

MERCADOLIBRE 1Q18 EARNINGS CONFERENCE CALL SCRIPT

Date: May 9th, 2018

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended March 31st, 2018. I am Federico Sandler, 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 Giménez, Executive VP of Payments will be available during today's Q&A session. This conference call is also being broadcasted over the Internet and is available through the investor relations section of our website.

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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 and other 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 first quarter 2018 earnings press release available on our investor relations website.

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Now, let me turn the call over to Pedro.

Part II: Overview & Financial Results – Pedro Arnt

Thanks Federico, hello everyone and welcome to our first quarter conference call for 2018.

Let me get us started off today by laying out a three point summary of the highlights from this quarter:

- First, and most importantly: our key volume and operational metrics across businesses continue to deliver above market performance, sustaining some of the fastest rates of growth we have seen in the last few years, despite having the easter holiday season that took place in the first quarter this year versus having occurred during the second quarter last year. Hence, we continue to build our position as a preferred commerce and payments provider for Latin American consumers.

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- Second, our US GAAP revenues, as reported under new revenue recognition standards that came into effect during the quarter, will show slower growth than the just mentioned underlying business volume metrics, as a consequence of free shipping subsidies being netted out of revenues rather than Cost of Net Revenues from this year onwards.
- And third, due to unplanned cost increases from shipping carrier partners in Brazil, our margin structure for this quarter, that is already the seasonally weakest quarter of the year, came in below our expectations.

Despite accounting and cost structure modifications, we remain encouraged by the sustained pace of growth in business metrics, as I'll detail in a second, and are confident that we can optimize our pricing and cost structures to return our financial model to the the appropriate profit level, while continuing to solve primarily for our objectives of share gains, volume growth, and scale competitiveness.

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With that, let me now walk you through a detailed overview of the business metrics I've just alluded to, starting with Marketplace key business trends by geography.

Our Brazilian business grew units sold by 68% and GMV on an FX neutral basis by 71% year on year as our free shipping program, has already reached 62% of total sales measured by volume, continues to drive the business also complemented by incremental customer acquisition spend as we continue to observe improvements in customer lifetime values that encourage us to invest more aggressively in customer acquisition. It is important to highlight here, that we have been able to sustain yet another quarter of historic market leading growth rates, despite increasingly tougher comps. Additionally, Brazil has delivered record buyer

engagement in terms of items sold per unique buyer, accelerating for the 5th consecutive quarter.

Moving on to Argentina, where the business continues to recover both from a units sold and GMV perspective. On an FX neutral basis, gross merchandise volume grew above 50% for the second consecutive quarter reaching 53% growth year on year. Items sold delivered equally solid performance growing 44% year on year, one of the highest growth rates in five quarters. This was in part aided by easier year on year comps, but also due to the positive impact of the launch of our free shipping and loyalty program, Mercado Puntos.

And Mexico, still yielded its second highest growth rate ever from a GMV perspective. Mexican GMV grew on FX neutral basis at 77% year on year, while units sold also did so at an even stronger 106% year on year. This is the third consecutive quarter of triple digit growth in units sold for that geo. We also saw record buyer engagement metrics in Mexico, even within the previously mentioned context of having lost an estimated 6 percentage points of GMV growth due to the Easter holiday that happened in March this year.

We are also encouraged to see significant acceleration in countries like Chile and Colombia, which are beginning to take shape as complementary engines of growth for the company.

Chile grew units sold at its fastest pace on record, accelerating to 83% year on year, while GMV on an FX neutral basis accelerated to 58% boosted by the combination of our free shipping and loyalty programs and increased marketing investments. Exiting the quarter, free shipping had already reached 77% of total merchandise volume sold.

Colombia is following suit as well, delivering the fastest pace of gross merchandise volume growth in the past six years, which was on an FX neutral basis 44.6%, also on the back of the success of free shipping and higher investments in customer acquisition. It's not a coincidence that within less than a year of launching in Colombia, our free shipping program already covers 50% of total gross merchandise volume sold. In line with that, units sold accelerated to an all-time high of 68% year on year for the first quarter of 2018.

As a result of these solid results by segment, consolidated marketplace KPIs delivered yet another quarter of great performance across the board.

During the first quarter of 2018 on a consolidated basis:

- Units sold grew 51% to 80.1 million. Excluding Venezuela from last year's comp now that we have deconsolidated that operation, would yield units sold growth of 66% year on year, the second highest growth rate in unit volumes over the past 6 years.

- Gross Merchandise Volume surpassed the \$3 billion dollar mark, reaching \$3.1 billion dollars, growing 34% year on year in dollars, while on an FX neutral basis GMV growth was 43% year on year. Again, if we exclude Venezuela, GMV growth was 54% in dollars and on an FX neutral basis would have been 64% year on year.
- Unique buyers on our platform grew by 28% during the quarter versus prior year quarter, also one of the highest growth rates in unique buyers over the last multi-year cycle. Excluding Venezuela from last year's comp, unique buyers would have grown by 38% versus the prior year.
- Units sold per unique buyer accelerated for the 16th consecutive quarter. This means an individual consumer is buying 50% more from us on a quarterly basis than they were just a few years back.
- And finally live listings, a measure of the depth of inventory on our platform grew by 50% year on year during this quarter reaching 127 million listings. That's also the fifth consecutive quarter of growth in this important KPI above 50%.

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Let me move on to payments. Mercado Pago has also kicked off 2018 on a very strong note.

On Platform Total Payment Volume grew by 62% year on year on an FX neutral basis. Strong growth and adoption of Mercado Pago in our Brazilian and Mexican marketplaces, where penetration reached 100% of gross merchandise volume, as well as Argentina where penetration continued to grow reaching 98% of gross merchandise volume, where the most significant drivers of growth. In line with that, Chile and Colombia are also contributing, as they are in Marketplaces. On platform Mercado Pago penetration in Chile gained 35 percentage points versus last year reaching 77% of GMV, while Colombia gained 20 percentage points to 79% of GMV now being paid for using Mercado Pago.

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We also continue to see growth, and tremendous future potential, in MercadoPago away from our marketplace. We continue to engage both consumers and merchants, as we grow our scale and generate more value for our growing base of payers and receivers. Many of these businesses are key additions, that generate payment use cases that are attractive to millions of existing and future Pago consumers.

Some important adds during the quarter where:

- One of the largest telecom operators in Latin America, Movistar
- Leading camera equipment manufacturer Nikon,
- Office Max,
- and Groupon, just to name a few.

From a geographic stand point, Mexico and Chile were highlights for the quarter, growing the merchant services off marketplace total payment volume on an FX neutral basis by 63% and 157% year on year, respectively. Argentina also contributed to this growth story as it maintained its momentum growing merchant services total payment volume on an FX neutral basis for the third consecutive quarter above 60% year on year.

Our offline efforts are beginning to take off as well. Through the build out of our mobile POS network and MercadoPago wallet enabled payments services we are reaching more and more consumers in the offline world.

Mobile POS total payment volume was an important contributor to the results of this off marketplace segment, as we continue to witness strong acceleration in devices sold that yielded on an FX neutral basis total payment growth in the MPOS segment of nearly 450% year on year in Brazil, while in Argentina the trend was equally encouraging, as TPV from mobile devices grew on an FX neutral basis north of 1000% year on year, while sales of devices also grew above 1000%, albeit both coming from a small base.

We also continued to execute behind our efforts to build out our mobile wallet network. During the quarter we significantly boosted these efforts by integrating payments functionalities into the Mercado Libre app, which now enables payments capabilities for the installed base beyond just MercadoPago app users, creating an installed base that is approximately 14x larger in terms of daily active users on the Mercado Libre app than on the Mercado Pago app.

One more note on our fintech initiatives and their progress. During the first quarter we surpassed the \$100 million dollar mark in our merchant credit portfolio for the first time. Mercado Credito is a strategic offering for our ecosystem which will increasingly drive merchant sales growth, strengthen synergies with our marketplace and ultimately build higher merchant loyalty and retention.

As we dive deeper into how our merchant cohorts perform, we continue to observe that those merchants who adopt our credit solutions not only see an increase in their sales volume on our platforms, but they are also continuing to take on additional working capital loans to keep funding their growth on Mercado Libre. We will continue to invest behind these innovative credit offerings in order to provide financial solutions to our small and medium-sized sellers and help them scale their businesses faster.

[LONG PAUSE]

Let's now get on to financials, where as I briefly mentioned in the introduction changes brought about by FASB ASC 606 - Revenue from Contract with Customers - applied to our shipping subsidies, impact our numbers with regards to revenue recognition. I'd like to remind you, that greater detail on this can be found in the accompanying presentation to these prepared remarks, as well as in our 10-Q filing with the SEC.

When we began to offer free shipping services (either partially or fully subsidized by us), we determined that the amount we subsidized was a form of consideration (such as a sales incentive in the form of free shipping). This meant that we provided a consideration to the buyer which consisted of a free service. Consequently in the past we accounted for that cost to be characterized as an expense in the Cost of Net Revenues (as opposed to netting it out of revenues) given that it was recognized in the third-party shipper's income statement.

Going forward however, this interpretation will change as we adopt ASC 606. From now on, in the instances where Mercado Libre subsidizes shipping we will account for these by netting them from revenues as opposed to booking them directly as a cost line item under Cost of Net Revenues as in the past.

As a result, and in accordance with ASC 606, shipping subsidies for the three-month period ended March 31st 2018 amounted to \$112.5 million dollars, versus \$4.3 million dollars for the same quarter a year earlier.

The year on year increase in these shipping subsidies, came about mainly as a result of two factors:

- First of all, during the prior year quarter Free Shipping had only been launched in pilot phase in Mexico, whereas this year free shipping already covers 62% of GMV in Brazil, 77% in Mexico, 48% in Colombia, and 44% in Chile. This growth in coverage, maintaining all other variables constant, would have alone accounted for an incremental \$102 million dollars of shipping subsidies.
- The second factor is that we've incurred additional costs due to an unanticipated price increase by our main shipping carrier in Brazil, Correios, that amounted to an incremental \$11 million dollars. This price increase was made retroactive to March 6th, while our price increases to pass on some of these increased costs to our buyers and merchants, and therefore partially offset the increase in price occurred later on (only in mid to late March).
- So, if we combine the price increase and the incremental adoption of Mercado Envios and subsidies to free shipping we get to a total of \$112.5 million dollars of shipping subsidies during Q1.

One final clarification on this respect. The adoption of the aforementioned new revenue recognition standards will not have a material impact on the Company's Consolidated Balance Sheets and Statement of Cash Flows or Net Income.

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Moving on down our financials as now reported, on a full retrospective basis, in accordance to FASB ASC 606:

Net revenues ascended to \$321.0 million dollars, a growth rate of 19% year on year in USD and 30.1% on an FX neutral basis. If we exclude the netting revenue effects in accordance with ASC 606 on free shipping subsidies, then these gross billings would have been \$433.5 million dollars, a growth rate of 58.2% year on year in dollars, and 70.3% year on year on an FX neutral basis. Please refer to an accompanying table in our 10-Q and earnings press release filed with the SEC in order to reconstruct these gross billing numbers.

On a segment basis, first quarter revenue growth was as follows: 18.9% in Brazil, 79.6% for Argentina, 39.1% for Mexico, 35.5% in Colombia, -0.3% in Chile, and 90.6% in Uruguay, all of these expressed on an FX neutral basis.

If we exclude the effects on net revenues in accordance with ASC 606 on a segment basis, monetization trends were strong in all countries. For the first quarter of 2018 gross billings growth would have been as follows: 78.5% for Brazil, 87% for Argentina, 77% for Mexico, 61% in Colombia, 47% in Chile, and 91% in Uruguay, all of these also expressed on an FX neutral basis.

Additionally, and also as a result of the implementation of ASC 606, we have changed how the information is presented for net revenues in the products and services we offer. As of January 1st this year, net revenues from shipping services will be included as part of our Enhanced Marketplace Services and no longer accounted for in non-marketplace products. .

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With that, from a product revenue stream perspective on an as reported basis:

- Enhanced marketplace revenues, which now include the shipping revenues and subsidies, decreased by 21% year on year in USD to \$141 million. This year on year decrease was driven by the effect of adopting ASC 606 during the quarter primarily.
- Non Marketplace revenues grew by 97% in dollars to \$180.3 million dollars.

If we break down non-marketplace revenues:

- Payments revenues including all Mercado Pago non-marketplace revenue streams grew on an FX neutral basis by 130% year on year to \$145 million dollars.
- Other non-marketplace revenues (including classifieds and advertising) grew 31% in dollars year on year to \$35.0 million.

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Looking at our cost structure for the quarter, the combination of a seasonally weaker margin quarter, aggressive planned for investments in sales & marketing, and the unplanned changes in our shipping cost structure, led to lower than anticipated EBIT, and a quarterly loss:

Gross profit ascended to \$163 million dollars, representing 51% of revenues versus 63% in the first quarter of last year. This deterioration in gross margin is primarily explained by the formulaic changes in Revenue, meaning a lower revenue basis, and structurally from the following factors:

- Added cost from the growth in our investments in delivering best in class customer service to our users which resulted in 110 bps of margin contraction,
- 177 bps of year on year margin contraction that is attributable to investments in hosting, as we deploy away from our private cloud to public clouds that give us greater agility and flexibility in Developer Ops,
- 411 bps of margin contraction that came about from the collection fees due to the incremental adoption of payments solutions.
- And rapid growth in our MPOS business that led to 409 bps of gross margin compression as the costs of selling hardware grow to support our quickly expanding merchant network in Brazil and Argentina.

Operating expenses totaled \$192.2 million dollars, or 60% of revenues versus 39% of revenues during the same period last year. In addition to the same formulaic impact of a lower revenue base, the 20% margin contraction was driven primarily by the following factors:

- 833 bps of incremental customer acquisition and branding investments, as we continue to invest for sustained top line growth and brand equity creation, as improved lifetime values bolster our confidence in the long term return behind these investments.
- 511 bps of incremental spend on Buyer Protection, mainly as a result of late delivery credits granted to buyers as MercadoEnvios grows adoption on our Marketplace.
- 157 bps of bad debt provisions, mainly from loss provisions on our average merchant and consumer credit portfolio that stand at roughly 4.66% loss ratio during the quarter.
- And 291bps in G&A increases mainly driven by accruals on our Long Term Retention Plan.

These combined effects yielded an operating loss of \$29.4 million, or -9,2% of revenues versus 23.5% during the same period last year.

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Below operating loss, we benefited from \$9.2 million dollars of interest income, down 24.4% year on year, as a result of lower interest rates in Brazil as well as lower float in Argentina.

In our forex line, we saw a \$5.6 million dollar gain, attributed for the most part to the devaluation of the Argentine Peso and the Brazilian Real over U.S. dollar net asset positions accounting for \$3.1 million and \$0.9 million dollars respectively, and also a \$1.7 million dollar gain arising from the Mexican Peso revaluation over our the US dollar net liability position in Mexico.

We had a \$10.7 million dollars of financial expenses, mostly corresponding financial interest related to working capital funding for the payments business in Argentina, Uruguay, and Chile and also to interest accrual on our convertible bond issued in 2014.

The aforementioned effects led to a net loss before taxes \$25.4 million dollars for the first quarter of 2018.

Income tax gain was \$12.4 million dollars mainly as a consequence of higher pre-tax losses recorded in Mexico and Brazil; partially offset by a higher income tax expense in our Argentine subsidiaries during the first quarter of 2018, due to a higher pre-tax margin.

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All this results in a Net reported loss of \$12.9 million dollars, and a basic net loss per share of \$0.29 cents.

Purchases of property plant and equipment, intangible assets and advances for fixed assets totaled \$23.0 million dollars during the quarter. Cash, short-term investments and long-term investments at the end of the quarter totaled \$543.3 million dollars.

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Before I end the call, I would like to state that we are as excited as we have ever been about growing our businesses. We will continue to drive the success of the company through building on our market position as a leading innovator throughout Latin America, and leveraging our regional breadth, trusted brand, and increasing installed base of engaged users.

Going forward, executing on this business plan will continue to be our first order of priority. We will strive to maintain ourselves as a leading ecommerce and payments platform in the region, while delivering a sustainable financial model that finds the right balance between earnings and investing behind innovation to deliver benefits for our users. We have the conviction that as we follow this path, we will deliver long-term shareholder value through an increasingly attractive and growing ecosystem.

We're excited about the opportunity that lies ahead of us, and look forward to updating you on our progress throughout the remainder of this year.

Thank you, and with that we can now take your questions....