

## **MELI Q4'11 Earnings Conference Script**

*Date: February 23, 2012*

### **MERCADOLIBRE 4Q11 EARNINGS CONFERENCE CALL SCRIPT**

#### **Part I: Introduction and Disclaimer – Investor Relations**

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended December 31st, 2011. My name is Alex de Aboitiz and I am the head of Investor Relations for Mercadolibre. Company management presenting today are Marcos Galperin, Chief Executive Officer, and Pedro Arnt, Chief Financial Officer. Additionally, Osvaldo Gimenez, Senior Vice President of MercadoPago, will be available during today's Q&A session. This conference call is also being broadcast over the Internet and is available through the investor relations section of our website. [PAUSE]

I remind you that management may make forward-looking statements relating to such matters as continued growth prospects for the company, industry trends and product and technology initiatives. These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable, in view of the currently available information, you are cautioned not to place undue reliance on these forward-looking statements. Our actual results may differ materially from those discussed in this call, for a variety of reasons, including those described in the forward-looking statements and risk factor sections of our 10-K and other filings with the Securities and Exchange Commission, which are available on our investor relations website. [PAUSE]

Now, let me turn the call over to Marcos.

#### **Part II: Overview/Summary – Marcos Galperin**

Thank you. I would like to welcome all of you to today's call, where we will review the end of a very good year for MercadoLibre.

Since Pedro will provide in-depth detail on our performance in the fourth quarter of 2011, I would like to take this opportunity to give you a more general overview of where we are today, our evolution since our IPO in 2007, and our game plan going forward.

Let's take a look at the growth of some key metrics since 2007.

[PAUSE]

In 2011:

- 53 million items were sold on our marketplace, versus 17 million in 2007, for a 4-year average growth of 32%.
- Gross Merchandise Volume was \$4.8 billion, versus \$1.5 billion in 2007, a CAGR of 34%.
- We had 14 million transactions on our payments platform, versus 1.3 million in 2007, a CAGR of 80%.
- And, Total Payment Volume reached \$1.3 billion, versus \$160 million in 2007, a CAGR of 70%.

This growth and that of our adjacencies, allowed us to post full year 2011:

- Revenues of \$299 million, versus \$85 million in 2007, a CAGR of 37%.
- And Net Income of \$77 million, versus \$10 million in 2007, a CAGR of 68%.

Looking back over the years since our IPO, we are proud of the evolution of MercadoLibre into the leading e-commerce ecosystem in the region, and are excited about the challenges ahead of us.

[PAUSE]

Looking at our marketplace, GMV and items sold show only part of the success story. Over the last four years we have worked from many angles to ensure that our services meet the expectations of a growing number of users. We have innovated in the options that we offer a growing supply base, making sure that different types of sellers find the ideal format to list their products.

An early distinction between the needs of professional sellers and eventual sellers allowed us to create well-differentiated formats for merchants with typically large, fixed-priced offerings of new and in-season products, as well as for hobby sellers with a single, second-hand item to sell. Our idea of a marketplace that didn't exclude either of these user profiles drove us to expand our offerings by launching listings that charge strictly on the basis of successful sales, followed by entirely free listings that allow sellers to sample the success of our marketplace.

Our classifieds business has also successfully implemented a Freemium strategy. Acknowledging that transactions for cars and houses are not likely to be settled online, we started out by charging fees for listing, but this quickly evolved into our current system which provides the basic service for free, while only charging for premium placement and for convenient multi-listing packages that meet the needs of our professional sellers. This has brought millions of new users to our site, also driving important upgrades to our

premium listings over time, and allowing us to remain the #1 site in classifieds traffic in the entire region while also posting strong revenue growth.

Over the last few years, our initiatives in Core and Classifieds have added to what was already the widest selection of SKUs in the region. We had 114 million total new listings during 2011, versus 28 million in 2007, an average growth of 42% per year. This has ensured a breadth of offering and a long-tail that remains unmatched. Considering an average yearly growth of 22% in internet users since 2007, based on Comscore figures for Latin America, our growth rates give a sense of how we've boosted supply well beyond the healthy secular trends that accompany our business. Improvements to our search algorithms, a more intuitive buying and registration flow, and other constant upgrades to buyer experience, have kept demand just as active. [PAUSE]

Moving from marketplace to payments, we have driven the success of MercadoPago through improved technology, a better integration with our marketplace, and by building a trusted brand name. Bundling payments with marketplace fees was the perfect strategy to promote our product within the marketplace. We have seen total payment volume reach 28% of our GMV and expect this number to continue to grow going forward. In addition, our installment options have shown excellent traction, growing at the pace of payments, and delivering additional revenues to our business.

All of these factors, plus an important increase in stored balance, make us increasingly attractive in the off-platform market, as various e-commerce players seek access to the online wallets of our users. We are proud of the rate at which this business is growing, providing a payments service for all types of merchants and group buying sites such as Groupon and Piexe Urbano. I look forward to the future of this fast growing business, as we continue to innovate in an industry that will require evolving payment solutions, particularly as mobile continues to gain penetration. [PAUSE]

Moving on to another natural adjacency of our core business, I am very pleased with the evolution of our Advertising unit. The MercadoClics platform has proven to be an excellent tool for advertisers to access our unparalleled e-commerce traffic, while also providing our consumers with a priceless one-stop shopping experience. In addition, our search advertising solution has allowed us to capture sellers and inventory that were previously untapped for us. MercadoClics has proven to be an entryway for large retailers onto our ecosystem, presenting us with a great opportunity to integrate them even further. Such is the case of Walmart Brazil, initially a client of MercadoClics but now also of MercadoPago. I look forward to expanding our client base and constantly exploring new opportunities to service them in 2012. [PAUSE]

MercadoShops is another business that exhibits great synergy with the rest of our ecosystem. We have a clear opportunity to leverage our technology when it comes to

offering software as a service. This was evident early on, from our own sellers' requests for these solutions. Since then we've been constantly improving our e-building capabilities, and at the same time ensuring clients for our other business units. Today, less than two years since launch, we have more than 30,000 MercadoShops. Each MercadoShop we deliver is a client of MercadoPago off-platform. Many merchants with shops also offer parallel listings and search ads on our marketplace, building their own organic traffic at the same time as they rely on our demand. Powering new e-commerce stores is therefore an important generator of business for all MercadoLibre. Recently we were proud to sign agreements with the governments of Brazil and Argentina, offering a version of MercadoShops for free to many small and medium-sized merchants, accompanying them in their first steps into e-commerce. Along the way we look to make new partners as we empower them through our technology.

[PAUSE]

As a company that uses technology to enable commerce, we are well aware of the need to stay competitive in this respect. Hence our important investment in product development, as we dedicate a growing programming team to innovation.

The New World Project exemplifies the benefits of our "asset-light" model, since it consists mainly of devoting programming resources to revamping our platform, making it more agile, and making our code available to third party developers. The benefits were evident in the second half of 2011, as we streamlined our registration process and made changes to our buying flow. In the fourth quarter we saw similar momentum, making improvements to MercadoPago's checkout process, to our Classifieds user interface, and to our Mobile offering, which is approaching a total of 1.5 million downloads since it was made available in September.

The fact that we implemented these changes while still working on New World may give you an idea of the dynamic we are shooting for in 2012. While we keep rewriting parts of our platform, we free up others. We are already working on vertical formats that will make us better suited for the sale of sporting goods and apparel, and on developing a standard shipping solution interface for our users. Along with payments, these initiatives continue to add value to our marketplace, allowing us to be more involved in each transaction. In addition, we are working on moving our Customer Service tools to the new platform, allowing us to be better positioned to ensure a great user experience.

[PAUSE]

I hope I've given you a good sense of the opportunities ahead, and of some of the work we have in store for us. Also of the vast improvements that we've carried out to ensure our position thus far, and a better time to market going forward. Our next steps will require commitment, smart investing, and continued long-term vision, but I am confident in our

ability to keep delivering. I speak for the entire MercadoLibre team when I say we are eager to keep managing this business to its full potential.

[PAUSE]

And now, I will pass the call to Pedro for detail on our fourth quarter financial performance, and also his view on what's to come in 2012.

### **Part III: Financial Results – Pedro Arnt**

Thank you. [PAUSE] Following the full year perspective that Marcos just provided, I would now like to take a closer look at our financial results for the last quarter of 2011.

In many ways our fourth quarter showed a continuation of the momentum we've been seeing across our entire business. Our marketplace continued to thrive, with 3.8 million new confirmed registered users, versus 3.6 million in the previous quarter, and 2.7 million a year earlier. This brings total users registered on our site to 65.8 million, a 24% expansion in our user base year-over-year.

Both our new users, and our existing user base contributed to increased activity on our platform, as illustrated by a 41% growth in items sold for the fourth quarter, accelerating versus 38% in the third quarter, and surpassing it as our highest growth in the last 2 years. At higher average tickets than one year ago, this led to a gross merchandise volume growth of 54% in local currencies, partially offset by foreign exchange headwinds in the quarter, resulting in USD growth of 47%. USD GMVe for the quarter was \$1.45 billion.

Within this total, Brazil grew items sold by 50% year-on-year versus 49% in the previous quarter, as our recent user-facing improvements keep showing excellent traction in the most developed e-commerce market in the region. Brazil's local currency GMVe accelerated to a growth of 50% year-on-year, while depreciation of the Brazilian Real kept USD GMVe growth at 42%.

[PAUSE]

Now I would like to highlight some of our key financial metrics before going into further detail on our performance in the quarter.

Specifically, in the final quarter of 2011:

- Net revenues grew 39% in US dollars to \$86.5 million, a 47% growth in local currencies.
- Gross profit margin was 76.0% vs. 75.4% in the third quarter of 2011, and 77.9% in the fourth quarter of last year.
- Income from operations grew 38% to \$29.0 million, with an operating income margin of 33.5% vs. 33.6% also in the fourth quarter of 2010.
- Net Income before Income/Asset Tax Expense for the fourth quarter 2011 was \$30.8 million, representing 40% growth.
- Net income was \$21.6 million, a 35% growth year-on-year. This represents a 25.0% net income margin versus 25.6% a year earlier. [PAUSE].

Let me now walk you through the most relevant aspects behind these results.

[PAUSE]

The main driver of year-on-year revenue growth was the increase in gross merchandise volume on which we charge the variable portion of our marketplace fees.

Another strong contribution came from the 70% increase in USD total payment volume versus the fourth quarter of last year, representing an 81% growth in local currencies and raising payments penetration, the ratio of TPV to GMVe, to 28% versus 24% a year ago.

Let me remind you that the lion's share of this volume consists of payments made on our platform, a service that is bundled into our marketplace fees. The increased use of MercadoPago on MercadoLibre is contemplated in higher marketplace fees than last year's.

While our off-platform payments volume still represents a small share of the total, it continued to grow at the fastest pace of all our businesses, generating processing fees that are also a growing contribution to revenues. We were pleased to add Venezuela to the list of countries with off-platform payments capabilities at the end of the fourth quarter, as we rolled out our MP3 platform in that country, spreading the momentum across all of our main geographies.

Wrapping up payments, the growth in volume both on and off-platform continued to drive increased selection of our installment options, available exclusively on MercadoPago and generating additional revenues from financing.

[PAUSE]

In the meantime, our remaining adjacencies grew at very competitive pace. Both Classifieds and Advertising grew on the basis of increased supply and demand, in addition to well-timed innovations in each business.

In Classifieds, prominent integration with social networks is driving more and more traffic to its recently revamped formats including new vertical filters and a gallery mode for the motors category.

In the advertising space, MercadoClics growing revenues at a significant pace, adding new clients in the league of Renault, Chevrolet and Xbox. While doing so, we posted new improvements to our algorithms, and enhanced the advertiser interface to offer the best possible user experience.

MercadoShops, still a very small contribution to revenues, continued posting excellent growth on the basis of setting up new stores for small to medium-sized merchants, already reaching the 30,000 stores that Marcos mentioned.

[PAUSE]

Consolidated take rate, or the measure of consolidated revenues over GMVe, was 5.96% in the fourth quarter versus 6.31% in the fourth quarter of last year. This decline in take rate is attributable to GMVe and its associated final value fees growing faster than Classifieds and other placement fees, as sales on the platform outpaced the growth of listings that generate placement fees. This increase in the efficiency of our listings, although affecting our take rate negatively, bodes well for the long term prospects of our business, as it also translates to increased success on the part of our sellers. Also growing below GMVe were our proceeds from financing; despite having grown the total volume of installment purchases, this was accomplished at a more competitive spread than last year, leading to a slowdown in the pace of growth of the revenues we derive from consumer financing. Advertising and MercadoPago off-platform processing fees, on the other hand, grew above GMVe, and contributed positively to take rate.

[PAUSE]

In summation, our revenue streams showed robust growth in the fourth quarter, each based on its own healthy underlying drivers, and this was the case across all of our countries. Here are our growth rates on a reported segment basis:

[PAUSE]

In local currencies, on a country basis, consolidated net revenue growth was 39% for Brazil, 70% for Argentina, 31% for Mexico, and 64% for Venezuela, each of these countries accelerating sequentially.

In USD, consolidated net revenues grew 31% for Brazil, 59% for Argentina, 19% for Mexico and 64% for Venezuela.

[LONG PAUSE]

Now I would like to take a detailed look at our cost structure during the fourth quarter:

Gross profit grew 36% to \$65.7 million, representing 76.0% of revenues, versus 77.9% in the fourth quarter of 2010, and 75.4% in the third quarter of 2011. Year-on-year gross margin contraction is almost entirely attributable to increased penetration of MercadoPago transactions and the interchange fees associated with processing this additional payment volume. The slight sequential improvement in gross margin, on the other hand, is attributable to a small sales tax one-off impacting COGS in our favor, and also to the sequential leverage of our customer support costs which is not necessarily representative of a trend going forward, since we plan to grow our investment in customer service in line with the growth of our business.

[PAUSE]

Operating expenses for the period were 42.5% of revenues, down from 44.2% in the same period last year, 170 bps of improvement in leverage of our operating expenses structure.

In absolute terms, Operating expenses totaled \$36.8 million, a 34% increase versus the fourth quarter of 2010.

Specifically:

- Sales & marketing remained the largest line item expense, increasing 38% for the quarter to \$19.4 million. As a percentage of revenues Sales & marketing was 22.4%, vs. 22.5% for the same period last year.
  - Natural leverage in this line was mostly offset by credit card loss provisions, or chargebacks that increase as a function of our rapidly growing payments volume, as well as by a bad debt one-off adjustment of \$0.9 million.
- Product & technology expenses grew 52% to \$6.7 million compared with \$4.4 million for the fourth quarter of 2010, mainly through increased



investments in head-count, as we continue to expand and strengthen this team which is essential to the plans of the business.

- G&A grew 17% year-over-year to \$10.6 million in the fourth quarter of 2011, mainly as strong leverage in this line was enough to offset higher salary costs related to inflation, new headcount, and an adjustment of \$1.3 million in the accrual of our long-term retention plan based on our higher stock price in the quarter.[PAUSE]

Operating income for the fourth quarter of 2011 was \$29.0 million. Operating income margin for the quarter was 33.5% vs. 33.6% in the fourth quarter of 2010, as gross margin compression was practically equal to gains in operating expense leverage.

Below Operating Income, we benefited from \$2.9 million of interest income, aided by higher cash balances and interest rate yields in Brazil, arriving at a pre-tax income of \$30.8 million, 40% higher than in the same quarter of last year.

Tax expense was \$9.2 million in the fourth quarter of 2011, resulting in a blended tax rate of 29.9% versus 27.8% in the fourth quarter of 2010 and 25.1% in the third quarter of 2011. Both of these comparison periods were aided by tax-loss carry-forwards, whereas the current quarter is closer to our business as usual expected tax rate, considering that corporate tax rates in the region are on average marginally higher, but we are currently the recipients of a tax benefit extended to software development companies in Argentina.  
[PAUSE]

Net income for the three months ended December 31, 2011 was \$21.6 million, reflecting an increase of 36% when compared with \$15.9 million during the same period of 2010. This represents a 25.0% net income margin, resulting in a basic net income per common share of 47 cents.

[PAUSE]

Property & equipment and intangible asset purchases for the quarter totaled \$2.0 million, and consequently, for the period ended December 31, 2011, net cash provided by operating activities less Property & equipment and intangible asset purchases, totaled \$25.1 million. Free Cash Flow would have been higher had we sold MercadoPago receivables in the amount of \$8 million before the end of the period.

Cash, short-term investments and long-term investments at the end of the quarter totaled \$186 million, as we entered 2012 with strong liquidity to drive our business.

[LONG PAUSE]

In this context I would like to mention that, as announced today, in 2012 we will be paying dividends equivalent to 25% of our full year 2011 Net Income. As a result, dividends per share will rise to 10.9 cents per share for each quarter of 2012, versus 8 cents per share, per quarter, in 2011. I am very pleased with this increase, as it reflects our commitment to pass on some of the immediate value we are generating for our shareholders, as we also retain those earnings necessary to meet our needs for future growth. These dividend payments, which are made at the discretion of our board, attest to the increasing scale of our business, and to our robust financial position.

[PAUSE]

All in all, MercadoLibre is in excellent financial shape. We need to make sure that in 2012 we continue to strike the right balance between profitability and long-term focus. This implies, as Marcos put it, “smart investing” in our future. Our commitment to invest on our users’ behalf implies maintaining a leading technology platform that continually adds value to the transactions it hosts. As you have seen, we have many projects underway with this objective. As we add layers of service to our core, we have the opportunity to remain the venue of choice in this quickly expanding e-commerce market, which bodes well for our financial health as well. We plan to continue investing aggressively in our business, while at the same time striving to deliver scale benefits, showing healthy margins and generating the necessary cash to finance further growth as well as our commitment to a continued and growing dividend program. We are off to a good start and I look forward to giving you updates on our progress in 2012.

With that, we will take your questions.