MELI Q2'11 Earnings Conference Script

Date: August 3, 2011

MERCADOLIBRE 2Q11 EARNINGS CONFERENCE CALL SCRIPT

Part I: Introduction and Disclaimer – Investor Relations

Welcome everyone to MercadoLibre's earnings conference call for the quarter ended June 30, 2011. Company management presenting today are Marcos Galperin, Chief Executive Officer, and Pedro Arnt, Chief Financial Officer. Additionally, Hernán Kazah, our former CFO, and Osvaldo Gimenez, Senior Vice President of MercadoPago, 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 factor sections of our 10-K and other filings with the Securities and Exchange Commission, which are available on our investor relations website. [PAUSE]

Now, let me turn the call over to Marcos.

Part II: Overview/Summary – Marcos Galperin

Thank you. I would like to welcome all of you to today's conference call.

MercadoLibre's second quarter of 2011 proved a continuation of the strong momentum we have been experiencing for our entire business. As the quarter advanced this was increasingly the case, as our unit volume grew progressively stronger, and gross merchandise volume saw an additional boost resulting from strong currencies and strong macroeconomic contexts leading to increased consumption.

I would like to start by sharing a few key growth rates that give an accurate sense of our strong performance this quarter, and how this flowed into our financial results. I will follow this with a description of our latest developments and the thinking behind them, as our second quarter came with many optimizations to the services we provide, all of them in line with the strategy we have laid out and anticipated for you on previous occasions. This will provide the proper context to update you on some of the exciting changes we are bringing to our platform through our technology revamping efforts, or New World project, as we call it.

Please bear in mind that the growth rates I will call out today are year on year unless I specify otherwise.

[PAUSE]

In the quarter:

- Confirmed registered users were up 23%
- Items sold grew 26%
- Gross merchandise volume grew 34%, reaching $1 billion 68 million in the quarter.
- And the number of payments performed through MercadoPago grew 140%, adding up to a total payment volume of $295.8 million.

As you can see, MercadoPago continued to gain share of our marketplace, even as our gross merchandise volume accelerated in the quarter. As we will see in a moment, the rest of our adjacencies also experienced important growth, contributing to the following financial results. In the second quarter, our company generated:

- Revenues of $69.4 million, an increase of 32%;
- Income from operations of $21.6 million, an increase of 15%; and
- Net Income of $14.8 million, an increase of 27%…
- … resulting in 34 cents of earnings per share.

I would like to remind you that this is the final quarter that our year-on-year revenue comparisons are negatively impacted by the 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, with no effect on our bottom-line. Had financing receivables also been pre-sold in the second quarter of 2010, respective year-on-year growth:

- in net revenues would have been 43%

- and in income from operations would have been 36%.

Now I will review how we achieved these results by addressing each of our business units.

Starting with our core marketplace, in the second quarter we grew:
- 42% in new listings
- 26% in items sold
- And 34% in GMVe

Gross merchandise volume accelerated despite a deceleration in items sold, which experienced a slow start in April as our introduction of site upgrades based on the new technology platform encountered some initial bugs and instabilities, but then picked up in the remaining months of the quarter as we quickly iterated and stabilized the launches of new versions of our home and view item pages. Our new platform architecture has greatly enhanced our ability to make rapid changes to our site.

A more intelligent search box, sensitive to a user's history of prior purchases, a streamlining of product categories, greater integration with social platforms and special deals with an ideal placement that has increased awareness and clicks on hot items, are some of the improvements that our buyers saw as the quarter progressed.

Registration and activation were greatly improved in the second quarter as we simplified the steps and the fields that a new user must complete to transact on our platform. While our old registration had the feel of being detached from the actual shopping experience, we have moved towards a more intuitive process that blends it into our improved buying flow. As a result, the number of new users that registered on our site performed a visible step function in the second half of the quarter, reaching 2.8 million for the full three months, a peak not seen since Q3 of last year, and slightly above it. I think we still have a great opportunity to continue streamlining key aspects of our buying and registration flow.

Our core marketplace remains a good example of how we look to run our entire business: constantly expanding on what is already the broadest range of choice in our region's e-commerce, while maintaining a constant focus on improving the user experience we provide. In this context, our 37% growth in live listings for the quarter continues to show the sustained traction of initiatives we have taken over the last years to expand our supply base, as many new sellers have joined the ranks of those who already operate on MercadoLibre on a regular basis. Our free listings alternative continued to attract a great number of first-time sellers in the second quarter, while the most substantial portion of our GMVe growth came from paid listing types.

Wrapping up my review of our core marketplace in the second quarter, we have done a great deal to perfect our user experience through the specific improvements I have mentioned. We have a better platform than 3 months back:

- Our homepages now have social, fresh and personalized content
- Search is considerably faster, has better suggestions and auto-corrections
- Our View Item Page is faster, has larger pictures, and better information architecture
- We have new user-friendly features, a better zoom-in on our listed products, better deals and product suggestions for our users

Better yet, we saw a material acceleration in successful items after these launches, and the momentum remains intact. Our second quarter was the first to surpass the $1 billion dollar mark in GMVe, as it accelerated for the third consecutive quarter, posting 34% growth, versus 30% in the first quarter, 26% in the fourth quarter of 2010 and 12% growth in the third quarter of 2010. We look forward to this continued momentum as we keep driving our own success by generating a great user experience on our core marketplace.

[LONG PAUSE]

Now turning to our Classifieds marketplace, I am extremely pleased with the steps we have taken to maintain our leadership in this business, re-energizing our offerings with well-timed initiatives.

Our Freemium model has definitely appealed to individuals, and as free listings in the quarter more than doubled versus one year ago, they continued to bring in record amounts of new users, and a record amount of upgrades to paid formats as well. But perhaps the most exciting part of this business is its gradual bid for a considerable professional market with enormous potential to spill online in the near future. Our listings from broker-dealers now represent an all-time high of 30% of our total classifieds listings.

The value of our site to all of these users is increasingly evident, not only for the unparalleled source of internet traffic it represents, but also for the user experience and simplicity of use it provides. In the second quarter we launched new, more concise homepages for Motors throughout all our countries, and an entirely new look and feel for the TuCarro homepage specifically. We also initiated a content partnership with Autosporte supplying Motors-relevant news to our users in Brazil.

We achieved all this while doubling our efforts to promote our enhanced services, as in the quarter we launched radio campaigns in Brazil, Venezuela and Colombia. Not surprisingly, Classifieds showed an excellent revenue growth in the quarter versus one year ago, even outpacing GMVe.

[LONG PAUSE]

Now I would like to discuss our advertising business. Recently this has implied a review of the fast pace at which MercadoClics has consolidated itself as the foremost means of advertising on our site.

Once again, the second quarter saw an excellent year-on-year growth rate for our search advertising solution as display banners continue to be phased out of our site. A snapshot of advertising revenues at the end of the quarter allotted 62% to MercadoClics and 38% to display banners, versus 28% and 72% respectively in the second quarter of 2010.

Last quarter I had the chance to discuss our rationale behind this move in great detail, stressing the strategic logic of advancing in this space which generates increasing investment from the largest players in the retail world, online and offline.

To us, it represents a highly scalable, high margin business that complements the services we already provide. To our clients, it represents a valuable, increasingly indispensable investment in the largest source of online shoppers in Latin America.

To us and to them, it represents a more precise form of advertising, priced as a function of the results it brings. The equation is proving favorable to an increasing number of large-scale players from the world of physical retail. In the second quarter we added Procter & Gamble and the Argentine retail chain Garbarino to our distinguished list of clients.

That these prominent brand-names only invest a small portion of their marketing budgets in MercadoClics to date, makes us keenly aware of the opportunity this represents. MercadoClics have been immensely successful so far, as a service geared at large-scale retailers, and as a source of revenues that continued its triple-digit growth rate in our most recent quarter. But what remains more impressive by far is the potential this business has going forward.

[LONG PAUSE]
And now for a look at our payments business.

You may recall that on April 15th we launched MP3 in Mexico, and we made this coincide with the initiation of our bundled pricing scheme for that country. The rollout was off to a very positive start, as was the case in Brazil in the third quarter of last year. Mexican sellers have had no trouble adapting to this new system which no longer charges a separate fee for the use of Pago, and makes it automatically offered on all listings.

As a result of this move in Mexico, adoption of MercadoPago on total MercadoLibre listings reached a new high of 88% in the second quarter, versus 84% in the first quarter of the year.

Let me remind you that adoption of MercadoPago refers to the percentage of listings offering that means of payment, while it remains up to the buyer to select the payment method for each purchase. Therefore, the important increase in payments done through MercadoPago in Mexico during the quarter is a promising indication that buyer preference accompanies this initiative.

Mexico definitely contributed to what was a thriving quarter for MercadoPago throughout our countries. Total TPV accelerated to 295.8M, a 100% growth. TPV penetration, or share of total GMVe, reached 28%, versus 26% last quarter, and 19% a year ago.

Definitely more users are opting for this quick and expedient payment system that ensures the best possible purchase experience on our site. We look forward to further leaps in user engagement in this regard.

Hand in hand with total payment volume, financed volume on our site saw an impressive year over year leap as more buyers opted to pay for their purchases in installments. As we have explained in the past, we do not bear the financing credit risk ourselves but rather pass along credit cards financing options to our buyers. [PAUSE]

MercadoPago's off-platform business, continues to surpass our ambitious expectations as its growth is even faster than the growth of MercadoPago on platform. During the second quarter we continued our strong growth in the number of merchants that offer MercadoPago on their sites as well as the total number of transactions and payments processed.

We hope this impressive dynamic shown by payments as a whole is fueled even further by the many initiatives for growth we are preparing to deploy, and the many optimizations similar to those in our core marketplace that are already underway. All in all, I can only stress what an excellent quarter this was for payments, and our optimism about how things look going forward.
[LONG PAUSE]

I would now like to update you on our New World project, and how it fits in with the next steps we have in mind for our business.

We keep transferring key parts of our platform to New World. The APIs that part of our platform is already running on led to real-time improvements to our formats and our registration process, as I have already described. Last time I spoke of the better time-to-market implicit in New World, and these developments provide a good example.

With regards to what lies ahead, we still have a huge list of improvements to deploy, as well as innovations that will change the look and feel of our business, making us better suited for vertical product categories, catalog integration, greater integration with shipping providers, specific solutions for mobile and tablet devices while enabling third party developers to develop innovative solutions on top of our platform.

New World continues to pave the way for great improvements in our operations today, while giving us the flexibility to pursue our strategy going forward.

With that, I will now turn the call over to Pedro for an in depth look at our financials.

Part III: Financial Results – Pedro Arnt

Thank you. [PAUSE] As Marcos just mentioned, our second quarter saw healthy growth. Volume continued to be the main driver behind this growth, items sold increasing by 26% and leading to our first quarter ever to surpass the billion dollar mark in gross merchandise volume as this metric rose to $ 1 billion 68 million dollars. This is a 34% increase in U.S. dollars and a 24% increase in constant dollars, both figures accelerating versus the prior quarter.

Within this total, Brazil grew 32% in items sold versus 34% in the previous quarter. Brazil’s local currency GMVe accelerated slightly versus the prior quarter to 17% year-on-year. USD GMVe growth for Brazil was 31% year on year, also accelerating versus 26% in the prior quarter. The growth rates of items sold, USD volume, and BRL volume point to four relevant trends in our Brazilian business: continued solid items sold growth, continued strength of the BRL over the USD, high share of dollar priced goods on our platform that generate slower local currency growth rates, and the continued expansion of our marketplace into newer, faster growing, lower ticket categories. The combination of these factors leaves us optimistic regarding the sustained success of our largest operation.

Now, before addressing our financials I would like to remind you once again, that changes in MercadoPago´s Financing operations, effective since the second half of last year, affect our year-on-year comparisons in terms of revenues, operating income, and margins over revenues. I will therefore, call out comparable, apples-to-apples growths for these lines.

[PAUSE]

During the second quarter we generated solid growth in all of our key financial metrics.

Specifically:

[PAUSE]:

- Net revenues grew 32% in US dollars to $69.4 million, 22% 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 43% in USD and 32% in local currencies.
- Gross profit margin came in at 75.6% vs. 76.7% in the first quarter of 2011, and 78.3% in the second quarter of last year.
- Income from operations grew 15% to $21.6 million, with an operating income margin of 31.1% vs. 35.8% in the second quarter of 2010. On a comparable basis, operating income margin for that period would have been 32.6%, and year-on-year income from operations growth would have been 36%.
- Net Income before Income/Asset Tax Expense for the second quarter 2011 was $22.5 million, representing 37% growth in US dollars.
- Net income was $14.8 million, a 27% growth year-on-year. This represents a 21.4% net income margin versus 22.2% a year earlier. [PAUSE].

Let me now walk you through the most relevant drivers behind each of these results.

[PAUSE]

Year-on-year revenue growth came primarily from GMVe growth, and from our bundled pricing that captures through price increases the added value we are generating to our sellers by processing an increased volume of their transactions through MercadoPago, as our total payment volume grew 100% year on year in the quarter.

With higher payments volume, financing on our site has also continued to grow as we have a much larger base of MercadoPago transactions to which we can cross-sell credit, leading to significantly higher revenues derived from our consumer financing offering.

Classifieds and Advertising were both accretive to revenue growth, continuing to grow at a slightly faster pace than core marketplace growth. These two business units, combined with the consumer financing revenues I just addressed now represent almost one quarter of total revenues, underlying the continued diversification of our revenue streams.

On a reported segment basis, consolidated top line performance breaks down by main countries as follows:

In local currencies, on a country basis, consolidated net revenue growth was 16% for Brazil, 37% for Argentina, 7% for Mexico, and 39% for Venezuela.

In USD, consolidated net revenues grew 30% for Brazil, 31% for Argentina, 15% for Mexico and 62% for Venezuela.

Note that Brazil's revenue growth is deeply impacted by the change in our financing operations involving the pre-sale of MercadoPago financing receivables. Had we presold receivables in the second quarter of 2010, revenue growth for Brazil would have been 44% in US dollars, and 28% in local currencies.

Consolidated take rate was 6.50%, versus 6.58% in the second quarter of last year, and 6.44% in the prior quarter of this year. Last year's second quarter take rate would have been 6.08% had we pre-sold financing receivables back then, therefore take rate rose 42 basis points on an apples to apples basis. Take rate has risen primarily as a result of MercadoPago penetration contemplated in our bundled pricing, and the fast pace of growth of the consumer financing, classifieds, and advertising businesses we have just covered, which generate revenues but not GMVe.[PAUSE]

Now turning to a detailed look at our cost structure during the second quarter:

Gross profit grew 28% to $52.4 million, representing 75.6% of revenues, declining from 78.3% in the second quarter of 2010. These 270 bps of gross margin contraction are almost entirely attributable to increased penetration of MercadoPago transactions and the interchange fees associated with processing this added payment volume. In other words, the contraction in margins is a consequence of a mix shift towards a lower margin business that is none the less generating significant incremental revenues and profit. Additionally, as we have stated in the past, we believe there is room to off-set this mix shift drag on margins, at least partially going forward, through a combination of pricing increases, reduced interchange fees, and continued growth from the other, higher margin adjacent businesses we operate. [PAUSE]

Operating expenses for the period were 44.5% of revenues, down from 45.9% in the same period last year on an apples to apples basis, 140 bps of improvement in leverage of our operating expenses structure.

In absolute terms, Operating expenses totaled $30.9 million, a 39% increase over the same in 2010.

Specifically:

- Sales & marketing remained the largest line item expense, increasing 36% for the quarter to $15.6 million. As a percentage of revenues Sales & marketing was 22.5%, vs. 21.8% for the same period last year.
  - Quarterly sales and marketing expenses included a one-off cost related to payments that were erroneously processed by one of our banks in Brazil, a $1.6 million charge.
  - Chargebacks, related to our rapidly increasing MercadoPago volume totaled $0.9 million more than during the second quarter of last year.
  - Customer acquisition related marketing costs were nearly flat when compared to the previous year quarter, reflecting our increasing capacity to grow our user base organically.
- Product & technology expenses grew 39% to $5.5 million compared with $4.0 million for the second quarter of 2010, mainly through increased investments in head-count, as we continue to expand and strengthen our IT team which is essential to the success of our business.
- G&A grew 42% year-over-year to $9.7 million in the second quarter of 2011, mainly due to:
  - Head count related costs increased by $1.3 million versus last year as we faced a combination of wage inflation in Argentina and Venezuela as well as our decision to continue to invest in attracting and retaining talent. Bear in mind that, head count, in numbers grew by only 7% to slightly above 1600 employees.
  - And increases over last year of $1 million in outside services, as we invest to improve our legal, tax, reporting, control and compliance efforts.

[PAUSE]

Operating income for the second quarter of 2011 was $21.6 million. Operating income margin for the quarter was 31.1% vs 35.8% in the second quarter of 2010. Had there been discounting of receivables in the first quarter of 2010, operating income margin for that period would have been 32.6%. As I previously disclosed, the contraction on operating Income Margin is entirely a consequence of gross margin compression brought about by a mix shift towards our lower margin payments business.

Below Operating Income, we benefited from $2.2 million of interest income, aided by higher cash balances and interest rate yields in Brazil, arriving at a pre-tax income of $22.5 million, 37% higher than in the same quarter of last year.

Tax expense was $7.6 million in the second quarter of 2011, representing a higher tax rate than usual due to the non-deductible nature of the one-time expense associated with the payments processing error, which I mentioned earlier. The resulting blended tax rate was 34% versus 29% in the second quarter of 2010 and 30% in the first quarter of 2011. [PAUSE]

Net income for the three months ended June 30, 2011 was $14.8 million, reflecting an increase of 27% when compared with $11.7 million during the same period of 2010. This represents a 21.4% net income margin, and resulted in a basic net income per common share of 34 cents. [PAUSE]

Property & equipment and intangible asset purchases for the quarter totaled $10.4 million, including the purchase of new offices in Venezuela for $6.6 million. Consequently, for the period ended June 30, 2011, net cash provided by operating activities less Property & equipment and intangible asset purchases, totaled $8.2 million, or 55.3% of Net Income in Free Cash Flow.

Cash, short-term investments and long-term investments at the end of the quarter totaled $166.8 million, underlying the consistently increasing strength of our balance sheet.[LONG PAUSE]

I’d like to briefly remind you that our quarterly dividend payment was made on July 15th, 2011, to all stockholders of record as of the close of business on June 30, 2011, in the amount of $0.08. We remain strongly committed to continue our quarterly dividend program and to increase dividend amounts in the future in line with our growing capacity to generate earnings.

All in all, the company is in excellent financial shape. We have a business model that continues to deliver strong margins, adding to our solid cash position and allowing us to pursue further growth while rewarding our shareholders along the way. I am definitely looking forward to the second half of this year, as we see the effects of all the initiatives that we have underway and new ones on top of that, in an e-commerce context that could not be more favorable to us. With that, we will now take your questions.