no cost through a limited trial, and proving extremely valuable for sellers with a limited number of articles to sell. Additionally, we were able to quickly bump up repeat sellers to our paid formats that offer greater conversion, joining our increasing base of repeat sellers.

As we accomplish the task of getting our sellers to list more, we are also placing a greater focus on driving them to deliver a quality user experience to our buyers. Our high volume sellers in particular, are increasing their efforts to meet the constantly higher standards that we set for them.

We ensure that they remain aligned with us by:

- rewarding quality sellers through our algorithms, giving them priority within their listing type
- making our top tier placement available only to sellers with high buyer satisfaction ratings
- and, screening for sellers who don't comply with our criteria for service quality

Consequently, an increasing number of our power sellers, or MercadoLideres, are committing themselves to new levels of excellence in their entire sales process, from pre-sale questions and answers down to speed and quality of fulfillment. These sellers understand that by maintaining high service levels they can obtain the best product placement, and that teaming up with MercadoLibre's efforts to provide the best possible buyer experience benefits everyone in the short and the long run.

In addition to these initiatives to align buyer and seller incentives during the quarter, we continue to take any opportunity we see to improve the efficiency of our marketplace. This quarter we delivered improvements to our page navigation and optimized our search across a diversity of products. For example, we improved the conversion performance of over 300 thousand search queries. Our ongoing programming efforts promise similar efficiencies going forward, in addition to the larger opportunities implicit in our new architecture, which I will expand on shortly.

To close my review of our core business in the first quarter, our efforts and the industry's secular growth trends combined to generate an absolute volume of almost \$1 billion, with GMVe growth accelerating to 30%, versus 26% growth in Q4 and 12% growth in Q3 of 2010.

[LONG PAUSE]

Turning to Classifieds, in the first quarter we saw excellent results along the lines we have drawn out for that business. Professional sellers have grown their share of listed volume and revenues year-on-year, reflecting the successful efforts of our sales force in reaching out to car dealers and real estate brokers, with the substantial volume and monetization opportunities this entails.

In the meantime, we have improved our product with our professional clients in mind, offering better web tools, multiple listing functionalities, and also with the launch of premium listings that last until they are successful.

While achieving success on the dealer segment, we have also made our Classifieds site more attractive to individuals through a freemium model that offers access to the highest e-commerce traffic in the continent, starting at no cost, and then offering the possibility for better exposure in our paid formats. Free listings in the first quarter remained very successful at expanding our user base, while upgrades continued on the rise. This and the higher degree of dealers placing multiple classifieds listings of their own, has made for a very healthy growth in classifieds offerings for our buyers.

This constantly improved service has allowed us to add value to our offering, and to bring more users to our paid formats, making for an excellent and sustained momentum in terms of Classifieds revenue growth. I am very pleased with the excellent results we have had in re-energizing this business, maintaining our leadership in the classifieds market.

[LONG PAUSE]

Moving on to another story of fast-paced growth, our advertising revenues had excellent year-on-year growth in the first quarter while we continued to guide this business away from display banners, increasingly into the realm of search advertising.

We like this move for many reasons. It eliminates banners that are potentially distracting to our shoppers, consistent with the greater “tidiness” and visual clarity we have achieved on our site since the elimination of optional features, and the improvements to our view item page formats. It is a shift to a much more relevant and precise form of advertising for an e-commerce marketplace such as our own, driving eyeballs straight to what users request in our search box and it allows us to better adjust our pricing on the basis of the added success that an e-commerce platform brings to retailers.

Most important of all, this transition leaves us positioned for further growth in a previously untapped area for us, one that we feel is highly scalable. Through MercadoClics, we continue to attract large retailers to our platform on a CPC basis as they recognize MercadoLibre to be the most relevant source of e-commerce traffic in the region. This explains the growing list of top brands and large retailers opting for MercadoClics. Once again Q1 saw the presence of the most established large retailers in each country, while in the quarter we attracted new brand names as diverse as Microsoft, Epson, Renault, and Home Depot.

It is therefore no surprise that MercadoClics have been immensely successful so far, continuing their triple-digit growth momentum into the first quarter of 2011. Search Revenues now account for roughly two thirds of total advertising revenues, whereas display represented a higher share than that just one year ago.

I am very pleased with this high potential business which is already accretive to our ecosystem beyond the high margin revenues it contributes, consolidating MercadoLibre as the foremost one-stop-shopping solution for buyers seeking the widest range of choice and brands for any specific product, and for sellers seeking the largest audience of online buyers in Latin America.

[LONG PAUSE]

Moving on to payments. MercadoPago continues to grow its penetration of transactions on our marketplace, guaranteeing a quick and expedient payment, an overall better experience, and greater user engagement in the marketplace.

Our bundled pricing approach is paving the way for full adoption of MercadoPago in our largest markets, Brazil and Argentina, and very recently in Mexico. In the first quarter, the share of total MercadoLibre live listings offering MercadoPago was 84%, up 14.5 percentage points over the same period of last year. We look forward to gradually bringing this number even higher as we rollout the bundled pricing approach and the new MercadoPago to our different operations.

In the first quarter, consolidated MercadoPago TPV accelerated its growth to 98%, vs 74% in the fourth quarter. Total payment volume penetration of our GMVe reached 26% in the first quarter of 2011 vs 17% a year ago. By March, Brazil penetration specifically, reached 47%.

We have made an important gain in payments penetration, but the biggest gains are still to come. We treasure this opportunity, because of the implicit improvement in user experience on our marketplace and the added user engagement it delivers.

It is our intention to keep paving the way for on-platform payments growth through smart communication of incentives and benefits such as installments, by continuing to bundle it with our marketplace as we roll out MP3 in more countries, and by gradually making payment through MercadoPago obligatory on purchases on our platforms.

[PAUSE]

I would now like to discuss the progress of off-platform MercadoPago, which continues to grow faster than the rest of our business and represents a huge opportunity for us. With a 47% QoQ growth in its total payments volume, it now has approximately ten times last year's volume for the same period.

Though our main focus will continue to be expanding MercadoPago on the marketplace, we have very aggressive plans for this incipient business which targets the entire e-commerce market, nurturing itself on MercadoPago's on-platform growth, reputation, and stored balance, which will become increasingly meaningful to e-commerce merchants outside of MercadoLibre. Merchant acquisition is high, and MercadoPago off-platform growth is occurring in step functions, which has led to the growing contribution to revenues.

In the first quarter of the year we rolled out off-platform MP3 in Mexico according to plan, as we did with MP3 on platform in this country on April 15th. Through this and other well-timed deployments, and increasing presence of the MercadoPago brand name as a whole, I think this business has tremendous potential going forward.

[LONG PAUSE]

I would now like to update you on the progress we are making with regards to our new platform architecture, or New World Project, as we call it.

Many of the new APIs on the new architecture are already up and running. In Q1, we had a successful migration in aspects pertaining to search, item and user administration. Our home pages, search results and product description pages are all running on new technology already. We also made lots of progress in other key parts of our site although they are not yet visible to our users.

We are excited about this latest phase of New World we are entering, as every aspect of our business that is transferred to New World is immediately enabled for independent releases and better time-to-market. Even as we continue to work on our back-end, stages that are already complete will allow for immediate user-facing initiatives. Prominent among these are:

- geolocation: for improved local features and alternatives
- catalog: for greater uniformity and ease of choice when buying and selling standard products
- vertical integration: for category-specific user experiences
- and third-party integration: for better interaction with outside developers and partner applications pertaining to web, desktop and mobile devices

In other words, New World will pave the way for substantial advances in both the near-term and the long-term.

[LONG PAUSE]

I am firmly convinced that our business model and its execution are what allow us to remain on top of such a strong e-commerce momentum as our region is experiencing. As always, we are doing everything we can to look ahead and perfect our business with a view to the long term while maintaining current leadership and improving our reaction time to new formats and devices as they become relevant to e-commerce in Latin America.

Our site is very different from what it was just a few years back. It is a more compelling place to shop, offering more simplicity and ease of use in what is now a much larger marketplace, with a wider product selection, a much larger buyer and seller base, and a broader range of services offered. It provides more and better services, and our value proposition will continue to improve as our payments service spreads to more transactions, as we improve existing processes and grow in compatibility with outside players and with new form factors.

We are doing more and doing it better. At the same time, we are conscious of ways we can keep improving our existing business through smart innovation. This, to me, is the ideal outlook.

[PAUSE]

Before turning the call over to Hernán, I would like to take a moment to talk about the planned management transition that we announced today. I want to thank Hernán for his outstanding work since the founding of this company, as he has played a key role in its development. Working next to Hernan all these years has been a privilege. He is both a friend and an outstanding professional with strong analytical skills and execution capabilities. We are thankful that he will be present during this transition period as he hands his role over to Pedro. In addition, we are pleased to continue to promote from within and provide our existing senior management team with new challenges and opportunities. We are confident that Pedro is exceptionally qualified for his new role as CFO, having worked at MercadoLibre for 11 years and the last several years reporting to Hernán as head of Strategy and Treasury interactions, in addition to the Investor Relations role many of you have met him in. Pedro also has extensive knowledge of our company's aggregate operations and strategy. He will head a seasoned team of executives with extensive knowledge of our company and our industry, while he joins an executive team that is eager to lead MercadoLibre on its continued growth trajectory, guiding the long-term success of our business.

Now let me turn the call over to Hernán ...

Part III: Financial Results – Hernan Kazah

Thank you. [PAUSE] As Marcos just mentioned, our first quarter was an excellent start to 2011, showing continued momentum for all of MercadoLibre's business units as reflected in our strong topline growth. Our sound financial health allowed this to flow into even greater bottom line growth.

To put the quarter in perspective, let me provide some financial highlights:

[PAUSE]

In the first quarter we generated:

- Net revenues of \$61.5 million;
- A gross profit margin of 76.7%;
- Income from operations of \$19.3 million, and
- Net income of \$14.1 million. [PAUSE]

Resulting EPS for the quarter was \$0.32.

Our growth came from increasing volume in all of our businesses, led by a 31% increase in items sold, taking marketplace gross merchandise volume to \$954.0 million. This is a 30% increase in U.S. dollars and a 23% increase in constant dollars; within this total, Brazil accelerated its growth in items sold to 34% versus 27% in the previous quarter. Brazil's local currency GMVe accelerated to 16% year-on-year versus 8% in the previous quarter. USD GMVe growth for Brazil was 26%.

Let me quickly remind you that the change in our MercadoPago Financing operations effective since the second half of last year affects our year-on-year comparisons in terms of revenues, operating income, and margins over revenues, while having no impact on our Net Income or EPS. For this reason I will also discuss growth in comparable terms when this apply.

[PAUSE]

During the first quarter we generated solid growth in all of our key financial metrics.

Specifically:

[PAUSE]:

- Net revenues grew 34% in US dollars, and 26% in local currencies. Making revenues for the prior year quarter comparable by subtracting \$3.4 million of costs directly associated with MercadoPago financing, growth was 44% in USD and 36% in local currencies.
- Gross profit margin was healthy at 76.7% vs. 77.9% in the fourth quarter of 2010, and 78.5% in last year's first quarter.
- Income from operations grew 24% to \$19.3 million, with an operating income margin of 31.4% vs. 33.8% in the first quarter of 2010. Had we pre-sold receivables in last year's first quarter, operating income margin for that period would have been 30.3%, and year-on-year income from operations growth would have been 50%.
- Net Income before Income/Asset Tax Expense for the first quarter 2011 was \$20.1 million, representing 46% growth in US dollars.
- Net income was \$14.1 million, a 46% growth year-on-year. This represents a 22.9% net income margin versus 20.9% a year earlier. [PAUSE] Had we pre-sold receivables in last year's first quarter, Net Income margin for the first quarter 2010 would have been 22.6%.

[PAUSE]

Our year-on-year growth was benefited by the strong GMVe growth that I already mentioned, and by our bundled pricing which covers the equivalent of last year's stand-alone final-value-fees, plus a higher total processing charge based on increased volume transacted through MercadoPago, as our total payment volume grew 98% year on year in the quarter.

Financed volume on our site has grown hand-in-hand with accelerating payment volume, contributing increasing revenues from financing, even in comparison to the prior year, when we did not pre-sell receivables. We expect this favorable dynamic to continue as MercadoPago keeps gaining ground, particularly as we rollout MP3 to more countries. This quarter we extended off-platform MP3 to Mexico, and will keep pushing for the growth of this thriving business.

Also, as Marcos mentioned, Classifieds continues showing excellent traction, growing its contribution to overall revenues in the quarter.

In terms of Sponsorship Revenues, the first quarter of 2011 saw the continued advance of our Search Advertising solution, MercadoClics, as it gradually phases out our Display Advertising. One year ago MercadoClics contributed approximately a quarter of our sponsorship revenues, but its consistent triple-digit growth since then has led it to represent

a majority of our advertising revenues today. We expect this trend to continue, while overall sponsorship revenues maintain very sound growth rates overall.

All of the points I just mentioned had a very positive combined effect on the revenues of each of our countries. To provide a breakdown by country:

In local currencies, on a country basis, consolidated net revenue growth was 22% for Brazil, 32% for Argentina, 11% for Mexico, and 59% for Venezuela.

In USD, consolidated net revenues grew 32% for Brazil, 27% for Argentina, 17% for Mexico and 95% for Venezuela.

Note that Brazil's revenue growth is deeply impacted by the change in our financing operations involving the pre-sale of MercadoPago financing receivables. Had we presold receivables in the first quarter of 2010, revenue growth for Brazil would have been 46% in US dollars, and 35% in local currencies.

Consolidated take rate rose to 6.44%, versus 6.28% in the first quarter of 2010 and 6.31% in the fourth quarter of 2010. [PAUSE]

Turning to our P&L for the first quarter:

Gross profit grew 31% to \$47.1 million, representing 76.7% of revenues, declining from 78.5% in the first quarter of 2010, as payments penetration implied more processing cost over revenue. [PAUSE]

Operating expenses for the period were 45.3% of sales totaling \$27.8 million, a 36% increase.

Specifically:

- Sales & marketing remained the largest line item expense, increasing 19% for the quarter to \$13.2 million. As a percentage of revenues Sales & marketing was 21.5%, vs. 24.2% for the same period last year.
- Product & technology remains a principal focus for us. Expenses grew 60% to \$5.2 million compared with \$3.2 million for the first quarter of 2010, as we continued growing our IT team, aware of how important it is to our growth
- G&A grew 52% year-over-year in the first quarter of 2011. This growth was primarily due to:

- higher expenses than usual related to the Argentina headquarters move
- yearly salary adjustments which, as in prior years, were performed in the first quarter
- and a new expense in Argentina specifically, as we are now required to use a portion of that country's tax benefit to fund related audits.

Resulting operating income for the first quarter of 2011 was \$19.3 million. Operating income margin for the quarter was 31.4% vs 33.8% in the first quarter of 2010. Had there been discounting of receivables in the first quarter of 2010, operating income margin for that period would have been 30.3%.

We also benefited from \$1.9 million of interest income mainly from conservative fixed income investments.

Pre-tax net income was \$20.1 million, 46% higher than in the same quarter of last year. Tax expense was \$6.0 million in the first quarter of 2011. This represented a blended tax rate of 29.9% vs. 27.8% in the fourth quarter of 2010 and 29.8% in the first quarter of 2010, an accurate reflection of the blended tax rate in the countries where we operate, optimized by our tax planning efforts. [PAUSE]

Net income for the three months ended March 31, 2011 was \$14.1 million, reflecting an increase of 46% when compared with \$9.6 million during the same period of 2010. This represents a 22.9% net income margin, and resulted in a basic net income per common share of 32 cents. [PAUSE]

Measured in constant dollars, net income grew 39% vs. first quarter of last year. [PAUSE]

Net cash provided by operating activities for the three months ended March 31, 2011 was \$15.2 million, or 24.7% of net revenues.

Property & equipment and intangible asset purchases for the quarter totaled \$3.0 million. Consequently, for the period ended March 31, 2011, net cash provided by operating activities less Property & equipment and intangible asset purchases, totaled \$12.2 million.

Cash, short-term investments and long-term investments at the end of the quarter totaled \$156.0 million. [LONG PAUSE]

Additionally, as you have likely seen, our first dividend payment was made on April 15, 2011, to all stockholders of record as of the close of business on March 31, 2011, in the

amount of \$0.08. We expect future quarterly dividends to be paid in April, July, October, and January.

The company's healthy cash balance to date and expected positive cash-flows should enable it to pay growing dividends going forward, always at the discretion of our board of directors, as they consider the evolving context of our earnings and other factors they may deem relevant to the interests of our shareholders.

I remind you that we believe this establishes a very sound practice, as it is beneficial to our shareholders, and it enforces additional discipline on management, while still allowing the company to accumulate sufficient cash for growth opportunities that may arise.

[PAUSE]

I believe these first quarter results are a continuation of the very positive momentum witnessed at the end of last year, while also reflecting the healthy evolution of our model as we add value to an increasing number of transactions through our payments service. In the meantime our ecosystem of connected business units is not only providing an excellent contribution to our results, but is also improving our positioning as the one-stop-shopping solution with the richest supply and demand in the region, and the widest breadth of offering available.

Separately, as Marcos mentioned earlier, I will soon be stepping down from the role of CFO. This is entirely a personal decision that was very hard for me to make, as I love this company, feel it as a fundamental part of my life and see a bright future ahead for the business. It took us almost 11 years to reach over 200 million dollars in yearly revenues, it may take us much less to achieve multiples of that. However, I feel I have completed a cycle within MercadoLibre, and that it is the right time to reinvent myself and pursue new opportunities in the next ten years of my life. Particularly, I think this is the right time because I leave a company that is in great shape, with the business accelerating its growth, with MercadoPago transforming into reality what we have dreamed of for several years, and with the most solid management team that the company has ever had.

Obviously, as I step down from my day-to-day role as CFO, I will remain an advisor to the company to ensure a smooth transition for as long as Marcos and Pedro find it useful. Though, in this case I believe the transition will be seamless from the start, since the role of CFO passes on to the hands of its natural heir, an extremely capable individual whom I have had the pleasure of working with for the last 12 years. Pedro, our current Head of Strategy Planning, Treasury and Investor Relations, is a most capable professional, a very smart person and someone who knows our company and industry inside-out as he has had

several leading roles in our operations, participated actively in all our strategic decisions and developed a unique sense for tech and consumer trends.

I wish Pedro and his team great success in the years to come.

And before handing the floor over to Pedro to say a few words about his new position, I want to publicly thank Marcos for his great leadership and for having given me the chance to share with him the success of MercadoLibre, and to thank the entire MercadoLibre team for all the passion and effort that they show every day to make our users happy.

Now, Pedro will join us and after that we will be back to take your questions.

Part IV: Personal Introduction –Pedro Arnt

Thanks Hernan.

I want to take a very brief moment to introduce myself to those of you who I have not had a chance to interact with in the past. As Marcos and Hernan kindly pointed out, I have been with the team for nearly 12 years now, and am confident that the experience has given me the required expertise and commitment to carry on the legacy of strong financial and strategic stewardship of our business being handed over to me.

And, to those of you who I have had the chance to work with, I want to re-affirm my intention and enthusiasm in maintaining the open dialogue we have constructed over time; I trust that our interactions have proven to you that I am up to the task at hand.

[PAUSE]

I am honored and excited to take on this role at such an exciting time in MercadoLibre's history. Looking at the opportunities that lay ahead for our company, I am a firm believer that the next 12 years will be even more successful than the past 12 since I joined. With the help of both Hernan, and our highly qualified management team, you can all rest assured that the transition in the role of CFO will be seamless, and I look forward to serving our investors, business partners, employees, and community of users with the utmost commitment and passion.

With that, we will now take your questions.