

MERCADOLIBRE 4Q15 EARNINGS CONFERENCE CALL SCRIPT



Date: February 25th, 2016

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended December 31st, 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, 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.

[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 fourth 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, welcome everyone to our fourth quarter results conference call for the 2015 fiscal year.

I would like to kick off the call by saying that, in our view, 2015 was one of the strongest years ever in terms of the steps made towards executing the strategic vision we set forth for the company. We exited the year on a favorable trajectory across nearly all our major initiatives, allowing us to not only wrap up a great 2015, but also giving us confidence that we can continue to execute well and make progress on multiple fronts during 2016.

Our marketplace business, with its growing service offerings in logistics, payments, credit, and advertising ended the year with greater vibrancy than it entered it, with strong user engagement metrics in GMV and items sold growth, as well as an acceleration in the number of buyers, sellers, and listing count.

Execution on MercadoPago's financial technology offerings continued to exceed our expectations, with marketplace adoption of payments having reached the stated goal of full addressable penetration in Brazil, while also delivering consistently improving rates of adoption across the rest of our geographies. Our off platform merchant service business continues to show strong results, with revenues growing at triple digits for the third consecutive quarter when measured in local currencies. Additionally, our financing business unit continues to grow and reach a scale that encourages us to accelerate the pace of innovation and focus on the segment. And while these core MercadoPago offerings continue to grow, we have also been seeding new opportunities such as our mobile wallets and mobile POS solutions. All of these, we believe, can be significantly large opportunities.

Our shipping solution, MercadoEnvios, took advantage of the last year to lay a firm foundation for all our future efforts in shipping and fulfillment. Over the last year we have built MercadoEnvios into a business with the pieces in place to transform logistics into an important value proposition for our user base in the geographies where we have made MercadoEnvios operational.

And finally, it is also worth noting the rapid growth of our advertising business unit during 2015. The overall executions accompanied by successful launches of new ad formats across our main geographies are delivering strong results that increasingly contribute to our top line.

[PAUSE]

As we head into 2016 and beyond, we will remain focused on the sustained growth of these strategic initiatives. We plan to achieve this through the application of a disciplined investment approach that will lay the foundations for our long-term growth in a sustainable manner. Such investment approach involves deploying more capital than in the past behind

the initiatives within our ecosystem that we deem to be both critical to our users, and where we have evidence that we are succeeding.

These primarily include:

- Continuing to drive the penetration of our payments, shipping and financing solutions as strategic facilitators of e-commerce both on and off platforms in all our markets.
- Persistent development of our mobile product offering.
- Category specific verticalization capabilities so as to continue to gain share of wallet from customers transacting on our platform with particular emphasis on this front will continue to go to our classifieds verticals in motors and real estate.
- Continuing to expand and develop our relationships with large retail brands in order to serve as strategic partners in their omnichannel strategies, while also continuing to cater to small and medium sized businesses as well as individual sellers, effectively allowing us to provide compelling transactional technology solutions to all merchants regardless of their size.
- And finally, delivering a consistently improving user experience through the development of new functionalities, features and services that meet the needs of our users through investments in: technology, product development, and customer experience.

The success we have already seen across these fronts makes us optimistic about the long term growth prospects of our business. The buy-in for the aforementioned initiatives by our user base also increases our commitment to invest in them during 2016 with a mid-term return outlook. We feel confident that we are allocating capital in the right places in order to generate long term value, and feel that the opportunities for growth that Latin America offers justifies this disciplined yet rapidly increasing investment approach we have been taking.

[PAUSE]

I'd like to now take a step back and briefly look at some of the full year business metrics, so as to review the progress we have made during the past four quarters of the year.

During 2015:

- Successful Items grew 27%, reaching 128 million.
- Gross Merchandise Volume rose 81% in local currencies reaching \$7.2 billion.
- Total payment transactions grew 74% to 80.4 million.
- While Total payment volume grew 100% in local currencies, reaching \$5.2 billion, representing over 70% of our Gross Merchandise Volume for the year.
- Registered users were up 20% year on year, reaching 144.6 million, after adding 23.7 million new users during 2015.

These solid operational highlights I have just listed, are a testament to the effective execution of our initiatives, and prove that the strong secular tailwinds in ecommerce serve

as growth drivers as well as a powerful counterbalance to cyclical macro headwinds to deliver positive results.

Case in point, local currency top line grew 80% year on year. Excluding our Venezuelan operations, revenue growth came at an equally solid 57% year on year in local currencies. So despite strong currency devaluations, revenues in USD grew at a healthy 17% year on year. Excluding our Venezuelan operations, revenues in USD grew 23%. To give some perspective on this, when compared to the fourth quarter of 2014, the Brazilian real has weakened by 34%, the Argentine peso by 16%, the Mexican peso by 17% and the Venezuelan Bolivar by 75%.

[LONG PAUSE]

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

Our marketplace BU continues to show its flexibility and resiliency. Units sold sustained high growth rates on a consolidated basis growing at 27% year on year. In Argentina, units sold grew nearly 60%. Brazilian units sold also accelerated to a healthy rate of 22% year over year; while in Mexico units also accelerated sequentially to 15% year on year. When looking at Gross Merchandise Volume figures, the results were equally encouraging. During the fourth quarter, we continued to experience the positive trend seen in the third quarter with Gross Merchandise Volume growing in USD at 12% year on year, while in constant currencies GMV grew 86% for total MercadoLibre, and 45% excluding our Venezuelan operations. Brazilian GMV trends were particularly strong, accelerating sequentially in local currency during the quarter to 33% year on year.

User engagement metrics within our ecosystem confirm that our efforts and investments behind user experience improvements, category diversification, and customer service continue to pay off when it comes to stimulating demand and providing vibrancy across our marketplaces. Unique buyers as well as repeat buyers keep displaying robust growth rates across all our geographies, with the first group growing close to 20% year on year, while repeat buyers keep growing at an even faster clip. It's no coincidence that live listings, and successful items per buyer, have continued to accelerate for eight consecutive quarters, as this should be interpreted as further proof that the improved experience being offered to our user base is resulting in greater customer loyalty.

Continuing with our marketplace business unit, our Official Stores efforts continue to evolve positively as it not only enhances the selection and quality of products available on our ecosystem, but also brings improved brand equity to MercadoLibre. As of the end of the fourth quarter, we had 1580 official stores vs. 545 a year ago, a clear indicator that we are able to successfully onboard all types of sellers on our platform regardless of their breath and size. Although the percentage of GMV coming from official stores is still in the single digits on a consolidated basis, performance continues to pick up, as GMV from this initiative increased by a factor of two this year alone. Commercial dates such as Black Friday and Cyber Monday were strong contributors for this improvement as we get better and better at merchandising the listings for sale on our platforms.

Mobile is another key avenue for growth and investment for us as we continue to transition from a desktop-centric to a multi-device ecosystem. Penetration of mobile GMV on our platform continues to grow as well as the amount of successful items sold through such devices, as both operational metrics grew sequentially for the fourth consecutive quarter across all our markets. New registrations through mobile grew at a healthy pace as an ever increasing amount of users transact with our platform through multiple devices other than desktops.

And finally, during the fourth quarter we also successfully completed the roll out of our marketplace in three new geographies: Bolivia, Paraguay, and Guatemala, thus laying the initial groundwork for future expansion beyond the major markets in the region.

[LONG PAUSE]

Moving on to our payments platform, MercadoPago, it also performed well across our main markets both in terms of payment volume and in number of transactions processed during the quarter. We are very satisfied with the shape our payments business is taking. MercadoPago is not only a powerful tool to reduce friction and increase engagement within our ecosystem, but also is increasingly being adopted by merchants who conduct e-commerce outside our marketplace through our merchant service offerings.

For the last quarter of 2015, Total Payment Volume on our platform measured in local currencies grew 91% year on year while in USD Total Payment Volume on our platform grew at an equally healthy 34% year on year. Mexico, Colombia, and Chile each saw over 10 percentage points of on platform penetration growth during the quarter.

We remain convinced that our focus on aggressively encouraging transactions that use our payments solution is resonating well with users who increasingly view us as offering a safe, frictionless, and trusted manner of transacting online. As a result, penetration of MercadoPago as a percentage of GMV on our marketplace continues to make significant strides as it reached the highest penetration ever this quarter: 61% vs. 50%, during the fourth quarter of 2014.

On the financing front, we have also continued to make significant advances when it comes to adoption of our interest free financing offering. In Mexico, roughly ¼ of all GMV is being done at zero cost credit plans. In line with that, taking into consideration that our free financing offering was recently launched in November in Argentina, we are pleased to report that adoption is picking up nicely as we exit the quarter. And in Brazil, the earliest market to launch, the product is at half of all gross merchandise volume in that country.

Our merchant service business continues to fire on all cylinders. 2015 has been key milestone year for us, as our off platform payments business processed over \$1 billion in payment volume outside of our marketplace for the first time in our history. Off platform payments processing is one of the fastest growing segments within MELI. Exiting the quarter, off platform Total Payment Volume grew on a consolidated basis over 120% year on year in constant currency; while in USD Total Payment Volume grew 78% year on year. These are remarkable figures which confirm our thesis that the off platform payments

business could become many times larger than on our marketplace given the addressable market, in addition to being a conduit to cross sell additional ecommerce solutions already offered in our marketplace such as financing and shipping.

On the mobile payments front, we are pleased to report that we saw encouraging results in our peer to peer transfer products as well as in adoption of mobile POS systems by merchants.

[PAUSE]

Our shipping initiatives keep contributing important synergies to our enhanced marketplace strategy, and play an ever important role in growing our ecosystem's engagement metrics. MercadoEnvios was one of the highlights of the quarter as it continues to consolidate on our platform with items shipped growing at 150% year on year to 15 million units. Adoption of MercadoEnvios has performed well above expectations across all markets with close to 70% of units shipped in Brazil. Considering only the countries where MercadoEnvios is available, approximately half of all items shipped on our platform are done through our shipping solution. In particular, it is worth taking a second to highlight the swift rate of adoption that MercadoEnvios is achieving in Colombia and in Mexico.

Our efforts to increase our shipping offerings, so as to shorten delivery times continue advancing on firm ground as well, as we have successfully launched cross docking initiatives in Buenos Aires, to complement the existing operation in São Paulo. We are currently operating sortation centers with encouraging results, as the percentage of shipments that pass through these centers are growing at a quick pace. As we continue to scale the business for the long term, cross docking will become an important piece of our shipping and logistics strategy, as it is a tool to maximize value to our users, as well as a contributor to providing the best prices and service quality to our customers.

We are also looking to expand MercadoEnvios to off platform merchants across our geographies, as we believe that the addressable market for our shipping solution is very large. There are already select merchants using MercadoEnvios for non MercadoLibre sales in pilot cases.

[PAUSE]

Continuing with our advertising efforts, we remain enthusiastic in regards to what we have done and developed in his business unit. Product ads and ad placements on search results have continued to deliver, not only by providing additional ad revenue streams without negatively affecting conversion, but also by demonstrating they are superior advertising products that deliver better click through rates for advertisers. All this, in addition to being native formats which also perform very well on mobile devices. In local currency, advertising revenue grew north of 140% year on year, while in USD revenues, they grew an equally healthy 60% year on year.

[PAUSE]

Our classifieds business keeps making strides as it transitions into a freemium monetization model that charges listing fees mainly to dealers and realtors, as the for sale by owner category has become primarily free of charge. In line with our change in monetization strategy, and as a result of the success of our strategic acquisitions in Chile and Mexico, KPI's from this BU are once again moving in the right direction, as revenues from professional sellers grew 35% year on year in local currencies, while the number of active professional realtors and dealers engaging with our platform, as well as live listings keep delivering encouraging results.

Finally, one last thing on customer satisfaction. 2015 was another great year for us as we have executed well on the customer service front. During the fourth quarter we experienced the 10th consecutive quarter of increases in Net Promoter Scores, and 20 percentage point improvement when compared to what our NPS was during the same period of 2014.

[LONG PAUSE]

With that, I've covered the key initiatives that serve as the foundations of our enhanced marketplace vision and long term strategy: marketplaces, payments, financing, shipping, official stores, advertising and classifieds. As I have described through our strong performance metrics, there is abundant room for further growth as we continue to firmly penetrate our strategic initiatives across our geographies, and even more so as we continue to make a solid footing outside of our largest market, Brazil.

[LONG PAUSE]

Moving on, I'd now like to review financial results for the quarter. As always, growth rates are year on year unless I specify otherwise. For the fourth quarter of 2015:

- Net revenues came in at \$180.7 million, a 12% growth in USD and 69% FX adjusted. Excluding Venezuela, Net Revenues grew 51% FX adjusted.
- Income from operations was \$33.7 million, decreasing by 26% in USD, but growing by 11% in constant currencies, and 1% in constant currencies if we exclude Venezuela.
- Net Income before Income/Asset Tax Expenses was \$53 million, increasing 6% in USD, and growing 52% in constant currencies.
- Net income came in at \$39 million, growing 14% in USD, and 38% in local currencies, or 72% in local currencies excluding Venezuela, all this resulting in Earnings Per Share of \$0.88.

[LONG PAUSE]

During the fourth quarter, we continued to experience healthy growth rates in marketplace revenues. When measured in local currencies, marketplace revenues grew 63%, as GMV growth in local currencies accelerated to 86% and items sold accelerated to 27% versus last year on a consolidated basis.

Argentina in particular, posted strong results in underlying metrics with items sold growing at 58%. This is the third consecutive quarter of items sold growth in that country. This also drove marketplace revenue growth of 69% in Argentina, and 77% GMV growth in local currency. On a consolidated basis, in US dollars, marketplace revenue from this business grew 2%, as a result of currency headwinds. Excluding Venezuela, marketplace top line growth was 36% in local currencies and 3% in USD, driven by the growth of Brazil of 23% and Argentina of 70%.

[PAUSE]

Moreover, as our service layers keep penetrating our GMV, non-marketplace revenue growth continues to outpace marketplace revenue growth rates across our geographies.

During the fourth quarter, non-marketplace revenues experienced local currency growth rates of 79% year on year, while in USD revenues grew at an equally robust rate of 30% despite FX headwinds. This mix shift in revenue streams from marketplace to non-marketplace have been an indicator that things are moving in the right direction for us, as it validates the success we continue to have in executing our enhanced marketplace vision. Adding service layers such as financing and shipping to our marketplace, as well as processing payments outside our platform, just to name a few initiatives, is not only generating incremental take rate and improving our topline results, but also allowing us to monetize more per user, and maximize customer engagement within our platform.

In order of relevance, the main contributors to the growth story of this revenue segment came from:

- Our merchant service business which continues to deliver strong results, it is the 3rd consecutive quarter of uninterrupted year on year growth, at 100% in local currencies. Greater number of clients being onboarded, as well as increased usage of MercadoPago in existing off platform merchants explains such high growth rates. Brazil and Mexico lead the way when it comes to off platform payments growth, as each business continued to accelerate revenues sequentially and grew over 150% year on year in local currencies.
- Financing revenues grew 57% in local currencies, driven for the most part by the adoption of our interest free listing combo in Mexico and Brazil. Additionally, adoption of our interest free listing type in Argentina launched late in the fourth quarter has shown good advances as it penetrates our platform, growing at a fast rate, albeit from a very low base since full implementation remains fairly recent.
- And last, shipping and advertising revenues continue to consolidate as the fastest growing segments to our revenues, as the pace of adoption of the aforementioned solutions continue to gain traction and steadily penetrate our geographies. On the classifieds front, revenue contribution to our top line continues to grow at a steady pace as we keep improving the monetization of our most profitable segment: professional sellers.

The combined effects of the factors mentioned above have resulted in solid total revenue growth on a consolidated basis, accelerating sequentially to 69% year on year in local currency. Excluding Venezuela, that revenue growth came in at an equally robust 51%. Total top line growth in local currencies in our largest markets broke down as follows: Brazil, 42%, Argentina, 80% Mexico, 29%, and 272 % for Venezuela. Consolidated revenue growth in USD was a healthy 12%, and excluding Venezuela was 14%.

[LONG PAUSE]

Moving on, let's now take a look at our bottom line results and margin structures as we do every quarter:

Gross profit grew 3% year over year during fourth quarter to \$117.6 million dollars. Gross profit margin was 65.1% of revenues, versus 70.5% in the fourth quarter of 2014, and 66.3% in the third quarter of 2015. As MercadoPago and MercadoEnvios continue to grow payment volume and gain share of MELI revenues, the incremental impact of payment processing fees and sales taxes explain for the most part the margin contraction. Of the 541 bps of contraction, 172 are attributable to currency fluctuations and the rest can primarily be attributed to the just mentioned mixshift.

[PAUSE]

Operating expenses grew 23% year on year, reaching \$83.9 million dollars, and representing 46.4% of revenues, versus 42.4% in the same quarter last year, and 39.5% during the third quarter. Of the 398 basis points of margin decline, an estimated 358 basis points can be attributed to currency devaluations.

I will now break down the OPEX growth for you:

Sales & marketing grew 26% year on year to \$42.2 million dollars, or 23.3% of revenues, vs. 20.7% for the same period last year, and 18.5% last quarter. The 263 bps of margin contraction were mainly driven by costs related to increases in salaries and wages, to our buyer protection program, and fraud prevention related charges, since these last two are essential trust retention mechanisms we offer buyers and sellers on our platform. These effects were somewhat offset by scale in improvement of bad debt expenses due to the increased MercadoPago penetration.

[PAUSE]

Product Development expenses grew 40% to \$22.5 million, representing 12.4% of revenue in the fourth quarter versus 9.9% in the same period last year and 10.1% in the third quarter of 2015. Growth in costs reflect increases in compensation from salaries and wages, resulting from continuing investments in our product development talent pool which grew 33% versus last year in headcount, and incremental costs software maintenance and licenses.

[PAUSE]

General & Administrative expenses increased 1% year over year to \$19.2 million dollars, representing 10.6% of revenues, versus 11.8% a year ago and 10.9% during the third quarter of 2015. The 117 bps of scale was driven mainly by a reduction in LTRP accrual, which was partially offset by higher fees for outside services.

[PAUSE]

As a result of these COGS, operational expenses, and currency devaluations, operating income for the quarter was \$33.7 million dollars, or 18.6% of revenues, versus 28.0% in the fourth quarter of 2014 and 26.8% last quarter.

[PAUSE]

Below Operating Income, we saw \$4.2 million dollars in financial expenses, mostly corresponding to interest accrual on the convertible bond issued in 2014.

Further down, Interest income was \$5.8 million, up 33% year on year.

Most importantly, we saw a \$17.8 million gain in our forex line, explained by the appreciation of USD balances held by our subsidiaries, mainly due to currency devaluation in Argentina in December of 2015.

[PAUSE]

Consequently, net income before taxes totaled \$53.0 million, up 6% year over year and representing 29.3% of revenues, versus 31.0% during the fourth quarter of last year.

Income tax expense was \$14.1 million dollars during the fourth quarter. The blended tax rate for the period was 26.5%, down from 31.6% in the fourth quarter 2014, explained by the re-instated tax benefit from the software development law we are beneficiaries of in Argentina.

[PAUSE]

Net income, after all this came in at \$39.0 million, or 21.6% of revenues, versus 21.2% in the fourth quarter of 2014. This resulted in a basic net income per common share of 88 cents, vs. 76 cents in the same period last year.

Purchases of property, equipment, intangible assets and advances for property and equipment, net of financial liabilities during the quarter totaled \$ 25.9 million. For the period ended December 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 \$ 84.2 million, versus \$39.4 million in the same period last year. Cash, short-term investments and long-term investments at the end of the quarter totaled \$ 556.6 million.

Wrapping up, we declared our quarterly dividend of \$6.6 million, or 15 cents per share, payable on April 15, 2016 to shareholders of record as of the close of business on March 31, 2016.

[PAUSE]

This concludes our financial review as we exit the last quarter of 2015, a record year for us in terms of the pace of execution and adoption of our enhanced marketplace vision. Our focus will be centered on continuing to execute and invest behind our strategic initiatives in order to scale our business for the long term, while delivering solid topline growth, creating value for our users, and preserving a balance of profitability and investment in the business.

As we delve into our 2016 plan and beyond, we remain constant in our belief that product driven innovation, and a customer-centric culture across our BU's will be the cornerstones of our quest to offer users a consistently improving user experience that meets their needs when it comes to trading online.

I look forward to keeping you updated over the next few quarters on our progress achieving our strategic vision of the business.

With that, we will now take your questions.