

MELI Q1'13 Earnings Conference Script

Date: May 6, 2013

MERCADOLIBRE 1Q13 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 March 31st, 2013. My name is Alex de Aboitiz 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 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. 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 first quarter 2013 earnings press release available on our investor relations website.

[PAUSE]

And now I will turn the call over to Pedro

Part II: Overview & Financial Results – Pedro Arnt

Thank you. Good afternoon to everyone and thanks for joining us today.

The MercadoLibre ecosystem was off to a good start in 2013. Our key business metrics accelerated in the first three months of the year as our ongoing initiatives showed strong momentum, despite still facing tough comps that will continue to get easier as the year progresses.

In the first quarter:

- 4.2 million new users registered on our site, growing our base of confirmed registered users 23% year on year.

- Successful items grew 20%, reaching 18.1 million.
- Number of payment transactions grew 38%, to 6.7 million;
- Gross Merchandise Volume was \$1.6 billion, growing 30% in local currencies.
- And Total payment volume reached \$532 million, growing 62% in local currencies.

Additionally, the growth rates for new users, items sold, payments volume and merchandise volume all accelerated versus the prior quarter, gathering momentum that we hope to build on, across our businesses as we kicked off 2013.

[PAUSE]

More important than this acceleration of our current growth rates are the sustainable long term prospects for our business as e-commerce takes center stage in our region, penetrating traditional retail on the basis of continued growth in both the number online shoppers and per capita on-line spending, driven by better connectivity, improved trust, and better usability and efficiency of on-line offerings. Currently, e-commerce in Latin America represents roughly 3% of total retail commerce. This is clearly still very early stages and underscores that the most relevant competitive dynamic we face is the rate at which we can convert offline shoppers to online. We are confident that our scale, brand ubiquity, and focus on offering a better shopping experience online than what consumers can find offline, will allow us to capture this shift in consumer behavior and maintain above market growth rates for the foreseeable future.

[LONG PAUSE]

Now, let me quickly update you on some of the strategic initiatives discussed in previous quarters, which we believe have aided the reacceleration this quarter, primarily in Brazil, where many of these are most developed:

[PAUSE]

Payments, an intrinsic part of our platform, were on a roll in the first quarter. Total payment volume reached 34% of our GMVe, more than 6 percentage points above this time last year, and approximately 215 basis points above last quarter. We are pleased with this new high in adoption reflecting the value added that MercadoPago brings, particularly to a growing number of more experienced e-consumers demanding increasing ease and efficiency in their transactions. TPV accelerated not only within MercadoLibre, but also off our platform, with very strong demand for our financing options, all contributing to very good topline growth in the quarter.

[PAUSE]

Our mobile initiatives continued to gain traction during the first quarter, as more users than ever visited our site through their smartphones and tablets, and record buying took place through both. Further proof of how accretive this channel is proving to be: users registering through our native app or through web mobile access represented a percentage in the high single-digits of our total registrants in the quarter.

[PAUSE]

Our shipping solution, although still a small share of overall volume, also continues to show strong momentum, steadily adding sellers and covering more of our sold items in Brazil. These positive results have given us sufficient confidence to initiate the regional rollout of the platform. This quarter we started with Argentina where it has gone live through a partnership with OCA, one of the country's largest parcel courier. Going forward we will focus on continuous iterations that will improve the service as well as further regional and partner rollouts during upcoming quarters. It is our understanding that as shipping penetrates it also generates a step function improvement in both the buying and selling experience that will translate to higher customer loyalty and improved trading velocity.

[PAUSE]

Our work around vertical categories is another initiative gradually changing paradigms for our sellers. Take the category we have made the most headway in, for example. During the first quarter, roughly a fourth of all apparel listings took full advantage of our vertical formats and as a consequence accounted for more than 75% percent of apparel GMVe. As more sellers continue to onboard vertical formats we expect to see these improved conversions spread throughout the entire category.

[PAUSE]

Ending my review of ongoing initiatives, Customer Experience continues to progress, closing the first quarter with a better contact rate than in any quarter of 2012, while our net promoter score follows its positive trending since we began tracking it a year ago. We are pleased with the results of our investments so far, as we continue to improve the service and see new and more direct contact channels, such as chat, gain share of total contacts made. We plan to keep bettering our efforts, as we strive for a best-in-class customer experience.

[PAUSE]

Finally, I would like to say that, beyond these specific highlights, we are pleased with our overall execution across business units in the quarter, and the results that we have consequently achieved.

PAUSE

Now let's take a look at our P&L. Please bear in mind that all the growth rates I will call out are year-on-year unless specified otherwise, and I will include constant currency growths when applicable.

Additionally, I would like to point your attention to the fact that this past quarter was negatively affected by certain noteworthy events: the devaluation of the Venezuelan Bolivar, an extended electoral calendar in Venezuela, and above 200 bps of headwind to volume growth coming from the combination of leap year and Easter holidays occurring during the 1st quarter this year.

[PAUSE]

In the first quarter of 2013:

- Net revenues were \$102.7 million, an acceleration of growth to 23% in USD and 36% in local currencies.
- Gross profit margin was 72.1%.
- Income from operations was \$28.6 million, with an operating income margin of 27.8%. Year-on-year, operating income grew 15% in USD and 26% in local currencies.
- Net Income before Income/Asset Tax Expense was \$25.4 million, decreasing 6% in USD and growing 4% in local currencies. Had there been no FX loss in Venezuela, pre-tax income would have grown 31% in local currencies.
- Net income was \$17.5 million, decreasing 11% year-on-year in USD, and 2% in local currencies. This resulted in EPS of 40 cents for the quarter. Had there been no FX loss in Venezuela, net income would have grown 31% in local currencies, and EPS would have been 53 cents.

[LONG PAUSE]

Addressing our top-line first:

Revenue acceleration occurred across marketplace and payments.

Specifically, core marketplace revenues saw faster growth on the basis of strong supply and demand metrics across the board. Final value and insertion fees both accelerated over the previous quarter as buyers and sellers grew at a faster rate, an indication of the traction we are generating. This was also visible in terms of strong listings growth, with live listings growing at 33% YoY. All this, combined with pricing, allowed marketplace fees to outpace GMVe growth.

Moving on to payments, each of our payments revenue streams topped their year on year growth from last quarter. Off-platform revenues, on the one hand, continued to grow above all other business units primarily on volume strength. Financing revenues came in strong from a combination of volume growth as more payment transactions were done on credit, higher average tickets, and a favorable installment mix shift, as more consumers opted for longer installment plans. This resulted in an impressive year on year jump of 65% for total payment revenues in the first quarter, measured in constant currencies.

[PAUSE]

Classifieds & Advertising revenues grew a combined 32% in constant currencies in the first quarter, a year on year deceleration versus the fourth quarter mainly due to Venezuela's higher share of classifieds and its specific headwinds we have mentioned for the quarter, but still comfortably above e-commerce market rates.

[PAUSE]

These growths resulted in a 30% share of revenues coming from our adjacent business units (payments, classifieds, and advertising), presenting no variation versus last quarter, but higher than 28% in the first quarter of last year.

[PAUSE]

Wrapping up our top-line discussion, consolidated revenue growth for each of our largest countries in the first quarter, measured in local currencies, was: [PAUSE] 28% for Brazil, an important improvement over the past two quarters, and what we believe to be an above market rate of growth, 63% for Argentina, 15% for Mexico, and 49% for Venezuela.

[LONG PAUSE]

Advancing down our P&L:

Gross profit grew 18% in the first quarter, to \$74.1 million. Gross profit margin was 72.1% of revenues, versus 74.8% in the first quarter of 2012, and 73.6% in the fourth quarter of 2012.

2 trends explain why COGS outpaced revenues in the quarter, explaining 270 bps in gross margin contraction:

First, a continued and expected mix shift towards our payments business, which accounted for 110 basis points of contraction. [PAUSE] Even as scale and efficiencies are improving the gross margins associated with payments over time, they are intrinsically lower than those on our marketplace.

Second, we continue to invest in the business. Upgrades to the technology used to run our site accounted for 107 bps of margin contraction, and growing customer experience efforts, accounted for 63 bps. We believe these investments generate the right conditions for leverage in the future.

[PAUSE]

Operating expenses for the period totaled \$45.5 million, 21% higher than in the first quarter of 2012. Operating expenses as a percent of revenues were 44.3% in the first quarter, versus 45.0% in the same quarter last year, a 74 basis point improvement. As addressed at this time each year, the first quarter has the largest sequential increase in payroll costs due to annual inflation and merit compensation adjustments. Total salary and wage expenses, a component of our COGS as well as our OPEX lines, grew 25% this quarter on a sequential basis, and 30% versus last year, while headcount grew 10% year on year, as we added more than 200 employees over the last 12 months. [PAUSE]

Reviewing by line item, Sales & marketing, our largest expense line, grew 28% to \$22.3 million, or 21.7% of revenues, vs. 20.8% for the same period last year.

Increased brand spending accounts for 107 bps of margin compression, since throughout the quarter we accrued the production costs of our new TV campaign airing in the second quarter.

Scale losses from chargebacks account for another 110 bps of compression, growing as a function of our accelerating payments.

Both of these factors were partially offset by successful collections efforts that have greatly improved our bad debt as a percent of revenues, specifically, by 200 bps.

Salaries & wages explain 76 bps, practically the remainder of margin compression for this line.

[PAUSE]

Product Development expenses grew 24% to \$9.4 million, representing 9.1% of revenues in the first quarter versus 9.1% also in the same period last year. This year's headcount and wage increases were basically offset by some devaluation in Argentina and higher LTRP accrual in the prior year.

[PAUSE]

G&A grew 9% year-over-year to \$13.8 million in the first quarter going from 15.2% of revenues in the first quarter of 2012, to 13.4% of revenues in the current quarter. Once again, headcount and wage increases were offset by scale in our business and a higher LTRP accrual also impacting this line last year.

[PAUSE]

As a result, operating income for the first quarter of 2013 was \$28.6 million. Operating income margin for the quarter was 27.8% vs. 29.8% in the first quarter of 2012.

Below Operating Income, we benefited from \$3.4 million of interest income, a 10% year on year increase from higher cash investments partially offset by lower interest rates.

[PAUSE]

Forex was negative \$6.2 million, versus \$1 million a year earlier, as the Venezuelan devaluation negatively impacted our cash positions held in local currency in that country.

[PAUSE]

As a result our pre-tax income was \$25.4 million, 6% lower than in the first quarter of last year in USD, and 4% higher in local currencies.

In the first quarter income tax expense was \$7.8 million, resulting in a blended tax rate of 30.9% versus 27.0% in the first quarter of 2012 and 28.4% in the fourth quarter of 2012.

Our tax rate in the quarter results from the non-deductible nature of Venezuela's Forex loss. Had this loss not occurred, our blended tax rate would have been 26.4%.

[PAUSE]

Net income for the three months ended March 31, 2013 was \$17.5 million, 11% lower than last year's \$19.6 million. Net income in local currencies was 2.1% below last year's first quarter. Had there been no Forex loss in Venezuela, net income would have grown 31% in local currencies, and EPS would have been 53 cents.

[PAUSE]

Net income margin was 17.1% in the first quarter versus 23.5% for the same quarter of 2012, resulting in a basic net income per common share of 40 cents.

[PAUSE]

Payments for the acquisition of property, equipment, intangible assets, and acquired businesses net of cash acquired for the quarter totaled \$6.1 million. Consequently, for the period ended March 31, 2012, net cash provided by operating activities less purchases of property, equipment, intangible assets, and acquired businesses net of cash acquired totaled \$24.0 million, versus \$15.3 million last year.

Cash, short-term investments and long-term investments at the end of the quarter totaled \$292.7 million.

[LONG PAUSE]

Wrapping up, we have started the year off as we wanted to. Our business is re-accelerating heading into a back half of the year that will present easier comps. Our strategic initiatives continue performing very well and gaining traction. Looking at our business regionally, we see sustained solid growth even in more complicated macro-economic environments such as Venezuela and Argentina, signaling the resiliency of our business model and our ability to adapt to both positive and negative macro conditions. And finally, we are pleased with the very good results coming out of our largest market, Brazil. All of this has us excited about the prospects for our business; I look forward to updating you as we make more progress.

With that, we will now take your questions.