MERCADOLIBRE 3Q14 EARNINGS CONFERENCE CALL SCRIPT

Date: October 30, 2014

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended September 30th, 2014. 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, Marcos Galperín, 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 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 third quarter 2014 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 everyone to MercadoLibre's third quarter 2014 earnings call. As we approach the end of year shopping season, we are as enthused as ever for the work that lies ahead of us and the opportunities to build upon our recent success.

As most of you know, we recently hosted our 2nd Investor Day and shared with the market our long-term vision for MercadoLibre and its strategic initiatives. As we highlighted then, e-commerce remains below 3% of total retail in Latin America, but all the conditions are set to keep expanding that share at a fast pace. Our region's e-commerce could double by 2018, and MercadoLibre finds itself at the center of this trend, with a leading market share and a clear game plan ahead.

And, while Latin America has a unique set of challenges, we feel that our domain expertise , region-specific experience, and commitment to continuous innovation allow us to maintain our leadership role. We are believers that these unique advantages will allow us to not only partake in the region´s fast-growing market, but actually to impact the rate at which that market grows.

Our best effort at doing this is through our ecosystem approach, building key service offerings and technological solutions for our platforms, and spreading these benefits to as many users as possible, even beyond our own marketplace. We are pleased with the results of this approach, judging by the success we are having at penetrating and promoting our commerce solutions. The results we are seeing so far are strong indicators that our strategic initiatives are driving value for all involved, that MercadoLibre offers a more enhanced platform than it did a year ago, and that the business is reflecting these benefits in its financial health.

With that in mind, let's get started with my review of a positive third quarter, by and large a continuation of our successful efforts in the first half of 2014, both from an operational and from a financial perspective.

During the quarter, versus the same prior year period: [PAUSE]

- Registered users were up 21%, now at 115.2 million, adding 5.6 million new users in the period.
- Successful items grew 22%, reaching 26.9 million items sold
- Gross merchandise volume grew 79% in local currencies, reaching $1.7 billion
- Total payment transactions grew 49% to 12.5 million
- Total payment volume grew 99% in local currencies to $975 million
- Revenue growth, in local currencies, came in at 89% YoY. Excluding our Venezuelan operations, revenue growth in local currencies came in at 59% YoY.
- Despite currency devaluations, revenues in USD grew 20% YoY. Excluding our Venezuelan operations, revenues in USD grew 39% YoY.

On this last point, it is particularly pleasing to see such solid growth even in USD despite reigning foreign exchange headwinds which included the first full quarter impact of our transition to the SICAD2 rate for Venezuela reporting purposes. What allowed us to accelerate revenues to this level was notable acceleration across each of the volume metrics that I called out as our volume and monetization were favored by the strong cross-usage of new formats and services that we are offering.

In the third quarter mobile sales continued to penetrate GMV in each of our country operations, MercadoEnvios, our suite of shipping solutions surpassed 30% of total items sold in Brazil, our "Mall" initiative continued in full gear as we onboarded 138 new brands as Official Stores in Brazil, Argentina and Mexico and by the end of the third quarter, we had 364 official stores active in our marketplace; and non consumer electronics vertical categories kept gaining share of our total volume.

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Here is a more detailed quarterly update of what has been happening around some of our strategic initiatives: [PAUSE]

- Let's start with our payments and shipping solutions, which keep proving effective facilitators for e-commerce. They are visibly eliminating friction by offering a shopping experience that is uniform and consistently trustworthy, which explains the leaps in penetration both of these services have experienced over the past year. Brazil, our largest market, has proven the template to follow as payments reached more than 70% of its marketplace transactions in the third quarter, a record gain of 27 percentage points year on year. Brazil's on-platform payments also penetrated 14 percentage points quarter on quarter, aided by our new interest-free credit offerings in Brazil. These new listings offer zero-interest installments to buyers. The financing charge is covered by a higher marketplace fee paid for by the seller, but which is amply justified by the additional sales these listings generate. Free installments have obviously proven an incentive for buyers to adopt MercadoPago in the process. Good for buyers, good for sellers, good for the marketplace, and good for MercadoPago.

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- Our shipping solution, which is offered exclusively through MercadoPago, is obviously also boosting the success of payments. As I mentioned earlier, more than 30% of Brazil's sold units were shipped through MercadoEnvios in the third quarter, more than we could have imagined a year ago. Our payments and shipping methods are definitely becoming the norm in Brazil's marketplace, and we intend to spread this dynamic gradually across other countries. Argentina, the runner up in this trend, also made strong gains in both payments and shipping penetration this quarter. Penetration of payments on our consolidated marketplace, or the percentage of total gross merchandise volume paid through MercadoPago, therefore rose by 12 percentage points quarter on quarter, accumulating 21 percentage points year on year.

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- Moving on to another area of strategic focus for us, we are pleased with the advance of mobile on our platform. In the third quarter we continued to perform usability enhancements that apply to mobile web as well as our mobile apps, continuing to capture the spread of e-commerce to smartphones and tablets. Mobile kept gaining share of our GMV in the third quarter, and also contributed a higher proportion of new users to our platform than ever before. 4 out of 10 new users registered through mobile devices in the quarter, an indicator of the potential of mobile commerce. But beyond a simple snapshot of our current success, mobile is strategic for us because it is a key potential accelerator of e-commerce, and for that reason our progress in the quarter also extended to new initiatives we are seeding in the mobile payments space, which should build momentum going forward.

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- In the same way that we are extending our desktop leadership to mobile, creating new formats for more sophisticated buyers, we also keep advancing our specialized formats for large volume sellers of all categories. This includes our growing vertical solutions for the sale of sports & apparel, and also our storefronts for branded retail which totaled 364 by the end of the third quarter, growing above 60% quarter on quarter, while we kept improving their traffic and sales, promoting them in commercial events such as our 15th anniversary sales event. Our vertical and official store formats fall under the umbrella of our "Mall" initiative, as they both contribute to the ongoing sophistication of solutions for professional sellers, widening both our reach of consumers and of supply, and generating new, customized markets for incremental trading on our platform. Our improved selling formats are evidently increasing our success at drawing large retailers onto our platform, as in the third quarter we opened official stores for the largest electronics retailer in Brazil, RicardoEletro, as well as for Walmart in Argentina. Our mall initiative is therefore advancing nicely, also aided by our open platform as it connects us directly to outside developers and to large retail requiring tailored solutions on our platform.

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- As a final stop in our review of strategic initiatives, all the penetration and cross usage of services just mentioned is generating solid improvements in the user experience we provide. We are also going the extra mile by continuing our investments in Customer Experience, growing our online contact channels, shortening queues, and improving our tools for dispute management, part of the checklist that we accomplished in the third quarter, yet again elevating our Net Promoter Score. [PAUSE]

This wraps up our strategic progress report. We are pleased with the way each of these aspects of our business are coming together to visibly strengthen our platform, like different pillars supporting the same structure, something that is evident in the health of our key metrics and also in the financials we will now review.

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Before calling out our financial highlights for the third quarter, I would like to provide an update on MercadoLibre's reduced exposure to Venezuela. As I reminded you earlier, in mid May we transitioned to the SICAD 2 exchange rate for reporting of our Venezuela operation, so the third quarter of 2014 was the first full quarter with Venezuela reported at that rate. The SICAD 2 rate averaged 50 bolivares to the dollar in the third quarter, marking a sharp devaluation versus the average SICAD 1 rate of 10 bolivares to the dollar employed in the first quarter of 2014, and also versus the average reporting rate for the previous quarter, which was 18 bolivares to the dollar. This implies that our Venezuela operation was further devalued in the third quarter, reducing its share of our total top line from 17% in the first quarter of 2014 to 6% in the current quarter. This greatly reduces the impact of future Venezuelan macro developments on our consolidated results. As always, we remind you that we are in Venezuela for the long term, running a cash positive business, and currently converting a limited amount of bolivars to dollars under the SICAD 2 mechanism based on the quotas we are allowed, an improvement versus the previous status.

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I would now like to call out our consolidated financial highlights for the quarter:

- Net revenues were $147.9 million, accelerating to 89% growth in local currencies and 20% growth in USD. Excluding Venezuela, Net Revenues grew 59% in local currencies
- Income from operations was 47.1 million, up 26% in USD year over year, 145% in local currencies, and 75% in local currencies excluding Venezuela.
- Net Income before Income/Asset Tax Expense was $51.8 million, year over year growth of 26% in USD, 134% in local currencies, and 69% in local currencies excluding Venezuela
- Net income was $33.8 million, growing 16% year over year in USD, 114% in local currencies, and 43% in local currencies excluding Venezuela, resulting in an Earnings Per Share of $0.76

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Taking a look at our top line performance, our consolidated revenues saw year on year acceleration in local currencies and notably also in USD. Despite currency headwinds that include the strong devaluation of our Venezuela business, our consolidated revenues grew 20% in USD. Excluding Venezuela, consolidated revenues grew an impressive 39% in USD despite other FX headwinds.

Marketplace revenues accelerated to 95% growth in local currencies, driven mainly by an acceleration in items sold on a consolidated basis and individually across Brazil, Argentina, Mexico, and Venezuela. Excluding Venezuela, marketplace revenues also accelerated, growing 50% in local currencies.

Brazil in particular posted strong growth in underlying metrics, rebounding after World Cup headwinds subsided early in the quarter, accelerating items sold growth to its highest level in the past four quarters: a year on year growth of 29%, versus 21% in the second quarter.

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Non-marketplace revenues also experienced notable growth in the third quarter, accelerating in both local currencies and U.S. dollars on a consolidated basis and also in each of our largest markets.

The main contributions to this growth came, in order of relevance, from the following:

- Financing revenues accelerating to local currency growth north of 70% year on year, aided by our new interest-free financing listing type in Brazil.
- MercadoPago processing revenue growth, which posted above 60% growth in local currencies for the third consecutive quarter thanks to the increased adoption and usage of MercadoPago off of the MercadoLibre platform
- Strong growth in Advertising revenues, which make up a small but relevant component of non-marketplace revenue
- Classifieds revenues, which accelerated to 42% YoY in local currency including Portal Inmobiliario, our recent acquisition.

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All of these effects resulted in acceleration of total net revenues to 89% year over year growth in constant dollars, also accelerating to 59% year on year growth excluding Venezuela. Total Revenue growths in local currencies for each country were: 49% for Brazil, 84% for Argentina, 23% for Mexico, and 220% for Venezuela.

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Moving down our P&L:

Gross profit grew 18% year over year in the third quarter, to $104.5 million. Gross profit margin was 70.7% of revenues, versus 72.3% in the third quarter of 2013, and 72.4% in the second quarter of 2014.

Lower gross margins were driven primarily by a 192 basis points contraction related to collection fees for MercadoPago, as payment volume continues to show strong growth both on and off our platform. These effects were somewhat offset by scale in customer support and site operations.

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Operating expenses decelerated to 11% growth year over year, reaching $57.4 million, representing 38.8% of revenues, versus 41.9% in the same quarter last year, and 39.4% in the second quarter excluding one-off impairment costs due to the transition to SICAD 2 in Venezuela.

Let me break that down for you.

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Sales & marketing grew 22% year over year to $29.4 million, or 19.9% of revenues, vs. 19.6% for the same period last year, and 20.1% last quarter.

This slight contraction in margin represents 168 bps of increased customer acquisition costs and 115 basis points of higher costs related to our buyer protection program associated with the growth of payments and shipping. These effects were partially offset primarily by an improvement of 114 basis points as payments penetration has aided the reduction of our bad debt ratio, in addition to 47 basis points worth of scale in salaries, and 67 basis points of improved fraud loss provisions, or chargebacks.

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Product Development expenses grew 12% to $13.6 million, representing 9.2% of revenue in the third quarter versus 9.8% in the same period last year and 8.9% in the second quarter of 2014.

Scale versus last year is mainly related to a prior year one time cost.

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General & Administrative expenses decreased 6% year over year to $14.4 million, representing 9.7% of revenues, versus 12.4% a year ago and 10.4% in the second quarter of 2014.

198 basis points of scale came from a one-time benefit as we were able to use a previously written off tax credit related to the software development law in Argentina.

The rest of G&A scale came from salaries and wages, 65 bps specifically from a larger long-term retention plan accrual in the third quarter of last year.

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As a result, operating income for the quarter was $47.1 million, or 31.9% of Revenues, versus 30.4% in the third quarter of 2013.

Remember that currency is a relevant driver for scale. Of the 148 bps improvement in EBIT margin year on year, approximately 100 of those were generated by the devaluation of the Argentine peso year over year.

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Below Operating Income, we saw $4.9 million in financial expenses, a majority of these corresponding to interest accrual on our convertible bond.

Further down, interest income was $4.4 million, up 57% year on year due to higher interest rates on larger invested amounts, as our MercadoPago stored balance has increased considerably versus the third quarter of last year.

Our forex line is positive $5.2 million due to the appreciation of USD balances held by our subsidiaries. Brazil alone accounts for $4.7 million of this amount.

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Net income before taxes totaled $51.8M, up 26% year over year and representing 35.0% of revenues, versus 33.5% in Q3 of last year.

Income tax expense was $18.1 million in the third quarter, representing an effective tax rate of 34.9%, up from 29.3% in Q3 of last year. The year on year increase results mainly from a higher tax rate in Argentina due to the expiration of the software development tax law in September. Also by our convertible bond's financial expenses which are only deductible in the U.S., where we do not generate significant revenues, and finally by a higher proportion of pre-tax income coming from Brazil which has a higher tax rate than other countries.

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Net income came in at $33.8 million, or 22.8% of revenues, versus 23.7% in the third quarter of 2013. This resulted in a basic net income per common share of 76 cents.

Purchases of property, equipment, and intangible assets, net of cash acquired during the quarter totaled $8.4 million. For the period ended September 2014, Free cash flow, defined as cash from operating activities less payment for the acquisition of property, equipment, and intangible assets net of cash acquired, was $42.1 million, versus $25.7 million in the same period last year. Cash, short-term investments and long-term investments at the end of the quarter totaled $566.2 million.

Wrapping up, we declared our quarterly dividend of $7.3 million, or 16.6 cents per share, payable on January 15, 2015 to shareholders of record as of the close of business on December 31, 2014.

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That concludes my review of our third quarter.

Heading into fourth quarter, our focus is to continue to enhance the marketplace, scaling our businesses, driving payments growth both on platform and off platform and seeking new avenues and clients. We will continue striving to consolidate our desktop leadership over to mobile, rolling out mobile use cases for our entire eco-system and providing an easy and optimal way to access our users' transactional needs across all devices. All this while perfecting our mall concept, broadening vendor categories, building new relationships with large retail and within the development community. I look forward to reporting back to you on our progress on all these fronts next quarter.

Thank your very much. We can now take your questions.