

MERCADOLIBRE 4Q13 EARNINGS CONFERENCE CALL SCRIPT

Date: February 27th, 2014



Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended December 31st, 2013. My name is Martin de los Santos and I am the 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 Gimenez, 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 fourth quarter 2013 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

Welcome everyone to our earnings call for the fourth quarter of 2013. Wrapping up another successful year for Latin America's leading e-commerce ecosystem, I'd like to recap some of our strategic priorities, financial results, and key initiatives for the upcoming year. [PAUSE]

We ended the year on a good note, with solid performance across our marketplace and payments businesses, both closing the fourth quarter with accelerating revenues, despite FX headwinds that continue to impact our consolidated results. Revenues in local currencies also accelerated across our largest countries, showing a trend across that board that was led by our largest market, Brazil.

I'd like to start us off by taking a step back and briefly looking at the full year, so as to re-cap the advances we have made during that past 4 quarters.

During 2013:

- Registered users grew 22%
- Successful items grew 23%
- GMVe grew 44% in local currencies, and 28% in USD
- Total payment transactions grew 34%
- And Total payment volume grew 60% in local currencies, and 40% in USD

We believe these growth rates directly result from our execution against the set of ongoing strategic objectives which we've identified, and stated for our business over the past quarters. These broadly involve: [PAUSE]

- The promotion of our payments and shipping solutions as strategic facilitators for e-commerce, helping to eliminate friction points and enhance user experience, on and off our platform. [PAUSE]
- The ongoing development of mobile and vertical, category specific, capabilities that allow for ubiquitous and customized trading; trends that are both in their early stages in our region, and represent huge upside potential going forward. [PAUSE]
- The promotion of our open platform, making our services increasingly accessible to third parties, be they outside developers building new

solutions, or retailers requiring technological integration and support for their businesses. Through this approach we strive to be the technological partner of choice for anyone looking to trade on-line in Latin America. [PAUSE]

- And finally, all of this necessarily is underpinned by ongoing efforts to deliver a constantly improving overall customer experience. We are devoted to innovation on this front, coming up with new solutions for the growing functionalities and features that we offer, and anticipating rather than reacting to the needs of our users, through investments in our technology products and customer service operations.

[PAUSE]

With e-commerce still accounting for less than 3% of Latin America's total retail volume, we think these are the key areas of focus which will help us accelerate the pace at which online penetrates offline retail, thus accelerating the rate of growth of our own business. We have built our key business plans around these priorities, and will continue to do so during the upcoming year. Let me, therefore, walk you through the progress we have made on each throughout the past year, starting with payments. [PAUSE]

Total payment volume closed the year reaching 35% of gross merchandise volume as MercadoPago extended its benefits, including financing options and a comprehensive buyer protection program, to a growing number of buyers. Brazil and Argentina each saw more than 10 percentage points of on-platform penetration, December to December, while off-platform payments accelerated in the same period, maintaining the highest growth of all our businesses. Financing volume also accelerated, obviously benefitted by payments growth on both of these fronts, and a growing segment of the region's population that is willing and able to buy on credit.

We have also made important strides with our initial forays into shipping and logistics. Our MercadoEnvíos program went live exactly a year ago, growing at an accelerating pace in 2013, as we released it to a broader base of sellers throughout the year. Our initial success with trial users encouraged us to rapidly expand beyond Brazil, with a quick rollout to Argentina in the first quarter of 2013, and subsequent plans to extend the program to Mexico soon. Recapping a very successful first year for this initiative, in 2013 we grew shipping penetration significantly, shipping over 5% of our Brazilian and Argentine combined successful items in the final quarter of the year, and exiting the year with more than 10% of units sold in Brazil already being shipped through MercadoEnvíos.

[LONG PAUSE]

Let's move on to mobile, another fast-paced initiative that has definitely surpassed our expectations this year, topping 12% of our total GMVe by year end. Android followed by i-Phone account for more than half of total downloads, and we are closing in on 10 million native app downloads across all countries. More impressively, mobile keeps expanding its share of our new users, ending the fourth quarter at 15% of total registrations. This rate rises to above 20% in certain countries, where mobile adoption is more advanced than in other parts, bolstered by better infrastructure and cheaper connectivity costs. [PAUSE]

Our vertical and open-platform initiatives ran hand-in-hand in 2013. With continued positive trends on both of these fronts, MercadoLibre keeps consolidating its position as a virtual shopping mall with the most varied selection. Categories such as Apparel and Sports grew more than twice as fast as average GMVe in the year, resulting from our dual approach of offering vertical formats to all sellers and attracting big brands to sell directly through our platform. Brazil and Argentina added a total of 17 new official stores from brands and branded retailers in the fourth quarter alone, underscoring the growing presence of large retailers on our marketplaces. With the volumes from these preferred partners on the rise, we are working on rolling out more official stores throughout the upcoming quarters, significantly improving the depth and quality of selection of items available to our users.

Finally, our work on customer experience has also payed off during 2013, with healthy metrics indicating we are responding faster and more efficiently to customer needs, resulting in a positive evolution of our Net Promoter Score throughout the year. Fourth quarter NPS ended at the highest level of the year, both for marketplace and for payments. In the meantime we are constantly looking for ways to innovate, currently trying out new customer service tools that will allow us greater ubiquity and faster resolution times. [LONG PAUSE]

Wrapping up our initiatives, despite all that we accomplished in the year, we still believe that this is the tip of the iceberg for most of these projects, and we expect sustained solid advances and increasing adoption of each one during 2014.

- We will achieve this by continuing to drive payments growth through product and technology innovation and by leveraging our increasingly recognized payments brand, both on and off our marketplace. [PAUSE]

- Alongside payments, we will accompany the considerable secular trends pushing our mobile and vertical initiatives by further deploying mobile apps and category specific features that allow shoppers the best possible shopping experience, whatever the product and whatever the screen.
- On the logistics front, we will continue to drive penetration of our new shipping platform in our major markets, and also continue to get more involved with other aspects of the fulfillment chain so as to better serve our buyers and sellers needs on this front.
- Our open technology will continue to provide a bridge to large retail and outside development while we accelerate the pace at which we partner with integrators or brands requiring a nexus to the online world. We will be greatly aided in these efforts by our growing track record and portfolio of brands already on-boarded.
- Finally, we will continue to invest in our product development and customer service efforts so as to continue the cycle of removing as much friction from trading on our platforms as possible. We trust these efforts will be reflected in continued improvements to our net promoter scores and other user satisfaction indexes.

[LONG PAUSE]

It's clear that MercadoLibre exhibits a business model that is increasingly more than the sum of its parts. All of the initiatives covered have the common theme of expanding MercadoLibre's reach and ubiquity, as well as perfecting the value it brings to all users. They are all transformative, turning us into an e-commerce operating system of sorts, on top of a marketplace which is already unmatched in product value and selection. We look forward to keeping you updated as our ecosystem grows to a new level.

[LONG PAUSE]

With that, let's now take a detailed look at our fourth quarter results, beginning with our consolidated highlights for the quarter. All growths are year on year unless I specify otherwise.

In the fourth quarter of 2013:

- Successful items grew 20%
- GMVe grew 49% in local currencies, and 30% in USD
- Total payment transactions grew 34%

- And Total payment volume grew 66% in local currencies, and 42% in USD

[PAUSE]

This resulted in solid financial results for which I will now break out the highlights, additionally quoting growth rates that exclude Venezuela for our main P&L lines. We are also providing additional disclosures on Venezuela in our 10K, allowing for a better understanding of how different scenarios and exchange rates for that country might affect our financials.

Additionally, certain of these scenarios are calculated using the new SICAD exchange rate in Venezuela. It is our current understanding that this new floating rate, currently at 11.8 Bolivars to the dollar, will be the rate we will use for re-measuring our Bolivar denominated costs, revenues and balance sheet positions, as of January 24th 2014. To relay a sense of the one-time impact of such devaluation, we estimate that, had such devaluation occurred on December 31st 2013, we would have incurred a forex loss of between 1.5 to 2.5 million dollars as a consequence of the remeasurement of our Venezuelan subsidiaries non-U.S. dollar denominated monetary assets and liabilities. [LONG PAUSE]

For the fourth quarter:

[PAUSE]

- Net revenues were \$134.6 million, accelerating in local currencies and also in USD despite foreign exchange headwinds. Revenues grew 50% in local currencies and 30% in USD. Excluding Venezuela, Net Revenues also accelerated to 39% growth in local currencies, and 22% in dollars.
- Income from operations was \$52.1 million, 33% growth in USD and 56% in local currencies. Excluding Venezuela, Income from operations grew 36% in local currencies, and 18% in dollars.
- Net Income before Income/Asset Tax Expense was \$55.8 million, growing 32% in USD and 55% in local currencies.
- Net income was \$40.8 million, growing 35% year-on-year in USD, and 58% in local currencies. Excluding Venezuela, Net Income grew 42% in local currencies, and 23% in dollars. [PAUSE] Resulting earnings per share were 93 cents for the quarter.

[LONG PAUSE]

With that, let's dive into our topline growth for the quarter.

Marketplace revenues saw solid performance practically in line with sales volume growth. Most operations continued to see similar unit growth to last quarter's, with the exception of Venezuela, where sold items decelerated to 12% year on year, impacted by political challenges in that country. Brazil, our largest market, on the other hand, posted high unit growth of 28% year on year in the fourth quarter, with its marketplace revenues in local currencies slightly outpacing that on improved monetization. [PAUSE]

Non-marketplace revenues accelerated to a growth of 47% year on year in local currencies. Very solid performance from our payments business drove this acceleration, and compensated for actually slower growth in our classifieds and advertising businesses this quarter. [PAUSE]

Reviewing classifieds specifically, revenues from real estate and services saw some deceleration across our top countries, though still posting solid double digit growth. Revenues from vehicle classifieds, however, were practically flat year on year, mainly due to lower listings volume in Venezuela, sequentially and year on year. [PAUSE]

With regard to our payments business unit, revenues accelerated on 2 key drivers:

- Off-platform transactions posted a strong sequential jump, total payment volume accelerating to 55% year on year, as key accounts are performing well, and have led to larger average transactions than a year ago.
- Financing volume also saw an important bump up this quarter. Lower spreads than a year ago were more than offset by growth in installment purchases, which even outpaced our total payments volume. This means that a higher share of our users opted to purchase on financing versus a year ago, as our terms have remained very competitive despite higher interest rates.

[PAUSE]

On the basis of all these revenue streams, consolidated net revenues accelerated in the fourth quarter, also on a per country basis. Local currency revenue growth for the fourth quarter year on year was: 29% for Brazil, 69% for Argentina, 20% for Mexico, and 104% for Venezuela.

Revenue acceleration responds to the performance of underlying business metrics in all of these countries except for Venezuela this quarter, where inflation offset a deceleration in the unit volume of its two largest businesses, marketplace and classifieds, which we have already covered. [PAUSE] This is a good moment to remind you that our Venezuela operation remains profitable and self-sustaining, requiring no investments from abroad. It is a business that primarily earns and spends in local currencies, while leveraging on the same centralized product development and customer service operations that we run for the rest of our business. In this context, we continue to manage our Venezuelan business for the long run, confident that in a more favorable future, our commitment to that market will offer the right returns, despite current conditions.

[LONG PAUSE]

Advancing down our P&L:

Gross profit grew 29% in the fourth quarter, to \$98.4 million. Gross profit margin was 73.1% of revenues, versus 73.6% in the fourth quarter of 2012, and 72.3% in the third quarter of 2013.

Year on year, higher payments processing fees resulting from growth in MercadoPago account for approximately 90 bps in margin contraction, and another contraction of 45 bps results from our investments in fraud prevention. All this is offset by approximately 90 bps of scale, primarily in customer experience, hosting costs, and certain efficiencies on taxes. [PAUSE]

Operating expenses for the period totaled \$46.3 million, 24% higher than in the same period of 2012. Operating expenses as a percent of revenues were 34.4% in the fourth quarter, versus 35.9% in the same quarter last year, and 41.9% in the third quarter of this year. The end of last year saw particularly good scale, but this year's fourth quarter surpassed it.

Let's review this by line item.

[PAUSE]

Sales & marketing, which remains our largest line item, grew 21% to \$23.1 million, or 17.2% of revenues, vs. 18.5% for the same period last year.

Improved fraud loss provisions on MercadoPago transactions are by far the most noteworthy effect, explaining 130 bps of improved margins as our fraud

prevention team managed to bring chargebacks as a percent of credit card volume substantially lower year on year.

Sales & Marketing salaries also scaled, 54 bps, though this was offset by online marketing expenses and a residual effect from our offline branding campaign which ended early in the fourth quarter.

[PAUSE]

Product Development expenses grew 40% to \$9.7 million, representing 7.2% of revenues in the fourth quarter versus 6.7% in the same period last year, as ongoing investments in this crucial aspect of our business were partially offset by scale in salaries.

[PAUSE]

Finally, G&A grew 21% year-over-year to \$13.5 million in the fourth quarter, or 10.0% of revenues versus 10.7% a year ago. Salaries scaled 100 bps, partially offset by higher fees for outside services.

[PAUSE]

As a result, operating income margin for the quarter was 38.7% vs. 37.7% in the fourth quarter of 2012. Below Operating Income, we benefited from \$2.3 million of interest income, down 20% year on year as a result of lower yields on our invested assets versus the prior year period. [PAUSE]

We saw a \$2.3 million gain in our forex line, from the increase in amount, and appreciation in value, of USD balances held by some of our subsidiaries, versus \$488 thousand last year.

[PAUSE]

In the fourth quarter, income tax expense was \$15.0 million, resulting in a blended tax rate of 26.8% versus 28.4% in the fourth quarter of 2012.

[PAUSE]

Consequently, Net income margin was 30.3% in the fourth quarter versus 29.2% for the same quarter of 2012, resulting in a basic net income per common share of 0.93 cents.

[PAUSE]

Purchases of property, equipment, and intangible assets during the quarter totaled \$37.9 million, driven by the purchase of commercial real estate, mainly in Venezuela, as a strategy to preserve the value of our assets there.

Consequently, for the period ended December, 2013, Free Cash Flow was negative \$18.7 million, versus \$51.1 million last year. Cash, short-term investments and long-term investments at the end of the quarter totaled \$262.6 million.

[LONG PAUSE]

This wraps up our financial review for the last quarter of 2013, which ended the year on a note of solid topline growth, benefitted from scale to our business, and consequently delivered what we believe continue to be industry leading profits and prospects for sustained future financial health.

We are very pleased with this accomplishment of growing both our top and bottom lines consistently, particularly when we consider how we are achieving it, which is by investing in the creation of long term value for our users, all the while preserving strong profitability in our business. This is not a minor point in the competitive markets where we operate, where topline growth often comes at the expense of profit generation.

Furthermore, we are confident in our ability to continue delivering profitable growth, such is the financial model and network externalities of the unique e-commerce ecosystem we are building. In 2014 we will continue building on this ecosystem, innovating on our key initiatives, and striving to offer our users a consistently improving user experience. I look forward to keeping you updated over the next few quarters on our progress.

[PAUSE]

With that, we will now take your questions.