MERCADOLIBRE 3Q15 EARNINGS CONFERENCE CALL SCRIPT

Date: November 4th, 2015

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended September 30, 2015. I am Martín de los Santos, Senior 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 third 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

Thanks Martin, good afternoon and welcome to our third quarter conference call for 2015.

As we report our earnings results and exit this third quarter, I would like to kick off the conference call by saying that we continue to be optimistic about the opportunities that lie ahead of us. Latin America offers a formidable growth market with solid business prospects, and multiple factors which make us feel confident about the direction and shape our business is taking. Complementing these external factors, our own internal strengths: being a larger company with increasingly diversified revenue streams, with better access to capital, and an ever more capable team of employees, will serve as powerful advantages in order to continue to effectively capitalize on and execute the forthcoming growth opportunities.

We are fortunate to do business in an industry that continues to grow even in adverse economic scenarios, consequence of a still underpenetrated secular trend in ecommerce. MercadoLibre is at the epicenter of this trend, a leader and benchmark when it comes to regional coverage, market share, unique visitors, and brand recognition.

Furthermore, our company has a proven business model functioning as the platform of choice for the region's growing ecommerce ecosystem. This platform approach serves as a growth catalyst that continuously generates incremental business opportunities while being financially sound and profitable. We believe this quarter's results are a testament to all this.

Consequently, the cornerstone of our focus will continue to be centered on the execution of our platform centered growth strategy and on scaling the business for the long term. We plan to achieve this by continuing to invest behind innovative and compelling ecommerce solutions for small and medium sized businesses as well as individual sellers, while also continuing to expand our relationships with large retail brands. We envision MercadoLibre as the go to partner in e-commerce solutions for all types of sellers, irrespective of their size and breath. This is what drives our commitment behind our business lines: marketplaces, official stores, payments, financing, advertising, storefronts and back end e-commerce solutions. These are multiple fronts that will require investment, but that are also highly synergistic amongst themselves and should thus also allow for a methodical and efficient growth strategy going forward.

Before I delve into greater detail on some of the specific advances made in our main strategic initiatives across our platform during the quarter, let me walk you through some key high level operational results that we have delivered:

- Successful items grew 26%, reaching $34.0 million
- Gross merchandise volume rose to 77% in local currencies, reaching $1.84 billion
- Total payment transactions grew 75% to $22.0 million
- Total payment volume grew 95% in local currencies, reaching $1.4 billion and representing over 75% of our GMV for the quarter

- Registered users were up 20% year on year, reaching 138.4 million, after adding 6.1 million new users during this quarter.

These operational highlights have led to solid revenue growth in local currencies of 68% Year over year. Excluding our Venezuelan operations, revenue growth came in at an equally solid 54% Year over year. Despite currency devaluations, revenues in USD grew 14%. Excluding our Venezuelan operations, revenues in USD grew 15%. These dollar growth rates are worth noting, since they occur in a general context of strong currency devaluations across most of our markets. The Brazilian Real has weakened by 36%, the Argentine peso by 10%, the Mexican peso by 20% and the Venezuelan Bolivar by 75% since the third quarter of 2014.

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Now let's take a closer look at the key initiatives and results by business unit, starting with our marketplace BU.

As I have noted, the business continues to demonstrate its resilience. Units sold, which exclude the effects of inflation and local currency devaluations grew at a healthy 26% Year over year on a consolidated level. Successful items growth performed particularly well in Argentina, growing at 60% Year over year. Brazilian units grew at 20%. With regards to GMV, during the third quarter we reverted the negative growth trend in USD and grew at 9% Year over year, while in constant currencies, GMV grew 77% for total MELI, and 41% if we exclude our Venezuelan operations. Brazilian GMV in constant currencies grew at 30% during the quarter. These are strong figures given the overall environment across the region.

Our continued efforts directed at the expansion of our enhanced marketplace, combined with our focus on our customer service efforts, have resulted in improved buyer engagement metrics. Unique buyers as well as repeat buyers continued to show growth rates across all our markets growing at double digits when compared to the same period of 2014 on a consolidated basis. Additionally, the continuous growth in successful items per buyer also indicates that we are executing well on our initiatives to stimulate and maintain demand and vibrancy throughout our marketplaces.

On the pricing front, we have made some strategic adjustments during the third quarter, which are mainly aimed at: reducing friction in listing products, deepening our SKU count, continuing to capture long tail customers, providing more vibrancy to our marketplace, and improving overall customer experience and conversions while growing our GMV.

During this quarter we migrated to a Final Value Fee only model in our Brazilian marketplace. By eliminating placement fees we now have a much simpler payment structure of 3 listing combos: a Premium Combo at 16% which includes installment payments, a Classic Combo at 10% final value fee, and newer free listings. This free strategy consists of extending free listing durations from 7 to 60 days, while giving these listings the ability to add our MercadoEnvios shipping services, financing options, and payment overlays thus offering a substantially better value proposition for buyers and sellers, while at the same time giving us venues to monetize and generate incremental revenue from these free listings through the offering of these value added services. We are confident that such pricing changes will entice sellers to publish more listings on our marketplace as they no longer have to assume the risk of paying fees in advance for products that might not sell as well. Combined with our free strategy should serve as powerful igniters to continue deepening our SKU count and creating greater content for buyers on our platforms. Additionally, and as I will cover shortly, for those sellers that do wish to replace the placement fees we have discontinued with new formats to highlight their listings, we have launched ad formats in search results that link back to existing listings on our marketplace.

We have already seen the positive results of these changes as we continue to see selection and SKU count expanding at very healthy rates as the number of live listings being offered on MELI’s Brazilian marketplace grew by 92% Year over year during the quarter.

As our enhanced marketplace is rolled out into other markets, we also plan to roll out this new pricing structure to these additional markets: Argentina, Mexico, Colombia, and Venezuela will soon follow.

Continuing on, our official stores initiatives have also impacted positively our marketplace results, albeit to a lesser degree given that they still represent single digits of our total GMV. During the third quarter, we added 300 new official stores totaling over 1250 as we continue to onboard well-known brands into our ecosystem such as: Columbia, Timberland, Fiat, 3M, and Swatch amongst others.

On the mobile front, our investments behind this initiative continue to pay off very well as conversion rates, mobile GMV growth, and new mobile registrations continue to deliver improving and promising results.

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Moving on to our payments platform, MercadoPago continues to be the prime payment solution for facilitating transactions within our ecosystem, and shows signs of an improving value proposition for merchants, as both approval rates continue to increase while merchant churn rates continue to decline as a consequence of an improved product offering and innovation that continues to differentiate us from our regional competitors. Our payments solution has also continued to show rapid growth outside our marketplace, expanding its footprint through our merchant services business setting record numbers in terms of countries covered, and payments volume processed.

During the third quarter, we continued to witness compelling growth in Total Payment Volume as a consequence of all this, despite a general context of strong currency devaluations and tough comps in 2014 that arose from the launch of our interest free financing initiative in Brazil. During the third quarter of 2015, Total Payment Volume on our platform measured in local currencies grew 95%, while in USD Total Payment Volume on our platform grew at healthy 42%.

Another important milestone was reached this quarter as penetration of MercadoPago on our platform reached the highest GMV ever: 58% vs 46% during the same period of 2014. These gains have been primarily driven by: implementation of settlement of payments exclusively through MercadoPago in Mexico for all listings where interest free financing is offered, improvements in approval rates of MercadoPago across all geographies, and the continued adoption of our zero cost installment plan in Brazil.

By quarter's end, 55% of all GMV in Brazil was being done at zero cost credit plans, while approximately ¾ of all Brazilian GMV had a financing overlay on them, confirming the importance of credit as a catalyst for consumption in that country. Additionally, adoption of our payments solution in Chile launched during the 2Q of 2015 has shown very encouraging advances in penetration on our platform, growing at a very fast clip, albeit from a very low base due to the fact that full implementation of the solution remains fairly recent.

Complementing the strength of our on platform MercadoLibre payments performance during the quarter was our Merchant Service business, which enables MercadoPago solutions on merchants websites and apps. This continues to be an extremely exciting prospect for us as we believe the opportunity to capitalize payment volume off our marketplace is multiple times larger than on our marketplace. We believe that such initiative will not only serve as an igniter to allow us to cross sell other value added services such as shipping and financing to merchants off our marketplace, but also bring in significant incremental revenues.

It is also important to highlight that all the countries where we offer our Merchant Service solutions have shown triple digit revenue growth rates when looked at in local currencies; a clear sign that we are executing well on this front.

This continued strength of our Merchant Service business is mainly driven from the success of our commercial teams in onboarding larger clients and new clients in key open platform integrations, as well as cross border payments in Brazil and Mexico which are growing strongly and becoming a relevant percentage of our payment volume mix.

On the mobile payments front, there have also been very encouraging early stage advances demonstrated by steady adoption and usage growth of some of the innovations we have recently launched, such as our mobile POS systems and peer to peer transfer products.

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Our shipping initiatives have also played an important role in growing our marketplace engagement metrics, as they continue to perform well with over 60% of units shipped in Brazil, and over 45% on a consolidated basis being done through MercadoEnvios. This latter metric is particularly relevant, underscoring the growing adoption of our shipping solution across the board, and particularly in Mexico, where just 9 months after launch of the solution, penetration is nearing 20% of all units sold in our Mexican marketplace. Additionally, adoption of our shipping solution in Colombia launched during the 2Q of 2015 has also shown very encouraging advances in penetration and adoption.

We remain confident that the roll-out of our shipping solution will continue to contribute synergies to our enhanced marketplace which is already a compelling value proposition, and will also serve as a tool in sustaining growth rates for our business going forward, while helping us to continue to bridge the gap with 1st party retailers.

In conjunction with what we had mentioned during prior quarters, not only aspire to drive the penetration of our MercadoEnvios shipping solution on our marketplace to levels similar to what MercadoPago has shown, but we have also begun to offer our shipping solution to off platform merchants during the third quarter of 2015 in both Argentina and Mexico.

We have also made important advances in regards to our cross docking initiatives, in an effort to increase our shipping offers and shorten delivery times, provide the best prices and maximize value to our customers. On this front, we continue to grow the percentage of items shipped that pass through MercadoLibre controlled sortation centers, and have added additional carriers in Brazil beyond our master agreement with Correios. In Argentina we have started our systems integration with additional carriers and expect to begin trial runs of cross docking shipments at select sortation centers by the end of the fourth quarter of this year.

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Moving on, we are pleased with the results of our advertising business as well. The success and continuous innovation of our product ads solution has contributed growth acceleration in local currency revenues of 176% Year over year. In line with this, we have also launched a new product ad: Ad placements within search results. This incremental source of revenue could effectively serve as a substitute to the insertion fees we discontinued as a result of the rollout of our new pricing structure in Brazil, as merchants continue to be enticed to purchase our advertising solution in order to redirect traffic to their own listings within MELI. This initiative is currently being deployed in Brazil, and we expect to launch it in Argentina and Mexico as well in the near future.

With that, we have covered the key initiatives behind our vision of an enhanced marketplace including: marketplaces, payments, financing, official stores and shipping, as well as some highlights in other business lines.

We believe that these strong business results and initiatives show the resiliency of our business model as it continues perform strongly regardless of FX and macro headwinds. Our vision of having more touch points with the transaction continues to confirm our belief that the buyer experience is greatly improved and friction between buyers and sellers significantly reduced as we roll out our enhanced marketplace. This fact is confirmed not only by the strength of the operating metrics that I just covered but also on how these metrics are flowing through to our financials, and by the sustained improvement in customer satisfaction measured by Net Promoter Scores. During the 3rd quarter of 2015 we saw the 9th consecutive quarter of increases in NPS, which grew by another 7pp sequentially over the previous quarter.

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We now like to review how these operational highlights have impacted our financials. As always growths are year on year unless I specify otherwise.

- Net revenues came in at $168.6 million, a 14% growth in USD and 68% FX adjusted. Excluding Venezuela, Net Revenues grew by 54% in constant currencies.
- Income from operations was $45.3 million, decreasing by 4% in USD, but growing by 33% in constant currencies, and 32% in constant currencies excluding Venezuela.
- Net Income before Income/Asset Tax Expenses was $47.6 million, decreasing 8% in USD, and growing 31.0% in constant currencies, 31.5% in constant currencies if we exclude Venezuela.
- Net income came in at $45.6 million, growing 35% in USD, and 72% in local currencies, or 91% in local currencies excluding Venezuela, all resulting in Earnings Per Share of $1.03.

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Let me start by breaking down revenue growth for you:

Marketplace revenues grew 56% in local currencies, driven by solid unit growth year over year, especially in Argentina where units sold accelerated to its highest level in many years.

I'd like to note an ongoing trend, as our enhanced marketplace strategy penetrates our gross merchandise volume; our core take rate increasingly shifts to and spreads through non-marketplace revenue streams. In other words, as financing and shipping grow, they are taking on incremental take rate at the expense of marketplace take rate. All in, we continue to monetize more per user, but the segment breakdown favors non-marketplace over marketplace revenues. Hence, marketplace revenues as a percentage of GMV dropped 41 bps Year over year, and non-marketplace revenues that include financing and shipping revenues, gained 77 bps Year over year.

With that introduction, let me now give you some color on the Non-Marketplace revenue growth:

Non-marketplace revenues experienced notable local currency growth of 89% in the third quarter. In order of relevance, this growth was mainly driven by:

Payments:

In which merchant services grew north of 100% in local currencies thanks to the increased adoption of MercadoPago throughout the region.

And financing revenues grew 81% in local currencies, mostly propelled by the adoption of our interest free listing type, widely adopted in Brazil and, more recently, growing nicely in Mexico and Chile.

Shipping revenues continue to grow at a fast pace, reaching over 6% of our net consolidated revenues during the 3rd quarter.

Advertising continued to accelerate revenue growth, consolidating as one of the fastest growing components of our topline, and finally, classifieds revenues which are also growing, pushed by the professional sellers segment.

The slight deceleration we experienced in non-marketplace revenues is primarily explained by the tough comps from a year ago, since our most thriving initiatives, free financing and shipping, were already fully in place by this quarter one year ago.

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When looked at by country operation, topline growth in local currencies in our largest markets broke down as follows: 47% in Brazilian Reais in Brazil, 83% in Argentine Pesos in Argentina, 26% in Mexican Pesos in Mexico, and 281% in Venezuelan currencies in Venezuela.

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Before moving on, I'd like to briefly comment on three noteworthy impacts on our P&L in terms of costs during this quarter:

First, the company was granted a tax holiday under the new software development law in Argentina that expires in 2019, as we disclosed earlier in September. This holiday allows us to have a relief in income tax and payroll taxes related to software development activities, which are located in Argentina, retroactive to September of 2014. Therefore, this quarter we booked a one-time income tax gain of $10.4 million and payroll tax cost gain of $3.1 million for the retroactive benefit as well as a total of $6.7 million under both concepts for the current period's business, less $1.4 million of audit fees related to the allowance of the tax holiday.

Second issue, is that we partially reduced the yearly accrual on our Long Term Retention plan this quarter due to the lower stock price levels at which MELI traded, positively affecting margins by 309 bps.

And finally, foreign exchange headwinds continue to be relevant for understanding the margin compression this quarter, as our largest operations continue to weaken their currencies against USD. In general, to give you a sense of the FX impact, had currencies remained constant over the past 12 months, EBIT margin contraction would have been minimal, as FX accounted for 491 bps of our overall margin decline.

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Moving on:

Gross profit grew 7% year over year during third quarter to $111.8 million. Gross profit margin was 66.3% of revenues, versus 70.7% in the third quarter of 2014, and 67.4% in the second quarter of 2015. As MercadoPago and Shipping keep gaining share of our revenues, there is an incremental impact of payment processing fees and sales taxes over revenues, which account for most of our gross margin contraction. These effects were somewhat offset by scale in customer support. Additionally, of the 435 bps of total gross margin compression, foreign exchange fluctuations explain 171 bps.

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Operating expenses grew 16% year over year, reaching $66.5 million, and representing 39.5% of revenues, versus 38.8% in the same quarter last year, and 44.9% during the second quarter. Let me break all this down for you:

Sales & marketing grew 6% year over year to $31.1 million, or 18.5% of revenues, vs. 19.9% for the same period last year, and 18.9% last quarter. The 142 bps of scale are mainly driven by improvements in bad debt and scale in marketing expenses, partially offset by higher fraud prevention expenses, which are associated with the growth of payments and shipping solutions. Here as well, to give you a notion of forex impact, excluding forex fluctuations, S&M would have scaled 62 additional bps.

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Product Development expenses grew 26% to $17.0 million, representing 10.1% of revenue in the third quarter versus 9.2% in the same period last year and 12.7% in the second quarter of 2015. Growth in compensation costs, from continuing investments in our engineering talent pool which grew almost 70% versus last year in headcount, as well as incremental investments in software, licensing and consulting costs, drove this deleveraging. These costs increases were partially offset by scale obtained by the software development law and LTRP. Forex fluctuations impacted margins negatively by 196 bps since most of our IT count is located in Argentina, the operation with smallest currency weakening year over year against the USD.

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General & Administrative expenses increased 28% year over year to $18.4 million, representing 10.9% of revenues, versus 9.7% a year ago and 13.4% during the second quarter of 2015. This 116 bps of contraction is mainly explained by a one-time reversal of tax credits during the third quarter of last year, which affect comps and to a lesser degree, by higher compensation costs. This contraction was partially offset by a reduction in the LTRP accrual. Foreign exchange fluctuations in the case of G&A explained 61 bps of this margin contraction.

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As a result of all this, operating income for the quarter was $45.3 million, or 26.8% of Revenues, versus 31.9% in the third quarter of 2014. Of the 502 bps of contraction in EBIT, 491 bps can be explained by FX fluctuations, meaning, if currency exchange rates had remained constant versus last year, margins would have been almost flat.

Please bear in mind that, as I mentioned before, our operating margins were aided by two large effects this quarter: the software development law relief in labor tax and the LTPR accrual.

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Below Operating Income, we saw $6.0 million in financial expenses, mostly corresponding to interest accrual on the convertible bond issued last year.

Interest income was $5.8 million, up 32% year on year due to higher interest rates and larger invested amounts, compared to the third quarter of 2014, mainly explained by MercadoPago's growth and the consequent float and cash balance increases that it causes vs. the last year.

Our forex line is positive $2.6 million during the quarter due to the appreciation of USD balances held by our subsidiaries, mostly explained by our Brazilian and Argentinian holdings, and partially offset by USD-denominated liabilities in some other markets.

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Net income before taxes totaled $47.6 million, down 8% year over year and representing 28.2% of revenues, versus 35.0% during the third quarter of last year.

Income tax expense was $2.0 million in the third quarter, a blended tax rate of 4.2%. This line item saw the highest positive impact of the software development law, a total of $16.0 million, $10.4 million corresponding to prior period's adjustments. Excluding non-recurring impact, the of these tax adjustments the blended tax rate for the period would have been 27.2%, down from 34.9% in the same quarter of last year and 41.9% during the previous quarter.

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Net income came in at $45.6 million, or 27.1% of revenues, versus 22.8% in the third quarter of 2014. Excluding one-offs, net income was $33.1 million, or 19.6% of revenues. This resulted in a basic net income per common share of 1.03 cents, 0.75 cents excluding from prior periods adjustments, vs. 0.76 cents in the third quarter of 2014, a fair apples to apples comparison eliminating one off impacts.

Purchases of property, equipment, intangible assets and advances for property and equipment, net of financial liabilities during the quarter totaled $8.2 million. For the period ended September 2015, Free cash flow, defined as cash from operating activities less payments for the acquisition of property, equipment, intangible assets advances for property and equipment, net of financial liabilities, was $6.3 million, versus $42.1 million in the same period last year. Cash, short-term investments and long-term investments at the end of the quarter totaled $526.8 million.

Wrapping up, we declared our quarterly dividend of $4.5 million, or 10.3 cents per share, payable on January 15, 2016 to shareholders of record as of the close of business on December 31, 2015.

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This concludes my review of the business for the third quarter. Summarizing what we've seen, we'd like to reiterate that we envision the opportunity to be capitalized in ecommerce as large as we have ever seen it, given the infancy of the industry combined with our unique regional leadership. Not only are we just beginning to scratch the surface in what respects to ecommerce, payments, and logistics, but having successfully sorted many competitive and technological challenges over the past years gives us more assurance that we have the ability and capability to successfully execute all our initiatives going forward. This is reflected by the performance of our business units across the board as they continue to show strong traction, while also confirming that our business model is not only innovative, but also financially sound, and resilient and performs in both positive and negative macroeconomic conditions. We remain excited about our business and future prospects, and will continue to focus relentlessly on innovation and execution of our strategic initiatives, which we believe will lead the way for us to continue to be the de facto ecommerce platform throughout Latin America for many years to come.

We can now take your questions.