



# MERCADOLIBRE 2Q'20 EARNINGS CONFERENCE CALL SCRIPT



February 10th, 2020

## PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended June 30th, 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 discussed in this call, for a variety of reasons, including those described in the forward-looking statements and risk factors sections of our 10-K for the year ended December 31, 2019, "Item 1A-Risk Factors" in Part II of our Form 10-Q for the quarter ended March 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. Finally, I would like to remind you that during the course of this conference call we may discuss some non-GAAP measures. A reconciliation of those measures to the nearest comparable GAAP measures can be found in our second quarter 2020 earnings press release available on our investor relations website.

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

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

Hello everyone and welcome to our second quarter 2020 earnings conference call.

Before we begin, I want to take a moment to highlight that our thoughts and well wishes continue to go out to all the individuals and families affected by COVID-19, both at our company and everywhere. We particularly extend our immense gratitude for and appreciation and recognition to all those brave souls who continue to work on the front lines through this unprecedented global health crisis. As you may have seen, our latest branding campaign, "Elbow to Elbow", which promotes social distancing, is one of the ways we are contributing to awareness around prevention, raising funds for treatment efforts, and paying tribute to healthcare professionals. I'll detail our other contributions in a moment.

We also want to take this opportunity to thank all of MercadoLibre's employees who have shown endless amounts of resiliency, effort, sense of purpose, and courage; whether it be balancing the requirements of family, household, and work responsibilities while conforming to social distancing norms and working from home, or showing up to work at our warehouses and service centers every day, enabling us to deliver the goods that our users need. We are all immensely proud of all the hard work our employees are doing during such trying times.

Before I dive into the quarterly performance overview, let me share with you some of the efforts we continue to undertake in response to this pandemic:





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+ We have:

+ Kept remote work for all the teams except for our logistics personnel for which we have applied the strictest norms of prevention and hygiene in all our logistics centers.

+ Added temporarily to our payroll employees from Le Pain Quotidien in Argentina, while in July we signed agreements with the master franchisees of brands such as McDonalds and Starbucks. In this manner, and together with the agreement that we have already implemented with LPQ, we will total 350 contracts under this collaborative labor initiative in Argentina. We are working towards extending this offer through Latin America.

+ Continued to manage the operation of our commerce, shipping and fintech solutions without significant interruptions throughout the quarter, helping new and existing sellers to continue their operations as well as buyers to get their products on time.

+ We have launched comprehensive support and training platforms for thousands of SMEs and entrepreneurs in the region, facilitating the onboarding of merchants that are starting to operate in the online world for the first time, as well as generating alliances with some of the main e-commerce platforms that operate in this segment.

+ We continued to strengthen our presence and our offering in the longtail and midtail segments by enabling merchants to process food aid cards in Argentina and Brazil. Already representing 10% of our mPOS TPV in Argentina, and allowing more than 40 thousand new merchants to accept these emergency payments.

+ Promoted our Payments Link to avoid crowds of people at physical points of sale, while also allowing small and medium-sized businesses to continue to operate. We improved the product experience and enhanced the communication, positioning the Payment Link as an excellent solution for distance sales in the current context, without needing to have an e-commerce site.

+ And finally, we continued with our donation campaigns helping NGOs and food banks in Argentina, Brazil, Mexico, Chile, Colombia, Peru and Uruguay through the "Elbow to Elbow Challenge" and campaigns.

With that said, let's recap our performance during the quarter starting with our e-commerce business.

E-commerce surged during the second quarter as we reached new milestones in penetration and experienced powerful tailwinds which drove solid performance and overall execution across the board.

Traffic and Buyers accelerated strongly versus the first quarter with an unprecedented increase in engagement rates. Sessions grew by 48% YoY an acceleration of 28 percentage points versus last quarter's growth. We also improved our conversion rates, with buyers on our marketplace surpassing the 30 million mark, reaching 31.5 million during the quarter. Engagement rate in terms of frequency of purchase increased from 4.3 items per unique buyer last year to 5.7, representing more than 30% improvement annually on a consolidated basis. New Buyers reached a record growth of 75% YoY.





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+ Consolidated GMV doubled year over at 102% growth during the quarter with all countries accelerating sequentially on an FX neutral basis.

On a country level, all of our countries accelerated from the first quarter, as we delivered FX neutral YoY growth rates of 230% for Argentina, 58% for Brazil, and 122% for Mexico. Colombia and Chile's combined growth was almost 200% YoY. We've become more focused on these two Andean markets given their increasingly attractive growth profiles as the business accelerates in scale. Our other segments grew 69% YoY on an FX neutral basis. Furthermore, underlying the strength of the quarter, units sold growth exited the quarter growing above 100% YoY in all of Brazil, Argentina, Mexico, Chile and Colombia.

At the category level, consumer electronics, which was one of the most affected verticals at the beginning of the year, started recovering during May and June, to complement the sound growth rates in categories more directly related to COVID driven consumer behavior changes such as CPG, and health to name a few.

Regarding Consumer electronics in Brazil, where we have been doing significant work to improve price competitiveness, assortment, amongst other initiatives. In this country we exited the quarter with an almost 40% growth acceleration throughout the period, indicating that many of our efforts are beginning to pay off.

In CPG specifically, not only we continued to see improvements in terms of adoption and growth, but we also continued verticalizing the experience in this increasingly important category for us. On the product side, during the month of April, we launched our supermarket navigation in Brazil and Argentina helping us accelerate conversions and growth in that category. In line with that, we also continued enhancing the navigation experience through our shopping cart, as we enabled users to bundle items in a single order and be able access free shipping benefits on this category as well.

We have also made solid progress on our Cross Border Trade initiatives to deepen assortment and selection during the quarter, especially in Mexico. Our improved output was primarily driven by our Chinese sellers being able to recover from the initial impact of COVID-19 to their businesses.

Additionally, during the second quarter we launched pricing per category in Mexico and Chile. This had already been available in Colombia since the first quarter, where we lowered commissions for consumer electronics categories and increased them for higher-margin merchants like Fashion & Apparel as well as Furniture, amongst others. This initiative allowed us to better adapt pricing to our merchants margin structure and be more competitive without compromising overall monetization and take rates.

I'll now turn to logistics, a growth area that continues to unlock powerful synergies with our marketplaces.

Our managed network has been central to growing our ecommerce business and being able to handle the increased demand resulting from the pandemic, validating the resources we have been allocating to the network's growth. We are delivering on-time and cost-efficiently across the region while our consolidated Net Promoter Score continues to improve. In fact, our managed network NPS reached an all time high in Brazil, with users highlighting speed of delivery and merchants the quality of our shipping services.





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+ We've also been able to maintain delivery speed while growing volume, particularly for deliveries arriving in less than 48 hours where YoY we improved by 10 percentage points the consolidated share, especially in Brazil where we actually improved by 13 percentage points.

Same day deliveries also improved on a consolidated sequential basis, with countries such as Brazil more than doubling the prior quarter's share, mainly attributable to a higher penetration of our Flex Service which already accounts for 5% of the consolidated volume.

The milestones did not stop there. For Mercado Envios, our managed network penetration surpassed the 50% mark on a consolidated basis. Brazil and Argentina reached 51% and 79% respectively. Fulfillment in Brazil reached 17% of total shipments, exiting the quarter with a penetration of almost 20% in June, the remaining 30% points coming from our rapidly expanding cross docking operations. In Mexico, we maintained the pace of execution, with fulfillment penetration stable on a sequential basis.

On the shipping product & technology front, we are happy to report that MELI Logistics, our integration of micro-carriers into our managed network, gained penetration in Brazil and Mexico. We also launched the technology in Argentina during the quarter, enabling us to more efficiently manage the pandemic-driven surge in demand. As a result of this integration and as our flex logistics solution continues to gain share, we continue to generate efficiencies in our shipping costs with savings QoQ around 23%.

Given the success of our managed network, we've continued scaling this important initiative with the launch of our first fulfillment centers in Chile and Colombia as we doubled down in our efforts to maintain our leadership position in those countries. Additionally, we also continued with the expansion and rollout of our Flex logistics solution, launching in Uruguay and Chile during the quarter. The latter should not only help us drive greater penetration of Mercado Envios in the aforementioned countries, but also enable us to have more influence on the last mile, being able to generate efficiencies on the most cumbersome part of the shipping journey.

Additionally, we continued expanding Places, our drop off point solution, in Brazil. We now have over 1.3 thousand places drop off points in 4 states. During the pandemic, given that some of our drop off weren't marked as non-essential activities and weren't able to open, we implemented an alternative places offering: MELI branded place trucks. This initiative was deployed in safe high density locations in Sao Paulo, providing an innovative experience to sellers at a reduced cost.

With that, now, let's move on to the Fintech side of the business, another critical building block of our ecosystemic strategy.

Our off-platform payments business exceeded our expectations during the period due to the strong performance of our online payments business and the relative resiliency demonstrated by our physical in-store solutions: mPOS and QR. Consequently, Mercado Pago surpassed the 52 million payers during the quarter, growing 64% YoY, accelerating sequentially by more than 21 percentage points. We've also seen better engagement rates with our payments solution, achieving almost 8 transactions per quarter per unique payer.

During the quarter, off-platform TPV accelerated sequentially to 175% YoY on an FX neutral basis, with a stellar 339% YoY growth in Argentina, a strong performance in Mexico and other segments growing over 220%. Brazil, on another hand, has a greater off platform TPV contribution of MPOS, which relies on foot traffic, which given the aforementioned lockdowns was more compromised than online payments. The impact of the pandemic on the MPOS business, translated into a slower off-platform TPV growth pace of 84% YoY in Brazil.





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During the second quarter, our online payments processing business, merchant services, delivered one of the highest historical growth rates, reaching 164% YoY on an FX neutral basis. The latest shift towards e-commerce consumption benefited us across all regions. Notably, we recorded YoY growth of 457% in Colombia and 258% in Argentina, both on an FX neutral basis.

Not only did our online services accelerate on both number and volume processed, but also on the onboarding of new merchants adopting our payments offerings. This has accelerated the migration of sellers to the online world, both large and long tail, leading to a record acquisition during the second quarter.

Mobile wallet also had a strong quarter as it benefited from a consumer shift to contactless payments, although we did observe a deceleration on the in-store payments solutions like our QR and mPOS. The latter two continued to be affected by lower foot traffic due to COVID-19.

As a result, consolidated wallet TPV accelerated to 373% YoY on an FX neutral basis. Overall wallet adoption reached 9.5 million active payers during the quarter with almost 10 transactions per quarter per unique payer, accelerating frequency of purchase.

Our second quarter mPOS TPV grew on a consolidated FX Neutral basis by 80% YoY. The performance was impacted more negatively during April, with a YoY growth of 71%, but accelerated through May and June, exiting the quarter at a growth rate of 89% YoY, almost reaching pre-COVID-19 levels.

Additionally, in Argentina, we are happy to report that we launched our Point Plus device which should enable us to move up the merchant base and have a more complete value proposition that facilitates better cross-selling to marketplace merchants who also have physical stores.

Although the pandemic negatively impacted the physical retail footprint across the region, our active mPOS merchant base increased during the second quarter to three million, while on a consolidated basis device sales surpassed the previous quarter mark reaching almost 1 million devices sold. This strong momentum of device sales and user base growth is mostly due to the trend towards digital payments, cash shortages, and an increased propensity towards local purchases in smaller convenience stores.

We also implemented different initiatives to accelerate the transactional volume, including, but not limited to, lowering fees, eliminating interest charges on credits, cross selling the payments link and enabling the feature of acceptance of the emergency aid as a means of payment.

Still on fintech, one quick update on our Paypal commercial agreement. We are very pleased to announce that PayPal is now available for cross-border transactions on MercadoLibre in Brazil and Mexico and is also available as a payment option within MercadoPago's online checkout for foreign shoppers. This is a first step that we hope will generate powerful synergies between both companies and boost even further our objective to democratize payments in Latin America.

Moving on to Mercado Credito, we slowed our pace of originations in the second quarter in order to manage our exposure to merchant and consumer credit risk as the pandemic and lockdowns got stronger at the beginning of the quarter.

We've been able to mitigate default rate impact due to the swift preventive measures taken. Consequently, non performing loans actually improved QoQ on a consolidated basis. This was partially explained by the slowdown in the pace of originations during April, as our Mercado Credito teams shifted origination towards users with good historical credit behaviour, while we've also enhanced our collections mechanisms and processes.





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+ In this respect it is also important to highlight that as we entered into May and June and we had more data in our models, we gained a better, more confident understanding of users, which enabled us to more accurately predict their behavior and also to ramp up originations again. When we analyze the non performing loans through the second quarter, on a monthly basis, they have kept improving all the way through the end of June. The lower bad debt plus higher interest rates resulted in an improvement of the profitability of our Credits business during the second quarter.

Let's now move on to the review of our financial progress report for the quarter.

The financial performance we delivered during this quarter has been stellar. However, I do want to take a moment to highlight two things before I walk you through results.

First, I want to acknowledge an event that took place during the quarter which resulted in a bad debt charge of \$27 million dollars. Within Mercado Pago, we traditionally have agreements with unaffiliated entities under which our users are able to deposit cash at the agencies of these entities for credit to their MercadoPago accounts. These amounts are recognized on our balance sheet as a receivables from these unaffiliated entities.

During the month of June, we became aware that one of the unaffiliated entities we work with in Argentina, that acted as a cash collection agent, had accumulated a number of receivables that they did not settle to our bank accounts. Upon review we realized that collection efforts for these balances had not been carried out, and that the ageing of these accounts receivables exceeded the allowed limits established by our internal control policies.

As a result, we have booked the charge to our P&L to reflect that the collections are past due under our ageing policies, while we continue to work to recover the amount from the counterpart.

We have also reviewed this event as a significant opportunity to improve our internal controls on this specific matter, in order to avoid a similar situation occurring in the future. We have also revised all other accounts and have found no evidence of similar deficiencies in collections efforts with other entities that form part of our payments value chain.

Second, to state the obvious, this has been an unique quarter. Changes in consumer demand brought about by the pandemic have accelerated adoption of digital platforms significantly throughout the region. We believe this has had both the enduring impact of greater scale benefits in general to our financials, as well as the short term benefit of allowing us to significantly decrease marketing spend while still benefiting from accelerating organic traffic. As we see it, that first trend is sustainable, the second one less so, as we plan to re-ramp up sales and marketing investments in our business to acquire and retain the growing number of users that have moved online during the last few months.

With those two things out of the way, let me start my review of our P&L with comment on consolidated net revenues. For the second quarter they ascended to \$878.4 million dollars, a YoY increase of 61% in USD and 123% on an FX neutral basis, as we continue to optimize shipping subsidies and costs that minimize contra revenues from free shipping programs.

Gross profit for the second quarter was \$427.2 million with a margin of 49%, compared to 50% during the second quarter of 2019. The margin compression resulted primarily from an increase in shipping operating costs, as a percentage of net revenues, partially offset by a decrease in collection fees, as a percentage of revenues. Sequentially we've improved gross margins by 66 bps, mostly driven by better margins on the shipping warehousing front and efficiencies both on shipping carrier costs, mpos purchase of devices and collection fees.





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+ In the slides accompanying this presentation, we've included, as we do every quarter, a detailed breakdown of these, as well as the OPEX margin evolution that I'll cover quickly now.

Operating expenses increased to \$327.7 million dollars, an increase of 15% YoY in USD year-over-year. As a percentage of revenues, operating expenses were 37%, compared to 52% during the second quarter 2019. The \$43.1 million decrease was mainly due to marketing expenditures decreases that were made possible as a result of the extraordinary growth in organic demand brought about by the effects of the COVID-19 pandemic on consumer behavior.

This was partially offset by \$25.5 million increase in bad debt expenses explained by the recognition of the one-time charge of \$27.0 million related to the aforementioned accumulated accounts receivables from an unaffiliated entity in Argentina, a \$14.5 million increase in our buyer protection program expenses, mainly in Mexico and Argentina, a \$ 2.3 million increase in chargebacks from credit cards due to the increase in our Mercado Pago transactions volume, a \$ 1.6 million increase in other sales expenses mainly related to strategic marketing initiatives expenses; and a \$1.5 million increase in salaries and wages. Additionally, we had a one-time charge in the valuation methodology of how we account for our Long-Term Retention Plan for \$15.3 million dollars.

As a result, operating income was \$99.4 million, compared to a loss of \$29.7 million during the prior quarter. As a percentage of revenues, operating income margin was 11.3% improving by 1587 bps sequentially. Excluding the bad debt one-time charge, operating income would have been \$126.1 million, representing a margin of 14.4% improving sequentially 1891 bps.

Moving down the P&L, the company incurred \$27.0 million in financial expenses this quarter, mainly attributable to financial loans entered into during the second quarter of 2020, mainly in Brazil and Argentina and interest expenses from our trusts related to our factoring business in Argentina and the 2028 Convertible Notes. Interest income was \$18.8 million dollars, a 44% decrease year-over-year, as a result of lower interest rates in our investment as a consequence of the pandemic.

As a result of this, net income for the second quarter ascended to \$55.9 million dollars.

Before wrapping up, I want to recognize this delicate moment in history, one that has taken a toll on all of us – in health, in wealth, and in spirit.

At MercadoLibre, our stated business mission is to democratize commerce and payments. With so many businesses being hard hit, we have the unique opportunity to connect and empower millions of Latin American entrepreneurs while continuing to partner with governments across the region in our role as an essential service. Never has our mission been more relevant, and never have we felt more determined to fulfill it.

We will continue to do our part to help get the world back on its feet. And when we get there, we hope to celebrate that achievement with all of you – elbow to elbow.

Thank you everyone as always for joining this conference call, and we look forward to keeping you updated on our progress report next quarter. Now, we'd like to take your questions ...

THANK YOU

