MERCADOLIBRE 4Q18 EARNINGS CONFERENCE CALL SCRIPT

Date: February 26th, 2019

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended December 31th, 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 fourth 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. Let 's kickoff today's call by doing a quick, high level recap of the year that has just ended.

We've closed out a challenging year that has combined a few significant challenges with transformative positive initiatives.

On the more challenging front:

- Changes in our logistics cost structure in Brazil forced us to claw back our free shipping initiatives, and to introduce a flat fee structure that negatively impacted vibrancy on our marketplace.
- These changes in free shipping, combined YoY comps that already lapped the launch of free shipping during the prior year, led to deceleration in our marketplace business as the year progressed (despite two-year average growth rates that have remained fairly stable, and still above market).

On the flip side, 2018 was also a year of significant positive developments that set us up extremely well for the long run. During last year:

- We launched and have begun to scale our own logistics network, that will in time allow us to deliver better service levels at lower costs, in both Mexico and Brazil.
- We've expanded our installed base of mPos devices in Brazil and Argentina with strong results in terms of devices sold and Total Payment Volume, while in Mexico we are beginning to gain traction.
- We also successfully launched our wallet and QR initiatives in Argentina and are already replicating those initiatives in Brazil and Mexico.

And finally, we redesigned our pricing and incentive programs, by meaningfully optimizing investments, so as to consistently improve EBITDA and accelerate constant currencies net revenue growth during the four quarters of the prior year.

It's with this positive second half momentum, that we move into the first quarter of 2019 and beyond. Our efforts going forward will continue to be centered on capitalizing on the adoption of e-commerce in the region as millions of consumers move their purchasing share of wallet online and increasingly pay through digital and mobile means. The trend is clear for us. As we improve the online shopping and payments experience, customer trust, confidence, engagement and retention go up, which ultimately drive further adoption of our ecosystem and positively flow through into our financials.

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Let me now delve into the fourth quarter results.

Perhaps most importantly, meaningful advances were made on the logistics front. On a consolidated basis, mean delivery times improved 30% on a year-over-year basis allowing us to deliver 50% of our shipments in 3 days or less. Specifically, in Brazil, over the last year we have been able to improve by 10 percentage points the amount of packages being delivered in 48 hours or less, while we also reduced median delivery times by 2 days. This is a not only a consequence of improved service levels of our main shipping partner in Brazil, but also the result of the advances we have made in moving volume onto our managed logistics network. On a consolidated basis, over 20% of all shipments were already done through our network of fulfillment and cross docking centers. Penetration of this managed network reached 17% in Brazil, 15% in Mexico, and 55% in Argentina during the fourth quarter of 2018.

Overall adoption of the Mercado Envios solution in Brazil, Mexico, and Argentina are also worth calling out. Brazil gained 11 percentage points to 91% of all packages being delivered in our managed network, Argentina gained 16 percentage points to 49% and Mexico gained 14 percentage points to 94%.

Depth of inventory, another key area for our marketplace business, also remains robust. During the quarter we improved product discovery and deepened breadth and depth of selection. In Brazil for example, live listings grew for the 4th consecutive quarter above 50% YoY to 57%, reflecting Mercado Libre is still the marketplace of choice when it comes to assortment and depth of selection in that country.

Our Official Stores initiative also delivered positive results further improving the quality and discovery of inventory on our marketplace. Driven by special dates and the shopping season, Official Stores gross merchandise volume penetration was solid in main countries: Mexico at 14% (up from. 7% LY), Brazil at 13% (up from 9% LY), and Argentina also at 13% (up from 10% LY). The growth in Official Stores penetration is attributed not only to solid hunting commercial efforts in onboarding well-known brands but also driven by the rollout of a more complete Intellectual Proprietary Program which is giving brands better tools to increase their comfort level to sell on Mercado Libre. During the fourth quarter, we onboarded the likes of Estee Lauder, cosmetics MAC, the Gap, just to name a few.

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As a result, GMV on an FX neutral basis, excluding Venezuela that has been deconsolidated, grew by 31% year on year. Keep in mind this is on the back of the toughest comp from 2017 where GMV grew 67% year on year. The combination of both years yields a two-year average yearly growth rate that nearly hits 50%.

For a regional overview, let me start in Brazil. During the fourth quarter of 2018 on an LC basis, GMV grew 24.4% year on year. Tougher comparisons versus last year, where Brazil grew at 71% year on year, as well as pricing adjustments we implemented to improve the unit economics in low ticket items and allow us to rebalance our growth and profitability explain, for the most part, the year on year deceleration.

In Mexico we continue to have a position of strength when we look at of share of purchases and GMV. Additionally, during the fourth quarter of 2018, on an LC basis GMV sustained solid momentum growing at 56% year on year. Just like in Brazil, tougher comps over the same period of last year explain for the most part the lower growth rates delivered during the quarter.

Staying on Mexico, and a result of having greater control over user experience by pushing for mandatory adoption of Mercado Pago and more recently of Mercado Envios, we've observed an 11-percentage point improvement in our Net Promoter Scores over the previous year. This is a clear indicator that we can drive greater customer satisfaction as we become more and more involved with the end-to-end buying experience.

Finally, Argentina continues to demonstrate resilience in spite of strong macroeconomic headwinds and the rollout of caps to limit the number of free listings per seller that we allow. GMV on a local currency basis grew by 48% year on year during the fourth quarter.

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Let’s now move to our fintech and payments progress report for the quarter, another area of strategic importance for us.

We believe that not only we are facilitating payments and credit on Mercado Libre’s marketplaces through Mercado Pago and Mercado Credito, but we continue to deploy our online-based payment solutions off of Mercado Libre. Given the size of this structural opportunity, we’ve been accelerating the distribution of our online-to-offline (“O2O”) products and services, as we envision Mercado Pago as a powerful disruptive provider of inclusive financial technology solutions. In particular, for those segments of the population who have been historically underserved and which in many instances operate in the informal or partially formal economies of the region.

As a result of the aforementioned push into offering our O2O services away from our marketplace, Total Payment Volume surpassed the $2 billion-dollar mark for the quarter for the first time ever reaching $2.1 billion dollars during Q4’18.

Within those O2O solutions, mPos are still the most relevant. MPos TPV continued growing at triple digits both in USD and local currencies and continued to gain incremental share of our total payment volume. On a consolidated basis mPos TPV grew by 365.3% YoY on an FX neutral basis, driven by sustained growth of our installed base of devices in Brazil, and Argentina where TPV on an FX neutral basis grew north of 300% and 500% YoY, respectively.

During the quarter, we also made inroads into the buildout of our alternative payments network through our mobile wallet initiative. For the three months ended on December 2018, our digital mobile wallet was used by millions active payers, reaching an active base that was 4 times larger than it was a year ago. Mobile wallet TPV transactions also delivered solid results growing north of 450% YoY.

One of the several payment usage cases we are focusing on to scale our mobile wallet is QR payments in-stores. On the latter, we have begun to see encouraging results in Argentina, since it was the first country where we were able to offer our full line of online to offline payments solutions. We’ve been successfully onboarding both lighthouse merchants that bring brand equity and ubiquity to our wallet as well as smaller stores. A case in point, within less than two months of launching, McDonald’s has become the #1 ranked in QR in-store payments in terms of TPV on our network. It is also important to highlight here that QR in-store payments already represents more than 40% of total wallet TPV for Argentina.

We continue making progress in expanding our innovative products in order to align the right incentives for our users to begin to fund their digital wallets with cash as opposed to credit or debit cards. As such, in December we launched our Asset Management solution in Brazil for individuals and merchants. Results have been encouraging so far, as the amount of money invested as a percentage of Mercado Pago stored balances in Brazil is already higher than what it was in Argentina within only one month of launch.

In Argentina the product continues to gain traction, as with only within six months of launch, invested funds already represent 40% of Mercado Pago stored balances.

Our merchant and consumer credit products are also scaling nicely, further strengthening the portfolio of financial services we are able to offer our users. Loan originations re-accelerated, growing by 31% during the fourth quarter, to a total loan book of roughly $96M. We've also expanded financing sources for the loan products, raising third-party funding in Brazil and Argentina as our merchant credit business continues to gain traction. During the quarter we were able to raise over 31M dollars from the Inter-American Development Bank, while in Argentina we issued our second public trust which successfully gained us access to capital markets to offload the loan book.

Finally, our merchant services business has re-accelerated growth during the quarter. Successful execution in Argentina through our gateway solution complemented by fast growth in Brazil, Colombia, Uruguay, and Peru explained the solid results in this business during the quarter.

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Now that I've have covered the key operational highlights for the quarter, let's move on to our financial progress report.

The steps we've taken over the past year to re-calibrate our growth and profitability made significant strides, as we delivered the second consecutive quarter of positive EBITDA. Our improvement in profitability is, in large part, a consequence of our better understanding of how to optimize, leverage, and distribute shipping subsidies to maximize sales and conversion rates. Going forward, we will continue to make adjustments to our shipping subsidies and prices as we see fit in order to fully achieve this goal.

Let's move down the P&L, starting with gross billings. We delivered the 19th consecutive quarter of consolidated gross billings growth above 60% YoY on an FX neutral basis. The robust growth we delivered during the quarter was driven in part by improved monetization on our marketplaces, as well as continued pace of execution in our off-platform revenue streams particularly in payments.

On a by-country basis, gross billings delivered positive results throughout the most important regions: Mexico accelerated to 88% YoY, Argentina accelerated to 93%, and Brazil, reached 60% YoY growth.

Moving down the P&L, net revenues also continue to grow at a healthy clip with an FX neutral growth rate of 62% year on year.

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Gross profit remained stable versus last year, ascending to $205 million dollars representing 48% of revenues during the quarter.

Warehousing & shipping costs, net realizable value discounts on mPos devices, and increasing costs of deploying our infrastructure on public clouds explain the gross margin compression over last year. We've included a detailed breakdown, of these, and also of the OPEX margin evolution I am about to cover in the slides that accompany this presentation.

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As reported operating expenses ascended to $206 million dollars, or 48% of revenues versus 75% of revenues last year due to the Venezuelan deconsolidation charges. If we exclude the cost of deconsolidation, operating expenses would have been $182.2 million dollars, or 50.9% of net revenues the prior year, resulting in a year on year OPEX scale of about 285bps. The main drivers of this OPEX scale during the fourth quarter of 2018 can mainly be attributed to Sales & Marketing, Product Development, and G&A. For comparative purposes, if we exclude the Venezuelan deconsolidation, OPEX as a percentage of gross billings was 38.3% this quarter versus 41.7% the same quarter a year ago, a 335-basis point leverage in operational expenses.

As a result, operating losses contracted by 98.8% versus last quarter despite higher shipping discounts on a sequential basis, as we better optimize the availability of our shipping program.

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Below operating income, we saw $16.4 million dollars in financial expenses attributed for the most part to interest accrual on the new convertible note we issued last quarter due 2028, and also working capital facilities we took out in Argentina, Uruguay, and Chile. Interest income increased by 61% year on year to $14.3 million dollars, mainly attributable to the stability of the Argentine peso and rising interest rates in that country, increased invested volume in Brazil, as well as the proceeds of the convertible note issued in August 2018 which also generated more investment returns.

Our forex line was negative $4 million dollars, attributed for the most part as a result of a $4.7 million-dollar loss from the U.S. Dollar revaluation over our Argentine Peso net asset position in Argentina, which was partially offset by a $0.9 million gain arising from the appreciation of the Mexican Peso over our U.S. Dollar net liability position in Mexico.

As a result of all this, net loss as reported for the fourth quarter was also lower versus the previous quarter, at $2.3 million dollars, resulting in basic net loss per share of $0.05 cents.

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That concludes our review of the fourth quarter of 2018. I'd like to conclude the call by saying that we remain as confident as ever of the improving value proposition we are offering our users across the region. With this validation of our product and market fit, execution, will be, as always, our main focus going forward. We must remain laser focused leveraging the scalable platform businesses we have built in retail, marketing, logistics and fintech to differentiate ourselves in an ever more competitive market, as we push forward with the democratization of commerce and money throughout Latin America.

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