



MELI Q3'10 Earnings Conference Script

Date: November 3, 2010

MERCADOLIBRE 3Q10 EARNINGS CONFERENCE CALL SCRIPT

Part I: Introduction and Disclaimer – Pedro Arnt

Welcome everyone to MercadoLibre's earnings conference call for the quarter ended September 30, 2010. Company management presenting today are Marcos Galperin, Chief Executive Officer, and Hernan Kazah, Chief Financial Officer. Additionally, Osvaldo Gimenez, Senior Vice President of MercadoPago, will be present 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 during the course of this conference call we will discuss some non-GAAP measures. A reconciliation of those measures to the nearest comparable GAAP measures can be found in our third quarter 2010 earnings press release available on our investor relations website. [PAUSE] In addition, 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 factor sections of our 10-Q, 10-K and other filings with the Securities and Exchange Commission, which are available on our investor relations website. [PAUSE]

Now, let me hand the floor over to Marcos.

Part II: Overview/Summary – Marcos Galperin

Thank you and welcome, everyone, to today's conference call.

Let me begin by summing up Q3 as a good quarter for us, with sustained trading momentum on our platform, even as we continue to dedicate resources to longer-term initiatives that have limited immediate impact. Throughout Q3 we continued to observe the positive dynamic, which I have described over the past few quarters, characterized by increasing levels of engagement by our users with our different service offerings. This increased complementary usage of marketplaces, classifieds, payments and advertising guarantee both an ever-improving user experience for our customers, as well as strengthened financial model for our company as we move forward.

In the meantime, secular trends in technology remain steady and underline a strong future for e-commerce in the region where we operate, as growth in internet and broadband penetration continue to be fortified by improving infrastructure, access to computers and quality of connections available. New consumers are spilling onto the web at a rapid pace, and in Q3 alone we added 2.8 million new users to our community of buyers and sellers, surpassing the milestone of 50 million users, and ending the quarter with 50.2 million total confirmed registered users. This figure represents a 25% increase over last year.

The convergence of these internal and external factors allowed for a record gross merchandise volume of \$888.1 million in the quarter, a 12% increase year-over-year, and 26% higher than last year when measured in local currencies. Items sold, possibly a better reflection of the stable rate of growth for our business as it eliminates distortions brought about by currency fluctuations, grew even more robustly at 30% versus 2009.

Growth in volume is transferring over to growth in revenues at an even faster pace, as we are monetizing our GMVe more effectively than last year mainly on the basis of our expanding payments service which has added value to more transactions than a year ago. TPV penetration has risen to 21% in Q3, versus 14% at this time last year. That's a strong jump in the number of transactions that are opting for frictionless payments, credit card purchasing, and the possibility to buy in installments. I will share more on that with you in just a moment, but first let me highlight the growth of some of our key metrics.

In the third quarter, our company generated the following year-on-year growth in operational metrics:

- 30% growth in items sold
- 120% growth in number of payments made through MercadoPago
- 26% growth in GMV in local currencies; and
- 63% growth in total payments volume in local currencies

....and the following key financial results

- Revenues of 56 million, a 11% growth vs last year
- Income from operations of 19.3 million, 2% over last year

- Net Income of 18.8 million, a 91% Growth vs last year, resulting in an EPS of \$0.43.-

I would like to pause for a moment here and clarify that revenues for the quarter were negatively impacted by a change in MercadoPago financing operations as revenues generated from installment-related financing charges are now reported net of the cost of discounting credit card receivables. Had financing receivables also been pre-sold in Q3 2009, respective year-on-year growth in net revenues would have been 20% in USD and 34% in local currencies. This has no impact whatsoever on Net Income. On the other hand, Net Income was positively impacted by a lower tax rate as we had some one-time tax benefits. Hernan will explain these issues in detail in just a minute.

We believe the quarterly financial performance is further proof of MercadoLibre's consistent execution while capturing the opportunity of this rapidly growing e-commerce region. I firmly believe that our focus on technology and innovation is what allows us to capture this growing potential quarter after quarter.

[LONG PAUSE]

Let me now turn to some of the operational highlights of the quarter.

During the quarter our efforts on the IT front continued to center on the new software platform we are developing for our core applications. The project is an entire re-write of most of our code, focusing on making it more robust, scalable, and principally open. The key deliverables that we hope to share with you over the next few quarters will be the incremental publication of the MercadoLibre API. The API will initially cover the core functions of our trading platform, and eventually cover most of the functionality available on MercadoLibre, MercadoPago, MercadoClics and MercadoShops. In addition to this major milestone, we are also confident that the new platform will allow us to significantly shorten our own internal product development cycles, meaning that as we advance we will be able to roll out more new functionalities and services for our users than ever before.

Importantly, this initiative implies an important dedication of our IT resources towards a project that strengthens our future adaptability and capacity for innovation, while foregoing product launches and short-term innovations that might have contributed to our growth in the immediate quarter. We are eager to see the effects of this project in what is now a closer future;enabling us to tackle a list of innovations including but not limited to:

- Deploying our services on mobile devices as they increasingly become tools for e-commerce

- Becoming compatible with a wider range of third parties interested in using our marketplace as a business platform or developing tools and applications that run on it
- And, as mentioned previously, increasing the speed of execution of our product enhancements.

[LONG PAUSE]

Now for a closer look at operational highlights from our business units.

Our classifieds business is showing renewed strength after we tweaked our business model by introducing free listing options. This quarter classifieds grew faster than the marketplace, as its revenues were up 51% when measured in constant dollars. Notable in this reacceleration is the fact that an increasing number of the many new cars listed under the free option are upgrading to paid listing alternatives. This validates our strategy of offering a free classifieds alternative as a key customer acquisition tool, to then be monetized through up-sale and cross-sale offerings. This achievement is notorious in Brazil, where Unique New Sellers have grown 89% YoY.

Also key to the improvement in results is the fact that listings coming from dealers kept growing to 28%. This shows that the transition from a fully C2C model to a hybrid one that also encompasses the dealership segment is moving forward in classifieds with a strong degree of success.

[LONG PAUSE]

Moving on to advertising, our MercadoClics advertising solution continues to gain traction and make up for the decline in ad revenues brought about by our decision to gradually phase out most of the display advertising positions except for those available in free listing pages. We see MercadoClics beginning to gain the recognition among advertisers that we hope will eventually position it as a valid complement on existing investments in Search advertising platforms. We have impressively doubled the number of advertisers using MercadoClics in over the last two quarters. Represented within that group are reknown retailers as well as SMBs, and even merchants who already sell on our site but see the added value of tying their offers to well-selected key search words as well. Case in point to the strong momentum we see behind MercadoClics, albeit from a very small base, is that of the top 25 Latin American retailers we already have as clients: WalMart, Casas Bahía, Magazine Luiza, CBD/Pao de Acucar (with their brands Extra and Pontofrio), Falabella, Fravega, Musimundo, SonyStyle, BestBuy, Dell and Apple Store, among others.

Given the solid results we are seeing, we will continue to focus on search advertising, prioritizing continued growth in the number of advertisers using the platform, improving click through rates and making campaign management, particularly for large volume campaigns, easier through improved tools and features.

[LONG PAUSE]

And now I'd like to move on to the developments in our payments and core marketplace businesses.

Possibly the highlight of our operations in the quarter was Brazil's well executed migration to the MP3 payments platform. This was timed to coincide with the implementation of our new bundled pricing scheme, and the transition was carried out seamlessly. Our sellers responded very well to the new system and our buyers have demonstrated increased willingness to use MercadoPago now that they no longer pay for processing and have the product better integrated into their purchasing flows. Consequently, we have seen a sharp increase in TPV penetration, that is TPV as a percentage of GMVe, in Brazil for the quarter. This figure rose from 33% to 39% in just the last 3 months. We are eager to keep witnessing this evolution going forward.

As buyers adopt MercadoPago in increasing numbers, they are also proving more likely to choose financing options when they do so. As a result, financed payments volume increased along with general payments penetration in the quarter, contributing to overall revenue growth as well.

In the meantime Express Checkout, launched along with bundled pricing, has also notably improved integration of MercadoPago and our marketplace, another driver for this increased adoption we are seeing. Buyers are finding a purchasing flow that is increasingly quick, simple and integrated with payments, encouraging our marketplace and payments growth simultaneously. Their increasing choice of our payments solution is also greatly improving the efficiency of transactions that sellers accomplish, and as such, they have readily accepted the added value in this new system.

The results have been encouraging enough in Argentina and Brazil so far, that we will be moving forward with the same initiative in Mexico in the next few quarters

Now, we have already covered MercadoPago in terms of its integration with our marketplace, but I would like to specifically address the growth we are seeing in a few key metrics there. This growth remains crucial to our long-term prospects, and I want to break it into its different components.

First of all, as called out previously, TPV saw an impressive 67% growth year on year. This was achieved primarily by bundling MercadoPago into every MercadoLibre paid listing at no extra cost for the sellers of Argentina and Brazil. As a result MercadoPago had an impressive 86% share of all live listings in Q3, up 28 percentage points versus last year. This will keep approaching 100% adoption as we implement the same steps in other countries, in turn driving TPV penetration up from the current 21% level.

Simultaneously to getting to a point where all listings on the platform offer MercadoPago, we also plan to drive penetration further by creating incentives for buyers along the way. Results so far show that once they try our payments solution they are inclined to keep using it for future purchases. Increased usage will come with many opportunities in the form of stored balance, store payment and shipping preferences and a critical mass of buyers which will be interesting to merchants inside and outside our platform.

As we continue growing the percentage of transactions that flow through MercadoPago, the benefits of MercadoPago gradually will reach all of our users, providing them with smooth settlement of transactions, a trustworthy buyer protection program, the advantages of clear records and stored balance. Additionally, sellers see improved conversion and volume as buying and paying become integrated on our platform.

This is the enormous opportunity ahead of us on our own platforms.

In terms of the off-platform segment, the opportunities for growth are also very large as we begin to reach out to more merchants, nascent and established, and as our existing off platform partners see their online volume grow along with the rest of e-commerce. Brazil off-platform payments illustrate this perfectly. Off-MercadoLibre e-commerce payments volume grew 98% QoQ, and we expect to keep a rapid growth rate for several quarters. As this happens, off-platform will become an increasingly important component of our business, and we look forward to its evolution.

[LONG PAUSE]

Before handing things over to Hernan I'd like to stress the solid progress we are making, while preparing our new platform architecture which will allow us to advance even further. Certain parts will be running on new standards by year end, and over the next few quarters we hope to advance on the entire site. As I detailed earlier, these changes will allow us to shorten development time for new site launches in the future, while allowing for compatibility with third party developers. It implies no added investment but rather a redirecting of IT resources, a time cost which we believe is well worth incurring.

While on the IT Front I would also like to congratulate our engineering team for yet another award received. On this occasion we were the recipients of the 2010 Oracle Enable the Eco-Enterprise Award, announced by Oracle at their Open World Conference in San Francisco this quarter. This award showcases customer successes using technology to support green business practices, as well as sustainability initiatives that improve business efficiencies while having a positive environmental impact. Oracle has honored 15 global customers and we are proud to be among them. We believe this highlights not only our engineering excellence but our commitment to being a socially responsible and environmentally sustainable company.

This is an excellent note on which to congratulate our entire team here at MercadoLibre, for the hard work carried out so far this year. We have just crossed the 1500 employee mark, as we continue to invest in top talent to carry out our ambitious plans going forward, and as a management team we are all extremely proud of each one of them for the work they are carrying out.

In the immediate future we are gearing things up for the year-end shopping season which is about to kick off in Latin America. We are confident that 2010 will see record numbers of both buyers and sellers coming to MercadoLibre for their holiday buying, selling and paying, placing us once again at the center of the growing tide that is e-commerce in Latin America.

I will now let Hernan walk you through the key financial and accounting points for the quarter and look forward to addressing your questions right after that.

Part III: Financial Results – Hernan Kazah

Thank you. [PAUSE] As Marcos just mentioned, the third quarter of 2010 was another strong quarter for us, as our combined businesses generated solid results.

In the quarter we generated:

- Net revenues of \$56 million
- A gross profit margin of 79.5%;
- Income from operations of \$19.3 million, leaving operating income margin at 34.5%; and
- Net income of \$18.8 million, a net income margin of 33.6%. [PAUSE]

Resulting EPS for the quarter was \$0.43.

As Marcos mentioned, I would like to provide you with greater clarity on two changes in our operations which have taken place as of Q3. It is important to highlight that these

adjustments occur as we adapt to our users' needs and capture opportunities to enhance our business. Neither of these changes has any impact on our Net Income or EPS.

The first of these operational changes is the consolidation of our segment reporting. Whereas we previously reported Marketplace and Payments as separate business segments, as of the third quarter of 2010 we have begun to report them both as one single segment. This is a result of the recent integration of our payments business and fees into the marketplace operation. As we have explained in prior calls, we are in the process of bundling our payments processing fees into our marketplace final value fees in all countries where we operate, in this way offering the improved buyer experience provided by our payments service at no extra cost to our users. This was carried out in Argentina at the end of last year, and has now been implemented in Brazil as well, to coincide with the rollout of MP3 in that country. As a result of this pricing change in Brazil, our payments business no longer charges its own separate processing fee for transactions that occur on the MercadoLibre marketplace platform in that country, eliminating the principal source of revenues that justified reporting payments as a separate segment.

It should be noted that MercadoPago continues to charge a processing fee for off-platform transactions and a financing fee, both on and off platform, to buyers who purchase in installments. These sources of revenues are not yet material enough to justify a separate reporting segment, but as they continue to grow, we will reevaluate this in the future as they increase their share of total revenues.

Therefore, for the time being, we will report consolidated revenues and direct costs broken down by geographic segment. [PAUSE]

The second operational change I want to address today is in our MercadoPago financing operations.

Due to the continuous growth of MercadoPago's TPV and, particularly, the growth in financed TPV, as of July 2010 we started to pre-sell a significant portion of our credit card receivables in order to better manage their growing volume, and to generate increased predictability of the associated interest rate cost.

A pre-sale of receivables implies giving certain financial institutions advanced notice of our intent to sell to them a portion of the credit card receivables that we will accumulate over upcoming months. This practice allows us to better forecast our expected financial costs on the sale of future receivables, to improve negotiations around the cost of discounting those receivables, and to limit the risk of not finding trading partners for those receivables.

Consequently, MercadoPago consumer financing revenues are now the net amount collected from financial institutions as a result of pre-selling installment related financing receivables, and there is no longer an expense line associated with the cost of discounting them.

In our press release, we are providing a table that may prove helpful to analyze the annual evolution of the company's topline, as it shows consolidated net revenues since Q3 of 2008 net of MercadoPago financing cost.

Having clarified these two issues, I will now provide a more detailed review of our key financial metrics. All growth rates are year-on-year unless I specify otherwise. [PAUSE]

During the third quarter we generated solid growth in all of our key financial metrics, starting with healthy revenue growth in USD despite a continued foreign exchange headwind versus last year. Specifically:
[PAUSE]:

- Net revenues were \$ 56 million, 11% growth in US dollars, and 23% growth in local currencies. Making revenues for the prior year quarter comparable by subtracting \$3.9 million of costs directly associated with MercadoPago financing, growth was 20% in USD and 34% in local currencies.
- Gross profit margin was healthy at 79.5% vs. 78.3% in Q2 of 2010, and 79.5% in Q3 of last year.
- Income from operations grew 2% to \$19.3 million, with an operating income margin of 34.5% vs. 35.8% in Q2 of 2010, 37.5% in Q3 of 2009.
- Net Income before Income/Asset Tax Expense for Q3 2010 was \$19.8 million, representing 59% growth in US dollars.
- Net income was \$18.8 million, a 91% growth year-on-year. This represents a 33.6% net income margin versus 19.5% a year earlier. [PAUSE]

Revenue growth was driven primarily by volume. Specifically, we saw a 30% increase in items sold, taking marketplace gross merchandise volume to \$888.1 million. This is a 12% increase in U.S. dollars and a 26% increase in constant dollars; within this total, Brazil, with a 25% growth in items sold, grew local currency GMVe by 4% in the quarter versus USD GMVe growth of 11%.

GMVe comparisons are particularly difficult in Brazil for the second half of 2010, as last year the Brazilian Real appreciated considerably over a very short period, while the local currency prices of typically USD denominated products did not adjust downward immediately. The result was a considerable spike in USD ASP at this time last year, making for a very tough year on year comparison that extends into Q4. [PAUSE]

Another factor driving our revenue growth was the expansion of our bundled pricing which is higher than the prior stand-alone final value fee and which increased TPV penetration. As TPV grows, financed volume on our site also tends to grow, and this contributes additional financing revenues.

In local currencies, on a country basis, consolidated net revenue growth was 7% for Brazil, 48% for Argentina, 11% for Mexico, and 61% for Venezuela. In USD, consolidated net revenues grew 14% for Brazil, 44% for Argentina, 15% for Mexico and declined -35% for Venezuela. Note that Brazil's revenue growth is deeply impacted by the pre-selling of MercadoPago financing receivables. Had we presold receivables in Q3 of 2009, revenue growth for Brazil would have been 30% in US dollars, and 22% in local currencies.

Consolidated take rate declined to 6.30%, versus 6.40% in Q3 of 2009 and 6.58% in Q2 of 2010. Under both comparisons the decline in take rate is strictly due to the new pre-selling of MercadoPago receivables. [PAUSE]

Turning to our P&L for the third quarter:

Gross profit grew 11% to \$44.5 million, representing 79.5% of revenues, the same as in 3Q'09. This margin may decline going forward as our payments business, with a lower gross margin, continues to gain share over the marketplace. [PAUSE]

Operating expenses for the period reached 45.0% of sales totaling \$25.2 million, a 19% increase.

Specifically:

- Sales & marketing remained the largest line item expense growing 11% for the quarter to \$12.3 million. As a percentage of revenues Sales & marketing reached 22.0%, vs. 21.8% for the same period last year.
- Product & technology remains a principal focus for us. Expenses grew 28% to \$4.2 million compared with \$3.3 million for third quarter of 2009, as we continued to build our team in this crucial growth area.
- G&A grew 26% YoY in Q3 of 2010, including certain one-time costs associated with the closing of non-operating subsidiaries and with our new offices in Brazil. [PAUSE]
- Resulting operating income for Q3'10 was \$19.3 million.

Other relevant items from the quarter were: [PAUSE]

- \$1.4 million of interest income mainly from conservative fixed income investments
- \$600 thousand of interest expense and other financial charges; and
- A \$354 thousand FX loss, driven by the effect of currency fluctuations on the cash and investment balances of our subsidiaries held in the US.

Pre-tax net income was \$19.8 million, 59% higher than in same quarter of last year. Tax expense was \$1 million in Q3 of 2010. This represented a blended tax rate of 4.9% vs. 28.6% in Q2 of 2010 and 20.5% in Q3 of 2009, as we benefitted from a reversal of a tax valuation allowance in Brazil, resulting from our tax planning strategies to use our accumulated tax loss carry forward credits from acquired companies. [PAUSE]

Net income for the three months ended September 30, 2010 was \$18.8 million, reflecting an increase of 91% when compared with \$9.9 million during the same period of 2009. This represents a 33.6% net income margin, and resulted in a basic net income per common share of 43 cents. Note that net income grew 109% vs. Q3 of last year when measured in constant US dollars. [PAUSE]

Net cash provided by operating activities for the 3-month period ended September 30 2010 was \$15.9 million, or 28.4% of net revenues.

Capex for the quarter was \$6.6 million, including our investment to acquire a new office in Argentina. Consequently, for the 3-month period ended September 30, 2010, net cash provided by operating activities less capex, a non-GAAP measure for free cash flow, totaled \$9.2 million.

Cash, short-term investments and long-term investments at the end of the quarter totaled \$116.9 million. [LONG PAUSE]

These results reflect the sound momentum of our business, and the efficient management of our resources as we deploy initiatives against our stated plan. The levers to promote increasing use of our payments service on and off MercadoLibre are obviously in place, and we are eagerly awaiting the fourth quarter, which is typically a strong quarter for MercadoPago. We also expect to experience a volume boost from holiday season shopping on our marketplace. Overall, MercadoLibre is poised for excellent growth, the prospects are promising, and we look forward to managing our business in the context of this great opportunity.

With that, we will be happy to take your questions. [PAUSE]