MERCADOLIBRE 2Q17 EARNINGS CONFERENCE CALL SCRIPT

Date: August 3th, 2017

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended June 30th, 2017. I am Federico Sandler, 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.

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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 second quarter 2017 earnings press release available on our investor relations website.

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Now, let me turn the call over to Pedro.

Thanks Federico, hello to everyone and welcome to our second quarter conference call for 2017.

We are pleased to see the continued execution of our business plans and sustained top line momentum throughout the first half of the year.

This first half has marked the initial stages of the deployment of our free shipping and loyalty programs, meaningfully improving and deepening the already powerful value proposition that we offer our buyers. We believe that the sustained roll out and broadening of these two major initiatives over time will foster the ongoing switch from offline buying to online buying, as the cost and time of delivery are significant barriers to adoption to online shopping. This in turn should serve as a catalyst for sustained growth, as we gain scale advantages and benefit from a leadership position within an accelerating e-commerce market.

Just as we continue making significant strides in improving this value proposition on the marketplace retailing business, we are also thrilled of what we are building in the realm of Fintech and payments. Although still in early stages, one of the most interesting things about this nascent and growing industry is that large portions of financial services still remain untouched by digital technologies. Just to put this in perspective, less than one percent of loans currently originate online. This means that there will be a significant demand for new digital products to transform existing financial services in the coming years, and we believe that Mercado Pago will be at the forefront of this transformation, generating financial inclusion for millions of people in the regions where we have a presence.

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The success we have seen so far this year continues to give us confidence to further invest behind key initiatives that will help us grow the business as fast as possible and continue to gain market share, in what is still early stages of the e-commerce and payments in Latin America.

Before getting into greater detail on the specific advances we have made during the quarter, let me walk you through key operational metrics, from a consolidated perspective that we were able to deliver during the second quarter of 2017:

- Units sold accelerated 41% to 61.5 million, one of the highest growth rates in unit volumes we have observed through the last five years.
- Gross Merchandise Volume reached $2.7 billion dollars accelerating sequentially to 36% year on year in USD, while on an FX neutral basis GMV grew 56% year on year.

- Total payment volume grew 76% year on year on an FX neutral basis, reaching $3.2 billion dollars.
- Total payment transactions accelerated to 63% year on year reaching 52.1 million, the 10th consecutive quarter of growth above 60%.
- As a result, we delivered solid revenue growth both in USD and on an FX neutral basis, growing 58.5% and 65% respectively.
- And finally, registered users were up 21% year on year, reaching 191 million after we added 9.0 million new users during the quarter.

As we look ahead into the second half of the year, we will continue to focus on consolidating our position of regional market leadership and evolving our local scale advantages. We will do so, by carrying on with the execution roadmap started this year, with the final goal of offering the best online shopping and payments experience in Latin America to our community of users.

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Let me begin my detailed remarks with what has been the evolution of our marketplace business during the last quarter.

Our Brazilian marketplace delivered stellar performance this quarter across multiple KPI's even with a combination of increasingly tougher year on year comparisons and a still challenging macroeconomic environment. Brazilian units sold accelerated sequentially to 56.5% year on year, one of the highest quarterly growth rates in the last five years, and 23 percentage points above its 4 –year CAGR.

Equally strong are the results when looking at GMV in Brazil. On an FX neutral basis, and on a comp of 64% growth during the same period last year, gross merchandise volume accelerated sequentially to 48% year on year. We attribute these results in large part to the investments in our shipping & loyalty programs in Brazil, which were carried out from mid-May onwards.

Furthermore, not only are we driving more value to our sellers in Brazil, as items sold per unique seller grew 23% versus the same quarter a year ago, but active buyers are also purchasing more as we improve retention rates, engagement, and conversion. Items purchased per unique buyer grew by almost 15 percentage points when compared to the same quarter a year ago.

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Moving on to Mexico now. As a consequence of penetration gains from MercadoPago, aggressive free shipping offerings complemented with our loyalty program, Mercado Puntos, and an aggressive investment in customer acquisition, we continued to drive performance in our marketplace in Mexico unlike we have seen in the 17 years of operations in that country.

Units sold growth in Mexico accelerated for the seventh consecutive quarter to an all-time high of 95% year on year, up from 31.5% a year ago. That's an impressive 65 percentage points above its 4 –year CAGR of 30.5%. Likewise, gross merchandise volume is also trending well, accelerating for the seventh consecutive quarter to 53% year on year, also on an FX neutral basis.

On the buyer growth front in Mexico, we are pleased to report that during the second quarter, we delivered the fastest growth rates of both new buyers and unique buyers in over five years. This is a notable milestone for us in Mexico, as it confirms that the investments we have embarked on in enhancing the user experience and offering our free shipping and loyalty program are accelerating user demand in that country's marketplace.

We've sped up even further our progress in Mexico in terms of improving conversion rates and consequently driving more volume to our sellers. As a result, during the quarter, units sold per unique buyer in Mexico grew an impressive 44% versus the same quarter a year ago, while items sold per unique seller increased by 53% when compared to the second quarter of 2016.

Just like in Mexico and Brazil, when taking a look at active buyer growth on a consolidated basis, it is also demonstrating that our enhanced marketplace vision and our focus and execution on delivering an ever improving shopping experience is the right one. Unique buyers grew 23%, the sixth consecutive quarter of growth above 20%. Additionally, we are pleased to report that all our user cohorts: new buyers, repeat buyers, and recovered buyers accelerated growth in the double digits during the quarter

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Although we continued to deliver sound top line growth from our Argentine operation during the quarter, the country continues to underperform versus others, and growth there decelerated across certain metrics in supply, demand, and vibrancy. The persistent slowdown in the Argentine business can be attributed, for the most part, to the delays in rolling out many of the latest innovations across logistics, loyalty, and seller tools. Also delaying the rebound of our Argentine operations, is our decision to postpone incremental customer acquisition investments in that country until we are able to fully update the technological platform it runs on.

Rounding up, in Chile and Colombia our marketplace businesses also delivered top line growth, but at a decelerated growth rate in terms of gross merchandise volume and units. As a result, and leveraging that we have logistics partners who are able to deliver efficiently and swiftly, we have launched our free shipping & loyalty programs in both these countries during the month of June, so as to improve our value proposition and re accelerate our businesses there. I look forward to the subsequent quarters in keeping you updated on our progress on that front.

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During the second quarter we were also able to make a few important strides on the product front.

Exiting the quarter we launched our marketplace shopping cart in Mexico with promising results in conversions and buying flows.

We've also continued to make advances on our mobile initiatives, as it now not only represents 2/3 of all visitors to our platform, but also 43% of total GMV, let me remind you, that this is a 900 basis point improvement versus where we where same quarter of last year.

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Mercado Pago's results during the quarter are a direct reflection of the advances we have made helping our users transact in the digital economy. Our vision of democratizing money and finance in the same manner we democratized commerce over the past 18 years, is propelling us to the front of the pack in leading the transition from cash to digital payments in the region, allowing our users to greatly benefit from the move to an increasingly digital payments and retail landscape.

On a consolidated basis, penetration of Mercado Pago on our marketplace rose 15 percentage points versus the second quarter of last year, reaching 81% of total gross merchandise volume. These solid penetration gains was driven for the most part by Argentina with a 93% penetration versus 70% during the same period last year, and Mexico at 91% penetration versus 59% during the second quarter of 2016.

Colombia and Chile are also making strides in terms of payments adoption. Colombia increased 33 percentage points versus last year to 71%, while Chile grew 28 percentage points reaching 50% of gross merchandise volume being paid for through Mercado Pago during the same time period.

An essential benefit of Mercado Pago, is its capacity to deliver new consumers and enhanced sales growth to our merchants in an environment that is becoming predominantly digital. As such, off platform Total Payment Volume accelerated sequentially to a healthy 103.3% year on year on an FX neutral basis. The drivers of this growth story is a result of solid execution in Brazil, delivering TPV growth on an FX neutral basis of 159% year on year, as well as solid TPV growth in Argentina, Mexico, and Chile, where the countries' TPV has grown north of 60% year on year for over eight quarters.

One final comment on our progress on the Fintech front. As we continue to innovate and expand our financial services and technology, that enable our merchants to build and grow their businesses online, I am pleased to report that we have begun to offer working capital loans and cash advances to our merchants in Brazil and Argentina through our lending product, Mercado Crédito.

Through Mercado Crédito, we are able to leverage Mercado Pago's technology and our unique marketplace's granular data to assess and rate our merchant's creditworthiness, while also being able to service those loans in ways traditional banks and financial institutions are unable to. Eligibility is weighted on our merchants' Mercado Pago history and marketplace sales, rather than a business or personal credit score.

We believe we are just scratching the surface in filling the void in the traditional retail banking environment throughout Latin America where our merchant base has been underserved for decades. Not only that, but our merchants also greatly appreciate Mercado Crédito, as we are observing that many of those merchants who paid off a loan or advance cash immediately re-apply for funding. Additionally, we also observe higher growth rates and better Net Promoter Scores from those merchants who adopted the credit product.

With Mercado Crédito, we are not only addressing two of the main merchant pain points: access to credit and the lengthy application process of traditional lenders, but we are also generating exceptional synergies in terms of accelerating trading on our core marketplace business. We observe that those merchants who adopt our credit solutions experience higher sales and unit volumes, and thus allows us to offer better rates to them. Adding more service layovers is clearly translating in more value to our merchant base, which in turn also results in growing faster our top line, take rate and monetization. We are excited in having the privilege to be able to empower even further our ecosystem of entrepreneurs and look forward to be a trusted partner to them for many years to come.

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Moving on to our shipping initiative, as Mercado Envíos penetrates items sold and gross merchandise volume, it continues to evolve as a critical tool to help us maintain the high growth rate and conversion rates we delivered in our marketplace businesses, while contributing to increase customer satisfaction of our users. During the quarter, 54% of all units sold on MELI are already being shipped through our shipping solution and network of carrier partners.

Items shipped in Mexico was a highlight this quarter, as they grew an impressive 287% year-over-year, gaining 8 percentage points of penetration versus the first quarter of 2017.

Along those lines, let me give you a quick update on the free shipping front. During the quarter, we launched our free shipping & loyalty program in three additional countries beyond Mexico.

In Brazil, we are offering free shipping on items above $40 dollars, and we share the cost of free shipping with our merchants and only extended the subsidy to specific cohorts of our professional sellers. In line with that, and as described in the engagement metrics earlier, we are seeing meaningful elasticity of consumers to free shipping in Brazil.

Additionally, during the month of June we also launched our free shipping and loyalty program in Colombia and Chile on all items above $23 and $22, respectively. In the case of these two countries, we are taking an approach similar to that of Mexico, where we are subsidizing 100% of all items above the aforementioned threshold irrespective of merchant cohort. Although early, we expect this feature to accelerate the business and strengthen our moat in both of these countries, as our carrier partners offer world-class service levels and the level of subsidies we are now offering is very aggressive.

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Let’s take a look at how these operational highlights I've walked you through flow into our financials for the quarter. I´d like to remind you, that greater detail on this can be found in the accompanying presentation to these prepared remarks.

Net revenues for the second quarter of 2017 grew 58.5% year on year rising to $316.5 million dollars, delivering one fastest growth rates in over four years, and well above its four-year CAGR of 22.6%, and this was also the first quarter in our history that we exceeded $300 million of revenues!

On an FX neutral basis, top line results are equally promising, as they grew 65% year on year, delivering the 13th consecutive quarter in a row of growth above 60% in revenues.

Monetization continues to be robust on a country per country basis as well. For the second quarter, revenue growth was as follows: Argentina 44%, Brazil 60.5%, Mexico 80%, Colombia 23%, Chile 29.5%, and Uruguay 59%, all of these expressed on a forex neutral basis.

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Brazil and Mexico’s accelerating unit growth explained again, for most part, the solid marketplace revenue growth. On an FX neutral basis, total marketplace revenues grew at remarkable 85% year on year, the third consecutive quarter of growth above 70%. In USD, core marketplace revenues accelerated to the fastest growth pace in over four years at 74% year on year.

Non-Marketplace revenues also delivered a solid performance during the quarter. Already consolidated non-marketplace revenues such as our merchant service business and payments continue to either maintain momentum or accelerate across multiple geographies, while business that we have begun to seed such as our merchant credits business are growing triple digits (albeit from a small base). However, as a result of growing the coverage of our free shipping & loyalty program to additional geographies during the quarter, we are experiencing a contraction of out paid shipping revenues. This segment had been contributor to non-marketplace revenue growth, and is now focused on being a facilitator of the greater transaction volumes on marketplace rather, than a large revenue growth generator.

For the second quarter of 2017, these non-marketplace revenues grew 34% year on year on an FX neutral basis and in USD 39%, versus 82% last quarter and 41% last year. The main contributors to this revenue growth are as follows:

- Firstly, Mercado Pago off platform payment processing revenues, maintained strong momentum versus last quarter growing at 78% year on year on an FX neutral basis. Brazil was a highlight here as well, as it has been growing off platform payment processing revenues north of 90% year on year every quarter for the past two years, on an FX neutral basis. Following suit, are Argentina and Mexico, which also grew these revenues at a solid pace on an FX neutral basis north of 50% year on year.

- Secondly, financing fees, grew at 20% year on year on an FX neutral basis, as financing revenues actually contracted 14% year on year in Argentina during the quarter due to higher financing costs, and certain changes in the regulatory environment which limited to some extent the availability of credit on our platform. And in Brazil, financing revenues grew on an FX neutral basis 30%, versus 36% last quarter and 58% last year.

- Finally, shipping revenues in Brazil (which account for almost 60% of total revenues in shipping) halved versus last quarter to $9.3 million dollars, a 14% contraction year on year on an FX neutral basis due to a lower spread between what we charge users and what are charged by our carrier partners on the paid portion our items shipped in Brazil, as well as the incremental adoption of free shipping that I mentioned earlier. Consequently, on an FX neutral basis, shipping revenues grew sequentially 20% year on year.

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Moving down our income statement, gross profit grew 36% year over year during the second quarter of 2017 to $171.6 million dollars. Gross profit margin was 54.2% of revenues, versus 63.3% in the second quarter of 2016, and 61.6% in the first quarter of 2017. The year on year margin compression reflects the investments we have embarked on, centered around shipping subsidies and marketing investments that, as I have walked you through earlier, have certainly performed up to our expectation in terms of driving revenue growth.

Specifically at the gross margin level, the main drivers of margin compression during the second quarter can be attributed to higher investments in our free shipping initiatives in Brazil, Mexico and Chile, which in total accounted for a reduction of 1,031 bps of gross margin year on year, as well as higher fraud prevention and hosting costs which contributed an additional 82 bps of margin contraction when compared to the same period of 2016.

These effects were somewhat offset by 130 bps of customer support and sales taxes. Furthermore, collection fees contribute 77 bps due to lower costs of processing credit cards in Argentina. Compounding all the aforementioned effects resulted in a gross margin contraction of 906 bps year on year for the quarter.

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Before I dive into specific details on operating expenses, allow me to make a comment on Venezuela during the quarter. The country had a significant currency devaluation, as a new foreign exchange mechanism, DICOM, was instituted and replaced the previous SIMADI currency exchange platform. This change has resulted in an exchange rate increasing from 709 BsF per US Dollar at the end of the first quarter to 2,640 BsF per dollar at the end of this quarter, a 73% devaluation.

As a result of this change, and taking our traditionally cautious approach, we recorded a $25 million dollar loss in the quarter that includes an impairment charge on long lived assets (primarily real estate) of $2.8 million dollars, and a foreign exchange loss of $22.0 million dollars, which was partially offset by deferred income tax gains of $3.2 million dollars. As a reminder, during the same period last year we also recorded an impairment charge and FX loss in Venezuela for $13.7 million and $4.9 million dollars, respectively also related to currency devaluations.

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Moving further down the P&L, operating expenses for the quarter totaled $141.5 million dollars, or 44.7% of revenues. Excluding the Venezuelan impairment charges that took place during this quarter, operating expenses would have been $138.7 million dollars, or 43.8% of revenues.

Sales & Marketing grew 117.5% year over year to $76.9 million dollars, or 24.3% of revenues vs. 17.7% for the same period last year, resulting in 658 bps of margin contraction. Higher offline and online marketing investments mainly in Mexico and Brazil to support the launch of our free shipping and loyalty programs, contributed 596 bps of margin compression. The incremental investment in customer acquisition is explained by our rising level of confidence that customer lifetime values are improving in the platform, and also that user retention and frequency rates are accelerating.

Chargebacks contributed an additional 108 bps of margin compression, which was partially offset by 50 bps of scale driven by successful collection efforts in bad debt and our buyer protection program.

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Product development expenses grew 25.3% to $30.3 million dollars, representing 9.6% of revenues in the second quarter versus 12.1 a year ago. 112 bps of scale was driven by salaries and wages, notwithstanding enlarging our IT headcount by more than 70 employees during the quarter. The rest of the year on year accretion, 142 bps, mainly reflect maintenance costs and office expenses growing less than revenues.

As reported G&A was flat year over year at $34.3 million, representing 10.8% of revenues, as we compare against the same period last year where we had the aforementioned $13.7 million impairment exchange rate in Venezuela. If we exclude the impacts Venezuelan impairment charges that took place during the second quarter of last year *and* this year, G&A increased 51% to $31.5 million in the second quarter, or 10% of revenues versus 10.5% a year ago. The year on year scale in G&A is largely driven by 46 bps of efficiencies in legal and audit related fees.

As a result, operating income for the quarter was $30.0 million dollars, or 9.5% of revenues. Excluding all impairment charges that took place during the second quarter of 2016, *and* during this quarter in Venezuela, operating income would have been $32.9 million, or 10.4% of revenues, versus 23.0% in the second quarter of 2016, and 23.1% last quarter.

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Beneath operating income, we benefited from $10.6 million dollars of interest income, up 32.5% year on year thanks to higher interest rates on larger amounts invested.

In our forex line, we saw a $21.8 million dollar loss versus a $5.4 million dollar loss in the second quarter of last year. This forex loss is explained, for the most part, due to the depreciation of our net monetary position in local currencies in Venezuela. The forex loss amounted to $22.0 million dollars during the second quarter of 2017, and was partially offset by appreciation of currencies in other countries.

We had a $6.5 million expense in financial expenses, mostly corresponding to interest accrual on our convertible bond issued in 2014.

These effects led to a net income before taxes of $12.4 million dollars. Excluding Venezuela's impairment charge on G&A, forex, and tax gains, net income before tax would have been $37.2 million dollars. This pro forma result would have been 20% below last year's second quarter, as a consequence of the investment cycle I have just outlined.

Income tax expense was $7.1 million dollars in the first quarter, partially offset by deferred income tax gains of $3.2 million dollars. As reported US-GAAP blended tax rate for the period was 57.2%, driven by the one-time charges in Venezuela previously mentioned, which are non-deductible under US-GAAP.

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As a result of all this, as reported Net Income came in at $5.3 million dollars or 1.7% of revenues for the second quarter, resulting in basic net income per common share of $12 cents. Excluding the impairment charges during this quarter in Venezuela, Net Income would have been $26.9 million dollars, a margin of 8.5%, and an earnings per share of $61 cents. This compares to $32.7 million dollars, a margin of 16.4% and an earnings of 74 cents a year ago if we also exclude the one-time impairment charges that occurred during the second quarter of 2016.

Purchases of property and equipment, intangible assets, advances for fixed assets and payments for businesses acquired, net of cash acquired totaled $121.6 million dollars during the quarter. For the period ended on June 30th, free cash flow, was $99.8 million dollars.

We declared our quarterly dividend of $6.6 million dollars, or 15 cents per share, payable on October 16th, 2017 to shareholders of record as of the close of business on September 30, 2017.

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And with that, I would like to end today's call by saying that our vision is yielding solid results which continue to extend our leadership position and drive our top line growth and scale. We will continue to focus on these scale gains and increased engagement on our platform, by placing our customers in front and center of everything we do.

And with that, we can now take the questions you have. Thank you.