MERCADOLIBRE 2Q15 EARNINGS CONFERENCE CALL SCRIPT

Date: August 5, 2015

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended June 30, 2015. I am Martin de los Santos, VP of Finance and head of Investor Relations for MercadoLibre. Our senior manager presenting today is Pedro Arnt, Chief Financial Officer. Additionally, Osvaldo Giménez, Executive VP of Payments 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 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 second quarter 2015 earnings press release available on our investor relations website.[PAUSE]

Now let me turn the call over to Pedro.

Part II: Overview & Financial Results – Pedro Arnt

Thank you Martin, good afternoon and welcome to our second quarter conference call for 2015.

MercadoLibre´s results for the reporting period further demonstrated the successful execution of our enhanced marketplace strategy, as the company continued delivering robust growth in operational metrics during the second quarter of 2015. The positive progress we are seeing across our e-commerce ecosystem has us feeling strongly about our prospects, and we want to re-emphasize our commitment to investing in our business, in order to scale it for the long term.

This commitment to long term sustainable growth will maintain us focused on building a more robust, efficient, and complimentary group of services and solutions for our buyers and sellers both on and off platform including marketplaces, payments, financing, shipping, advertising, and ecommerce systems solutions. This commitment remains unfaltering, even in periods such as the current one where strong fx headwinds impacted our financial model.

Let me now walk you through some key high level operational metrics, from a consolidated perspective:

- Successful items grew 28%, reaching 30.2 million
- Gross merchandise volume growth rose to 85% in local currencies, reaching $1.65 billion
- Total payment transactions grew 76% to 18.1 million, the 7th consecutive quarter of acceleration in payment transaction growth
- Total payment volume grew 108% in local currencies, reaching $1.2 billion and representing over 70% of our GMV for the quarter
- Registered users were up 21% year on year, reaching 132.3 million, after adding 5.6 million new users during the quarter

As you can see, these operational highlights have led to solid revenue growth in the quarter, particularly in local currencies, which rose 88% YoY. Excluding our Venezuelan operations, YoY growth in local currencies came in at an equally solid 61% for Revenues. Despite currency devaluations in most of our markets (the Brazilian Real has weakened 28%, the Argentine Peso 10%, the Mexican Peso 16%). Revenues in USD grew 17% YoY. Excluding Venezuelan operations (where the Bolivar devalued 75% since June of 2014), revenues in USD grew 29% YoY.

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As mentioned earlier, in this quarter, we continued to make significant strides in our main strategic initiatives and across our business units on and off our platform.

Let me start my quarterly update of what has been happening around some of our strategic initiatives with our marketplace BU.

Units sold sustained high growth rates as I said earlier, accelerating to 28% YoY, while units sold using at least one of our payments, shipping, official stores or credit offerings, as a measure of the success of our enhanced marketplace deployment, grew 72% yoy during the quarter. In local currencies GMV grew 85% for total MELI, and 33% if we exclude our Venezuelan operations.

We also continue to see selection expanding nicely, as the number of listings being offered on MELI's marketplace grew by 59% YoY, the 5th consecutive quarter of acceleration in that metric.

The growth in listings has been driven in part by the continued uptake of our credit offerings that have attracted more inventory onto the site, and which I will cover shortly, and in part by a more aggressive freemium strategy, that allows us to capture inventory that sellers are unwilling to pay for, but which generates greater content for our buyers. The fact that we can couple free listings, with our payments, credit and shipping solutions makes our listings highly competitive for sellers and buyers, while also offering us incremental sources of revenue to monetize on those otherwise free listings. Growth in GMV for free listings as a measure of success accelerated this quarter, growing its mix of inventory available on our marketplace.

Our Official Stores initiatives also impacted positively on Marketplace results, albeit to a lesser degree given are still single digits of our total GMV. Total branded stores selling through our marketplace grew to roughly 1000, confirming that we can effectively provide ecommerce solutions to all retail players regardless of their size and needs.

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Moving on to our payments platform, MercadoPago continues to be a key facilitator and catalyst tour marketplace as it paves the way for better transaction quality and frequency in our platform. during the second quarter , penetration of MercadoPago on our marketplace rose to 57%, up by over 23 points versus the same period last year. Brazilian penetration continues to lead the way as in previous quarters, ascending to 90% in the quarter, and up 32 points from the previous year, while Argentina and Mexico continue to grow at healthy rates, increasing penetration by 13 percentage points and 12 percentage points respectively.

During the second quarter, we also continued to witness compelling advances in our free consumer credit initiatives. In Brazil, adoption of this product rose to a remarkable 52% of all GMVe as of the end of the second quarter. In Mexico, where we launched this plan in November of last year, our interest free installment plan accounted for a healthy 21% of all transaction volume, and continues to show very solid adoption and growth rates.

On the Merchant Services business front, or the payments processing and credits that we service away from our own marketplaces, TPV accelerated to 108% yoy in local currencies. When measured in USD, TPV also showed a healthy growth rate accelerating to 73% yoy.

It is important to highlight that all the countries where we offer our Merchant Services solutions have shown triple digit growth rates when looked at in local currency, and very solid growth in USD despite the ongoing cycle of strong currency depreciation. Brazil and Argentina for example (where most of the off marketplace payment volume is transacted), experienced local currency growth rates of 106% and 103% respectively.

The strength of our merchant service business comes with continued improvements in user experience and renewed success and execution on the commercial front to sign up new merchants. Case in point in these fronts is the solid traction in on-boarding large clients whom we are now working with, such as AirBnB and Nestlé, while also experiencing declines in our merchant churn rates, as a direct consequence of an improved product offering that continues to differentiate us from many of our competitors.

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Moving over to our shipping initiative, it continues to prove itself as an effective facilitator for e-commerce, serving as a powerful tool in contributing to eliminating friction and offering a better shopping experience for our customers. Let’s go over some of the key highlights:

Shipping continues to perform very well overall, reaching another important milestone in Brazil during this quarter, where 56% of all units sold were shipped through MercadoEnvíos. On a consolidated basis items shipped through MercadoEnvíos hit 41%. This latter metric is particularly relevant, as it underscores the growing adoption of our shipping solution beyond Brazil, since in Argentina it is already at 24% of all sold units and in Mexico within just 8 months of launching our shipping platform, penetration is already at 10% and growing at double digits when compared to the prior quarter.

In addition to the ramp-up in our three largest markets, during May 2015, and consistent with the expansion of our enhanced marketplace strategy across all geographies, we rolled out MercadoEnvíos in Colombia. We remain very confident that the roll-out of this service will continue to offer a robust ecosystem, and a shopping experience that is more uniform and consistently trustworthy, which we believe will ultimately result in sustained growth rates for our business going forward.

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During the quarter we continued stepping up efforts to provide best-in-class customer service to our user base. We are excited with the results, which continue to be promising. Through redesigned internal processes, and investments in technology and people we have experienced sustained reductions in total turnaround time for complaints and improvements in NPS scores, which have increased by 15.7 percentage points over the same quarter last year on a consolidated basis.

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One final disclosure on operational highlights from the Corporate Development front. During the quarter, we closed another two strategic acquisitions as part of our goal of acquiring innovative companies that fit into the ecommerce ecosystem we are building.

First we acquired Metros Cúbicos, a leading Real Estate portal in Mexico, that combined with our existing portfolio of real estate classifieds continues to consolidate us further as the market leader in that country. Our strategy of combining the MercadoLibre brand in classifieds, motors, and real estate, with recently acquired brands has begun to pay off in the results we are observing for our Classifieds BU this quarter. To give you some color on the success of this strategy:

- Growth in automobile dealers selling through our platforms was 19% YoY, while revenues from these sellers grew 26% in local currencies. And,
- Growth in real estate realtors was 14% YoY, while revenues coming from these sellers grew 50% in local currencies.

During the second quarter, we also acquired KPL, a market leader in the provision of ERP systems for e-commerce in Brazil. With the acquisition of KPL we are making an additional inroad into servicing our clients e-commerce needs, by embedding the technology that is used to integrate brick and mortar, warehousing and own e-commerce front ends together with our marketplace. We are confident this new service line will allow us to offer an ever more seamless way for our customers to sell on our marketplace, while also generating additional share of wallet and customer lock-in as we scale out this business. We will keep you informed of the advances we make on this promising front once the materiality of the overall business justifies it. [PAUSE]

With those operational highlights in mind, let us now take a look at how they translate over to our quarterly financial results. All growth figures are year on year unless I indicate otherwise.

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- Net revenues were $154.3 million, 88% growth in local currencies and 17% growth in USD. Excluding Venezuela, Net Revenues grew 61% in local currencies and 29% in US dollars.
- Income from operations was $34.6 million, vs negative $5.9 million as reported in Q2’14
- Net Income before Income/Asset Tax Expenses was $33.5 million, vs negative $19.1 million as reported last year,
- Net income was $19.5 million, vs negative $25.6 million, in the second quarter of 2014,
- All this resulted in earnings per share of 44 cents for the second quarter.

With that, let me walk you through a more detailed readout of our topline results during the quarter.

We continued to experience healthy growth in marketplace revenues. In local currencies, marketplace revenues grew 80%, as GMV growth in local currency accelerated to 85% and items sold accelerated to 28% versus last year. In dollars, marketplace revenue from this business grew 2%, mainly attributed to currency headwinds, given the strengthening of the USD against most currencies in the region and particularly Venezuela. Excluding Venezuela, marketplace growth was 43% in local currencies and 15% in USD. [PAUSE]

Our Non-marketplace businesses also continued to show very healthy growth rates both in USD and local currencies. Non-marketplace revenue growth ascended to 108% in local currencies, while revenues for this business line grew 52% in USD when compared to the same period last year. In order of relevance, the main contributors to this growth story came from:

- MercadoPago’s merchant service businesses. Revenues grew 108% in local currencies, driven by solid growth of payment volume outside of our marketplace.
- High growth rates and adoption of our new advertising format: Product Ads. Our advertising business gained share of our non-marketplace revenues in recent periods and continues to show great results, growing 192% in LC
- High adoption of our free-financing listing type in Mexico and Brazil, and more recently, in Chile, where all listings offer free-financing options. Financing revenues grew 96% year on year in local currencies.
- Classifieds revenue growth. Including revenues from our acquisitions of Metros Cúbicos in Mexico, classifieds revenues grew 33% in local currencies.
- And shipping, which contributed approximately $8M in revenues in the quarter.

The compounded effects of the aforementioned factors, have resulted in a robust net revenue growth of 88% year over year in local currencies. Excluding Venezuela, that revenue growth in local currencies ascended to a healthy 61%. Total Revenue growth in local currencies for each country are as follows: 58% for Brazil, 90% for Argentina, 26% for Mexico, and 284% for Venezuela. Consolidated revenue growth in USD was 17%, and excluding Venezuela was 29% given FX headwinds in that country.

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Before walking you through the rest of our P&L lines, I would like to discuss some macro effects that are outside of our control and have impacted the quarter’s results:

In the first place, and as a reminder, year over year comparison are affected by one time charges booked in the second quarter of last year, for a total of $57.4M, related to the adoption of a new exchange rate in Venezuela back then. As a result, “as reported” year over year changes in margins are highly distorted by these one-offs that generate a strong margin improvement given last year’s depressed margins on the one-off. On a consolidated basis, these non-recurring charges accounted for 4352 bps of negative impact in Net income in last year’s second quarter period.

Additional to that, foreign exchange headwinds became particularly relevant during this quarter, compressing as reported margins by 561 bps that offset the previous margin enhancements brought about by last year’s non-recurring accounts. These forex headwinds to margins come about because of currency devaluations across the board in all our geographies, but primarily by the steep devaluation in Venezuela, which was a high margin segment for us. Specifically, Venezuela devalued its currency from an average 18 Bolivars to an average 198 Bolivars to the dollar over the last year; a factor of 11x YoY devaluation.

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As a consequence of these two offsetting margin distorting events, and in the spirit of easing your comprehension of year over year changes in margins structure, I will call out the margin evolution explanations in this OPEX section excluding the one-time charges in last year’s financials. I will also distinguish margin compression that can be attributed to the foreign exchange fluctuations from those explained by operational performance. In order to do this I will use constant currency analysis, calculated using the second quarter of this year’s exchange rate as the constant rate for purposes of these OPEX explanations.

Having clarified all that, let's now take a look at our bottom line results and margin structures as we do every quarter:

Gross profit grew 9% during the second quarter, to $104.0 million. Gross profit margin was 67.4% of revenues, versus 72.4% in the second quarter of 2014, and 69.8% in the first quarter of 2015.

Of the 503 bps of margin contraction, 291 bps are attributable to currency fluctuations. The remaining 212 bps come primarily from payment processing fees resulting from growth in MercadoPago, and incremental sales taxes from growth in payments and shipping initiatives.

Let me now break OPEX down for you by line item for you:

Sales & marketing, grew 10% year over year to $29.1 million, or 18.9% of revenues, vs. 20.1% for the same period last year. FX headwinds contribute with 87 bps of these margin contractions. The remaining 207 bps of scale are driven by successful collection efforts which led to improvements in bad debt and chargebacks that were partially offset by higher investments in our buyer protection program.

Product Development expenses grew 67% to $19.6 million, representing 12.7% of revenues in the second quarter versus 8.9% in the same period last year. FX explained 202 bps of margin contraction. The rest of the year over year margin compression, 179 bps, mainly reflect increases in salaries and wages, as we augmented our IT headcount by more than 270 employees through the acquisition of software development companies. Part of these increases also occur due to higher long term retention plan accruals for our engineering pool.

G&A increased 51% to $20.6 million in the second quarter, or 13.4% of revenues versus 10.4% a year ago. Of this margin contraction, FX fluctuations explain 115 bps. Salaries and wages explained most of the 183 bps of the remaining G&A contraction, also driven by accruals to our LTRP.

As you can note, in addition to FX, the other significant driver of margin compression was increased compensation related to the long term retention plan. Year over year impact of the retention factor alone was 256 bps as our stock went from $95 in June to nearly $142 by the end of June 2015.

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As a result of these operational expenses, as reported operating income for the quarter was $34.6M, or 22.4% of revenues versus negative 4.5% when compared to the same period in 2014. The 2.693 bps of as reported scale YoY can be separated into:

- 3.754 bps of margin expansion, due to the one-time impairment charge included in OPEX for 2014.
- Which was offset by 695 bps of contraction driven by FX changes.

When looked at this way, Operating Income margin contraction adds up to 366 bps, a truer reflection of the margin compression brought about by the increased investment cycle as we roll out our enhanced marketplace.

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Below Operating Income, we benefited from $4.7 million of interest income, up 31% year on year as a result of higher interest rates perceived on a larger invested base.

We had $5.2 million in financial expenses, mostly corresponding to interest accrual on our convertible bond issued in 2014.

The effects described above led to net income before taxes of $33.5 million, compared to negative $19.1 million last year.

Income tax expense was $14.0 million in the second quarter and our blended tax rate came in at 41.9% vs 32.2% in the same quarter last year, excluding last year's one-offs. As in previous quarters, the year on year increase results are mainly driven by the expiration of the software development tax law in Argentina.

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Net income came in at $19.5 million or 12.6% of revenues in the second quarter, resulting in a basic net income per common share of 44 cents vs negative 19.4% and negative 58 cents as reported last year respectively, or 24.1% and 72 cents if exclude all one-timers.

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Payments for the acquisition of property, equipment, intangible assets, and advances for fixed assets and acquired businesses net of cash acquired for the quarter totaled $61.9 million, primarily driven by the M&A acquisitions I mentioned earlier. For the period ended June, 2015, Free cash flow, defined as cash from operating activities less payment for the acquisition of property, equipment, intangible assets and acquired businesses net of cash acquired, was negative $3.2 million, versus $18.7 million last year. Cash, short-term investments and long-term investments at the end of the quarter totaled $546.9 million.

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Finally, we declared our quarterly dividend of $4.5 million, or 10.3 cents per share, payable on October 15, 2015 to shareholders of record as of the close of business on September 30, 2015.

[LONG PAUSE]

That wraps up my review of financial and operational metrics for the quarter. We are pleased to continue to disrupt the ways in which consumers shop in the region, and as a result to remain the platform of choice for a wide array of buyers and sellers, irrespective of their size. The fact that more and more consumers choose us solidifies management's focus on growing MercadoLibre for the long run. We will do so without getting deterred by short term downside risks, as evidenced this quarter with the impact forex had on our financials. As such we look forward to next few years and to continue growing and investing in our enhanced marketplace and overall ecosystem. In short, we will continue moving forward with a balanced and disciplined approach to building a business with momentum but primarily focused on the long term secular trends that drive our business.

We can now take any questions you might have…