



# MERCADOLIBRE 3Q'20 EARNINGS CONFERENCE CALL SCRIPT



November 4th, 2020

## PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended September 30th, 2020. I am Federico Sandler, Investor Relations Officer for MercadoLibre. Our senior manager presenting today is Pedro Arnt, Chief Financial Officer. Additionally, Osvaldo Giménez, CEO of Mercado Pago will be available during today's Q&A session.

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 for the year ended December 31, 2019, "Item 1A-Risk Factors" in Part II of our Form 10-Q for the quarter ended March 31, 2020 and September 30, 2020, and any of MercadoLibre, Inc.'s other applicable 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 2020 earnings press release available on our investor relations website.

Now, let me turn the call over to Pedro...

## PART II - OVERVIEW & FINANCIAL RESULTS – PEDRO ARNT

Hi everyone and welcome to our third quarter 2020 earnings conference call.

Before we begin, I'd like to express our continued thoughts and well wishes to those affected by COVID-19, both at our company and everywhere. We particularly extend our immense gratitude, appreciation and recognition to those who continue to help us combat this unprecedented global health crisis.

Getting to our results, MercadoLibre recorded another strong quarter, driven by high demand for e-commerce and fintech services. Brazil, Chile, and Colombia delivered very strong results in both e-commerce and fintech, while our Mexican operation is still experiencing robust growth despite slight deceleration.

Let me dive deeper starting with the third quarter e-commerce progress report.

Increased demand continued during the third quarter despite the gradual reopening of physical retail throughout the region.

We attribute this to improved service levels and the incremental depth of assortment with which we served millions of buyers during the quarter. In this particular regard, during the quarter we surpassed the 300 million milestone in live listings, reaching 304 million.





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Since the beginning of the pandemic, we've observed that buyers have diversified their purchases across a wider range of verticals on our platform. This in turn activates and engages them in a greater number of services and increases overall purchase frequency. This step up in online purchasing has been stable across all sites in the region.

MercadoLibre's Consolidated GMV growth accelerated to 117% YoY on an FX neutral basis.

At the regional level, Brazil and Argentina accelerated to 74% and 242% YoY on an FX neutral basis respectively. Mexico's performance is notable given how COVID-19 impacted that region, delivering yet another quarter of GMV growth above 100% YoY, also on an FX neutral basis. The growth of our Mexican business has been remarkable over the past few quarters. In fact, if we were to adjust our GMV growth for the blue chip exchange rate in Argentina, rather than the official exchange rate, our Mexican business is already at a size comparable to that of Argentina. This is a clear indicator of not only the phenomenal execution we have delivered, but the large opportunity that still lies ahead of us in Mexico.

Brazil's excellent performance can be explained by our ability to identify and act on opportunities for improvement in overall execution, product development, and commercial initiatives that involved the selection and value proposition on sub-categories where we had lower market share.

During the quarter, these initiatives resulted in the launch of pricing per category, renewed focus on under-represented sub categories, growth in official store mix, improved rebate programs for merchants, increases in payment approval rates, and post-sale service enhancements for sellers and buyers. Fundamentally, we also continue to drive penetration on our managed network, which is the key pillar to generate better customer satisfaction and stickiness.

Consequently, these initiatives have translated into market share gains across Brazilian ecommerce as well as gains across key consumer electronics categories. Additionally, we also improved our Net Promoter Score by offering buyers some of the fastest delivery times in Brazil when items are shipped from our fulfillment centers.

Countries in the Andean region continued to outperform well above year opening expectations particularly Chile but also the case in Colombia.

During the quarter, we launched a few important product initiatives that we believe will help us scale faster while improving the end-to-end shopping experience in those countries. And, on the logistics front we continued expanding our services. Our Flex app is now available in Chile and Colombia while we continue to scale our fulfillment services in parallel. These are important initiatives within our ecosystem that we believe will help bridge the gap in terms of delivery times, and position MercadoLibre extremely well in those markets.

Looking ahead, we will continue deploying our ecosystemic solutions in the Andean region in line with the offerings already available in our main countries as we move into Q4 and 2021.

On the commerce demand side, unique buyers reached an all-time high of 35 million during the third quarter of 2020. This growth YoY in unique buyers was achieved not only by being able to successfully retain existing users but also by maintaining momentum in the growth of new buyers. During the quarter we added 2 million unique buyers in Brazil. Retention of early cohorts also continues to improve.

On a category basis, looking at Consumer Electronics, a key vertical for us, we observed acceleration to approximately 100% YoY growth on a consolidated basis during the third quarter.





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Specifically in Brazil the performance improvement in this vertical can be explained in part by greater corporate focus and execution, the rollout of our dynamic pricing structure and greater investment on performance marketing to reposition our platform as a go to destination for this specific vertical.

Another key vertical for us, Consumer Packaged Goods grew at a robust 181% YoY on a consolidated basis during the third quarter of 2020.

For all our top geos, within the CPG vertical, product launches, product enhancements and partnerships were a key theme for the quarter.

In our Brazilian supermarket vertical within CPG, we implemented navigation improvements such as the "progress bar" to reach Free Shipping thresholds, along with new commercial promotional dates (the Relaunch of the Supermercado and specials in some categories), and also continued working to deepen assortment.

In Mexico the third quarter we've entered into agreements with JBP, DIAGEO, and Grupo Modelo-ABI, in order to further develop those categories within our platform while also promoting responsible consumption.

Additionally, to promote this category, beginning in the fourth quarter we waived flat fees for our sellers and brands for products are in our fulfillment centers.

Staying on ecommerce but turning now to marketing. During the third quarter we re-ignited marketing spend, after an atypical 2Q, doubling the size of our marketing investments in our marketplace – on an absolute basis – compared to the prior quarter. With that said, we are still investing at a lower rate than our original pre-COVID plan due to the pandemic's continued impact in driving consumers online, and because we are still generating robust organic traffic growth.

In the Andean region, we have accelerated the pace of marketing investments versus prior quarters, both in absolute values and as a percentage of GMV.

This increase was particularly notable in Chile and Colombia, where we reinforced branding campaigns and invested in special dates and performance marketing campaigns with solid results. Most notably, our Chilean operations now lead the Top of Mind measurements that we carry out in that country for the first time.

Let me now turn over to logistics, a key enabler of growth for our commerce business.

Our logistics operations have been instrumental in helping us navigate through these trying times, and its powerful synergies with our e-commerce business have unlocked meaningful value.

Not only has this helped us drive higher Net Promoter Scores and customer satisfaction, but it is increasingly becoming a competitive advantage in multiple countries.

Our Mercado Envios managed network continued gaining penetration during the third quarter reaching 64% on a consolidated basis, exiting the quarter at 74% overall adoption. Brazil, Mexico and Argentina reached 68%, 56% and 84% respectively. Fulfillment in Brazil reached 22% of total shipments, while in Mexico it has already surpassed 55% share of shipments. As a result, we've been able to deliver faster and more efficiently.





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In Brazil we managed to improve delivery times and lower costs despite the Correios strike, which lasted for approximately 6 weeks this year. However, since we successfully migrated significant shipping volumes on to our managed network we have been able to not only almost double the amount of items we delivered versus last year, but also significantly enhanced service levels, recording a 20 percentage point improvement in shipments being delivered in less than 48 hours.

The growth of our MELI logistics proprietary technology within the managed network, combined with the addition of Flex in the Greater São Paulo area, helped scale our managed network, resulting in lower shipping costs and delivery times improvements versus last quarter.

Another development in Brazil was the reduction of our free shipping threshold to \$99 reais during the quarter. This had two key benefits. First, it broadened what was an already comprehensive Free Shipping program in Brazil. Second, it enabled us to cover a greater share of our marketplace GMV within the free shipping program.

In Mexico, the incorporation of cross docking to our Mexican managed network is part of our expansion plan in order to reduce our dependence on commercial carriers, enabling us to find more capacity to accompany our increasing volumes and growth in that country.

Finally on logistics, we are happy to report that Colombia and Chile continue to gain penetration of our managed network, ramping up at a very fast clip, reaching 14% and 15% respectively, an almost 10 percentage point improvement versus last quarter.

Execution in logistics has been stellar across multiple geos. During the quarter, as I've just called out, we simultaneously shifted volume into our own managed network while continuing to invest and expand the buildout of our own logistics infrastructure despite trying circumstances.

We are confident that the increased pace of execution in this expansion will enable us to be amongst the best in class in terms of service levels and continue to gain efficiencies in shipping costs going forward.

With that, now let's move on to the Fintech side of the business, another central building block of our ecosystem strategy and value proposition.

Mercado Pago reached almost 60 million unique payers during the quarter, adding 7.5M payers mainly attributable to Brazil. FX neutral consolidated total TPV grew by 161% YoY during the quarter.

Our off-platform payments businesses accelerated sequentially to 197% YoY on an FX neutral basis, not only with a robust performance of online payments but also an improvement in our in-store payments solutions, particularly mPOS devices. We have observed that some segments that had been heavily impacted during the quarantine regimes had begun to recover. The transportation segment we serve is one example of hard hit segments that are now beginning to recover.

Off platform unique payers reached 36 million, with Brazil reaching almost 20 million. Specifically, in Brazil, we reached an all-time high of unique payers added, adding almost 4.2 million over the prior quarter. On the collectors front we reached almost 11 million active collectors, with Brazil leading on the merchant acquisition front.

Starting with online payments, consolidated TPV accelerated to 204% YoY on an FX neutral basis during the quarter, with growth having been led by performances in Argentina and Brazil.





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For Brazil we had a solid online payments growth, especially in the longtail and social sellers segments, setting new records for seller acquisitions, more than tripling the number of active sellers.

The growth in Brazil's online merchant base is the result of a series of actions we took focused on the acquisition of sellers, especially those that started selling online for the first time.

In line with that, we also relaunched marketing campaigns, with healthy seller acquisition costs, and shorter payback periods. We also expanded our cross-sell actions with other Mercado Pago verticals, especially with Point and QR. Additionally, we launched incentive programs in conjunction with the main e-commerce platforms to facilitate the onboarding of new sellers to the online world.

And in Argentina, the other strong performer, online payments accelerated sequentially mainly attributable to promotional days, social sellers and an improved check out. Social sellers monthly acquisition reached an average of 113 thousand in September vs the historical average of 33 thousand, where our main focus was to generate better cross-sell capabilities and optimization of marketing initiatives.

Our mPOS business has delivered solid execution as governments begin to ease quarantines measures.

In Brazil, TPV accelerated 14 percentage points versus last quarter, almost reaching pre-COVID levels of growth. The pace at which we are selling devices was also a positive surprise with more than 1.3 million devices sold across LatAm during the quarter.

And staying on Brazil mPOS, third quarter TPV cohorts are incorporating more TPV compared to January cohorts, which shows a robust acceleration in the cadence of mPos growth. This is in line with the sales levels of devices which grew at a faster pace if we compare September to January.

In Brazil, we launched Point Smart, our top-of-the-line device, focused on businesses that require a simple, fast and modern terminal. This device should enable better cross sell for marketplace merchants who have physical stores and now we are able to cater to their in store payment needs given the new device we are offering.

And in the case of Argentina, this quarter we've grown 129% YoY on an FX neutral basis. One important highlight from our mPOS business there is that as we evolved to multi product with the launch of our Point Plus device, such roll out has been very well-received.

Moving onto our Mobile Wallet, another key vector in our ecosystem. Our Wallet TPV growth continued to accelerate on a consolidated and FX neutral basis to 381% YoY. The share of payments once again skewed towards P2P transactions, Utilities Payments and Cell Phone top ups as a consequence of COVID 19.

Per our last call, the second quarter represented an important milestone in terms of product migration and adoption of payment flows from the physical world to the digital world.

And during the third quarter we've been able to maintain the payment volume reached in the prior quarter and continue growing. We've focused on minimizing churn in order to retain digitized users gained and acquired during the pandemic.





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Peer-to-peer payments continued to gain share of payments within the wallet. This trend was evident across the region. The large pickup in peer-to-peer during the quarter was not only driven by quarantines and a shift to digital, but also by the launch of a new product experience and new free pricing for all transfers made with account money and debit card when P2P transactions.

Finally, on wallet, during the third quarter we were able to grow our wallet active payers to almost 14 million on a consolidated basis. In Brazil, we added a record high number of unique payers for a single quarter.

We also have made inroads on the opposite end of the wallet, as our collector network continues to grow at a healthy pace reaching 5.5 million active wallet collectors on a consolidated basis, an all time high in this front, more than doubling versus the prior quarter.

Let me now move on to our credit business. Mercado Credito had a record third quarter with an all-time high in terms of originations growing 157% QoQ while our loan portfolio also reached an all time high of \$284 million dollars, as we've been able to originate more loans with lower NPLs.

During the prior quarter we had increased the APR's as we calibrated for higher delinquency rates. However, as the quarter progressed, we observed that defaults were in fact improving, resulting in better profitability profiles.

In Brazil we extended terms for online merchants up to 18 months and increased caps, while also improving lifetime values. On consumer credit and express money users, we made our policies more flexible by lowering caps. Additionally, we've been able to enhance adoption of our credit products by leveraging artificial intelligence methods that enable us to do a credit offer at a point in the user journey where there is a greater tendency for adoption.

Originations on consumer credits accelerated 140% versus last quarter. Within our credit products, mPOS in store merchant originations almost doubled, while our express money credit product more than tripled its volume versus last quarter. Originations to merchants on our marketplace grew a solid 172% versus last quarter. Additionally, we launched our micro-credits offering, now representing about 15% of consumer credits in terms of originations.

With that, now let's move on to our financial progress report for the quarter.

Let's start with the review of our P&L with comments on consolidated net revenues. For the third quarter, they reached \$1,116 million dollars, surpassing the billion mark for the first time in a quarter, representing a YoY increase of 85.0% in USD and 149% on an FX neutral basis, mainly attributable to commerce net revenues that continued accelerating and reached their highest historical growth rate.

Gross profit for the third quarter was \$480 million with a margin of 43%, compared to 47% during the third quarter of 2019. The decrease in our gross profit margin resulted primarily from an increase in shipping operation costs, as a percentage of net revenues.

In the slides accompanying this presentation, we've included, as we do every quarter, a detailed breakdown of these, as well as the OPEX margin evolution that I'll cover quickly now.





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Operating expenses were \$397 million dollars, an increase of 8.4% YoY in USD. As a percentage of revenues, operating expenses were 35.6%, compared to 60.7% during the third quarter 2019. The increase is primarily a consequence of marketing expenditures efficiencies, representing over 1500bps improvement, that we achieved as a result of the growth in organic demand brought about by the effects of the COVID-19 pandemic on consumer behavior.

Moving down the P&L, the company incurred \$24.5 million in financial expenses this quarter, mainly attributable to financial loans entered into during the third quarter of 2020, primarily in Brazil and Argentina and interest expenses from our trusts related to the factoring of our credit card receivables in Argentina.

During the quarter we also had a foreign exchange loss of \$30.4 million mainly related to the difference of the Argentine official exchange rate and the blue chip swap rate at which we effectively carry out stock repurchases in Argentine Pesos. We also believe this operation presents the added benefit of generating greater transparency around FX rate distortions that arise as a consequence of Argentina's multiple exchange rates.

Interest income was \$24.6 million dollars, a 13.7% decrease year-over-year, as a result of lower interest rates in our investments as a consequence of the pandemic, mainly offset by higher interest income in Argentina as our float grows. As a result of this, net income for the third quarter was \$15.0 million dollars.

Wrapping up today's call we want to reinforce our commitment to the democratization of commerce and money. The opportunity ahead of us remains sizable, and we feel increasingly confident that we can capitalize on it. Thanks everyone as always for joining this conference call, and we look forward to keeping you updated on our progress report next quarter.

With that, we can now take your questions ...

THANK YOU

