



# MERCADOLIBRE 4Q'20 EARNINGS CONFERENCE CALL SCRIPT



March 1st, 2021

## PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended December 31st, 2020. I am Federico Sandler, Investor Relations Officer for MercadoLibre. Our senior manager presenting today is Pedro Arnt, Chief Financial Officer. Additionally, Osvaldo Giménez, CEO of Mercado Pago will be available during today's Q&A session.

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 included in this conference call, for a variety of reasons, including those described in the forward-looking statements and risk factor sections of our Form 10-K for the year ended December 31, 2020, and any of MercadoLibre, Inc.'s other applicable filings with the Securities and Exchange Commission, which are available on our investor relations website

Now, let me turn the call over to Pedro...

## PART II - OVERVIEW & FINANCIAL RESULTS – PEDRO ARNT

At the country level, Brazil was one of the highlights during the quarter with FX Neutral gross merchandise volume growth accelerating to 84% Year-over-year, while items sold doubled annually. Additionally, other geographies experienced robust triple-digit growth rates. While we encountered slight sequential deceleration in growth rates as retailers began reopening, this was less pronounced than expected. We had particularly strong performance in Mexico, whose contribution in units sold surpassed Argentina, becoming our second largest geography in terms of sold items, a sign that we are consolidating market share in that country. Moreover, for the first time in our history, Mexico surpassed the \$1 billion-dollar mark in quarterly gross merchandise volume.

Consumer trends towards online consumption remain favorable, signaling positive prospects for future growth. The number of buyers during the quarter reached a record high, resulting in almost 37 million unique buyers during the quarter and surpassing 60 million unique buyers for full year 2020.

The product breadth and increased convenience continues to attract new buyers at an accelerated pace when compared to pre-pandemic levels. In line with this, we've continued broadening our assortment, resulting in over 275 million live listings this quarter, and we remain a partner of choice for local and foreign merchants throughout Latin America. Our first party offering continues to grow, reaching almost \$200 million of total GMV on a consolidated basis and representing high single digits of penetration during certain special promotional dates throughout the quarter.





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I'll now provide some additional detail on Brazil's performance on an FX neutral basis, which resulted in sequential GMV acceleration of 10 percentage points and was a highlight for us during the quarter. Categories such as consumer electronics, where we lagged at the beginning of 2020, grew north of 15 percentage points sequentially quarter on quarter, driven by a renewed commercial and technological focus.

During 2020, our more deliberate focus on Black Friday sales generated impressive top line results. We made a concentrated effort to increase both investments and collaboration across our business units to maximize this peak promotional season. This included rebates and marketing campaigns, which leveraged our unique ecosystem of solutions within advertising, credits, Mercado Shops and Mercado Envios. Unlike other years, we also increased our volume of promotional deals, marked by the launch of our new user interface called Promotion Central, while expanding and improving our return flows capacity. As a result, we doubled Black Friday sales year over year, both in terms of share as well as sessions, resulting in our highest fourth quarter market share on record.

As we continue strengthening our Brazilian ecosystem, we are also attracting more global brands across multiple verticals. Relating to consumer products, we've partnered with Heineken, Kimberly-Cark, Nestle, PepsiCo and Heinz. In electronics, we've partnered with brands such as Samsung, and in regards to home improvement, we are working with Black & Decker and K'archer. Significant progress in this regard yields important brand equity for Mercado Libre and deepens our product breadth, advancing our goal of becoming a one stop destination for e-commerce across a growing number of product categories.

Let's now turn our focus to Mercado Envios, which continues to be a key value driver as we enhance our cross-regional logistics capabilities. Our managed network reached a penetration of almost 80%, with Argentina, Brazil and Mexico at 88%, 79% and 76% respectively. On a consolidated basis, fulfillment reached a penetration of over 30% of all items bought on our platform led by Mexico at 60%, while in Brazil over a quarter of all items are being fulfilled by MELI already.

During the quarter we shipped 214 million items, a growth of 131% year on year, and totaled almost 650 million deliveries for the full year. We also significantly improved our average lead times per shipment, reducing fourth quarter average lead times by 30% sequentially versus the prior quarter. Consequently, deliveries in less than 48 hours improved by 12 percentage points quarter over quarter and by 20 percentage points year over year. Within that, we meaningfully improved the share of same-day and next day deliveries as well.

These results are material in the context of significant volume growth during the peak quarterly period of late November and early December, where lockdowns were still in place due to the COVID-19 pandemic. Not only were we able to handle the excess volume without interruption, but we worked faster and more efficiently under extraordinary circumstances.

As you can see, the Mercado Envios team has been operating at an outstanding level of pace and effectiveness, and we have continued developing logistics capabilities at a quick pace. During the quarter, we continued to open multiple cross docking stations and service centers, while doubling our "Places" drop off point footprint and successfully launched Meli Air with a fleet of 7 dedicated aircraft covering 8 routes across Mexico & Brazil to complement the use of our commercial airline capacity to continue driving down our delivery times. We look forward to continuing to unlock value from this important and growing part of our business as we move into 2021 and beyond.





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With that, now let's move on to the Fintech side of the business. Another critical building block of our value proposition in our journey to democratizing money.

Consolidated Mercado Pago total payment volume reached almost \$16 billion dollars, growing 134% year-over-year on an FX neutral basis, and totaling 659 million transactions in the fourth quarter, representing a growth of 131% year-over-year. Our off-platform payments businesses reached \$9.2 billion dollars growing at a robust 150% year-over-year on an FX neutral basis. Additionally, during the quarter, off-platform total payments in number represented over 75% of all MercadoPago transactions. The trends towards digitization of money continued through the quarter, and our purely offline mobile point of sale offering, Point, began showing signs of recovery during the period.

Online Payments grew 143% year-over-year on an FX neutral basis and continued expanding its merchant base. Within that growth we saw sequential deceleration due to higher impact on long tail sellers amidst the easing of the COVID-19 restrictions. In Brazil, Mercado Pago was among the first players in the market to launch PIX as a means of payment. Our PIX offering is now available for sellers running Checkout Pro or any related products such as Payment Links or other branded checkout Plugins. Our speed in adaptation reflects the agility with which we acclimate to market developments.

MPOS continued its recovery towards pre-COVID levels of growth reaching almost 90% year-over-year on an FX neutral basis, with record activation rates and device sales leading to an increase in active devices. Additionally, the scale benefits of this sustained growth are improving unit economics across the region. Devices sold once again surpassed 1 million on a consolidated basis, reaching over 6 million active merchants in the last twelve months.

Our mobile wallet, the cornerstone of our digital account approach to Fintech, reached 3.3 billion in Total Payment Volume, representing a 247% year-over-year growth on an FX neutral basis. We've successfully focused on increasing engagement of Wallet usage, with positive results in frequency of usage and number of users who engage in multiple wallet use cases.

We continued building our two-sided network during the quarter, resulting in over 14 million active payers and 6 million active collectors. In store QR payments started to again gain share over total wallet usage, representing 20% of wallet TPV. The majority of Wallet TPV primarily resulted from utilities and P2P transactions.

We've continued to enhance our Wallet value proposition by continuing to distribute cards tied to Mercado Pago wallet balances and credit lines for consumers and merchants to fund their wallets across Latin America. This is in addition to our ongoing overlay of savings tech and asset management Mercado Fondo, through which approximately 15 million users have invested funds in their wallet accounts .

In Brazil, we've launched our own debit card, issuing over 3.8 million proprietary cards, replacing all of our previously issued third party cards. Additionally, we launched a new overlay of Mercado Pago's insurtech products: theft and damage insurance. This is our first insurance product and is integrated into our Digital Account as a new financial services feature, covering theft or damage of cell phones and Point-Mini users.

Before moving onto our financials, I'll provide a quick update on Mercado Credito's quarterly performance. The portfolio, which grew to \$479 million dollars, more than doubled compared to the same period last year. Originations during the quarter almost quadrupled versus the fourth quarter of 2019, surpassing \$500 million dollars for the first time. Not only did we drive accelerated growth of the business unit during the period, but we also maintained healthy NPL profiles, resulting in better profitability from our newer cohorts and lower APRs.





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With those business comments, let me now move on to our financial progress report for the fourth quarter.

Starting with a review of our P&L. Fourth quarter consolidated net revenues of \$1.3 billion dollars increased year over year by 97% in USD and 149% on an FX neutral basis, driven by record accelerations in commerce net revenues.

At the country level, Brazil and Mexico revenues continued to accelerate, reaching 120% and 155% year-over-year growth on an FX neutral basis. For the third consecutive quarter, Argentina revenue grew by over 200% year over year on an FX neutral basis. Countries such as Chile and Colombia grew by almost 300% and 150% year over year on an FX neutral basis.

Notably, and as we have previously shared, we have made significant recent investments in Mexico. The fourth quarter marked the first time that this segment surpassed Argentina while using an adjusted blue-chip swap rate, in terms of the percentage of our overall revenue that Mexico represents. We believe this to be a milestone achievement.

Gross profit for the fourth quarter was \$489 million dollars with a margin of 37%, down from 46% during the fourth quarter of 2019. The decrease in gross profit margin resulted from an increase in COGS from our 1P business with aggressive holiday season pure product margins; and shipping operation costs, as we invested in excess capacity to ensure best in class service levels on our managed network during the peak shopping season.

Operating expenses, on the other hand, increased by only 36% year over year in USD to \$514 million. Despite the increase, this generated operational leverage with OPEX as a percentage of revenues improving by 17% percentage points year over year, from 56% to 39% this year.

Our Q4 P&L management aimed to strike a balance between continuing to deliver margin improvements from one year to the next, while also igniting investment in both short and long-term growth, within the context of the gradual normalization of physical commerce, and a competitive peak holiday season.

In the slides accompanying this presentation, we've included the more detailed breakdown of both of these items as we do every quarter.

Moving down the P&L, we incurred \$31.6 million dollars in financial expenses this quarter, mainly attributable to financial loans entered into 2020, primarily in Brazil and Argentina. We also incurred interest expenses from our trusts related to the factoring of our credit card receivables in Argentina.





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During the quarter we also had a foreign exchange loss of \$9.9 million mainly related to the difference of the Argentine official exchange rate and the blue-chip swap rate at which we effectively exchanged retained earnings from our Argentine subsidiary.

Interest income was \$22.6 million dollars, a 16% decrease year-over-year, as a result of lower interest rates in our investments as a consequence of the pandemic, mainly offset by higher interest income in Argentina as our float grows. As a result of this, net loss for the quarter was \$50.6 million dollars.

Building on the precedent we established in 2020, we are very proud to announce that we will release in tandem with our annual report our second consecutive annual sustainability report. Our commitment to sustainability has a strong connection with how we envision our business serving all our stakeholders. The report includes our sustainability metrics on key initiatives that include diversity, social inclusion, labor practices, energy consumption, greenhouse gas emissions, and waste management among other items.

Wrapping up today's progress report, the fourth quarter of 2020 was another great quarter where the MELI team really put their heart and soul into executing for the benefit of our whole community of users. I'd like to reinforce on behalf of Mercado Libre our immense gratitude and appreciation towards all our employees and collaborators for their enormous effort to keep us safe during such a challenging year. We're incredibly proud of what the team has achieved and the programs it has launched during the quarter. We believe these accomplishments underscore our compelling long-term growth outlook. We are steadfast in our conviction that we are making investments which will unlock our full potential over the years to come.

The milestones we achieved in 2020 in the face of adversity demonstrate our ability to execute on multiple fronts and an indisputable commitment to growing commerce and fintech throughout Latin America. Elbow to elbow with our users and the broader community, we will continue to build our path towards financial inclusion and democratization of commerce in the continent.

Thank you everyone as always for joining our quarterly conference call, and we look forward to keeping you updated on our progress next quarter.

With that, we can now take your questions...

THANK YOU

