MERCADOLIBRE 3Q'19 EARNINGS CONFERENCE CALL SCRIPT

October 31st, 2019

PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended September 30th, 2019. 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.

This conference call is also being broadcasted over the internet and is available through the investor relations section of our website. 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 section 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 third quarter 2019 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

Thank you Federico...

Hi everyone, and thanks for joining our third quarter 2019 earnings call. I want to kick off by saying that we've delivered another quarter of robust results. We've made significant progress in executing against our strategic roadmap to not only deliver innovative technology solutions to our customers, but also to continue democratizing ecommerce and digital financial services.

With that said, let me start with our fintech progress report. During the quarter, we reached an important historical milestone, as for the first time ever Total Payment Volume away from MercadoLibre's marketplaces surpassed TPV on marketplaces during a full quarter, and did so not only on a consolidated basis, but also in our largest market, Brazil. As of this third quarter, two of our main countries are processing more payment volume away from our e-commerce platforms than on them, as Argentina and Brazil, TPV off marketplaces reached 63% and 52% of total TPV, respectively.

Consequently, and driven by the successful execution of all our off-platform initiatives TPV off platform USD growth accelerated to 140% YoY for the quarter.

On a service by service level, starting with our merchant services business, the business continues to maintain momentum. During the quarter merchant services once again surpassed one billion dollars of TPV on a consolidated basis. Argentina and Brazil were highlights during the quarter as our gateway solution scales, as well as we execute on market fit solutions for both larger merchants and long tail merchants.

Moving on to our mPos service, the largest of our payments businesses off platform in terms of TPV, we're pleased to report that it continues to grow strongly, with quarterly active merchants already surpassing the 2 million mark on a consolidated basis. Additionally, transactions per unique active device continue to increase as usage grows in both Brazil, Argentina, as well as in Mexico.

In Brazil for mPos, we also launched our Point Pro device during the quarter which has been gaining traction driven by our recent branding campaigns, as we begin to observe meaningful improvements in top of mind and spontaneous awareness in surveys we have recently performed post-campaign. Our Point Pro device will enable us to pursue slightly larger merchants, while in parallel we have also launched a third device, the Point Mini, which will allow us to better serve the needs of our micro merchant segment of users.

In Mexico, our mPos business is also gaining traction as we scale out branding and communication campaigns. Devices sold in Mexico grew by 58.5% versus last quarter and almost 200% versus last year, while active collectors during the quarter continue to grow north of 300% YoY.

Moving on to our wallet services, I am pleased to report that we have also reached an important milestone during the quarter. For the first time since launch, wallet TPV almost reached $1 billion dollars on a consolidated basis. On an FX neutral basis, TPV grew by a factor of over 4x versus last year. Additionally, consolidated quarterly active payers on the wallet grew a robust 35% versus last quarter reaching 6.1 million active payers.

Argentina was a highlight during the quarter for our wallet business as we see positive results across most key KPI's. One of these is frequency of payment per unique payer. This metric reached almost 11 payments per unique payer during the quarter, driven by successful execution in the rollout of our in-store QR network. A testament to this, is that in spite of the FX headwinds that occurred during the quarter in the country, spend per unique payers per quarter continues to rise in USD even reaching 200 dollars per quarter. A significant part of this wallet success is driven as I just mentioned by in-store QR payments. During the quarter, we doubled the amount of QR payers and QR collectors versus the prior quarter reaching 2 MM and almost 1 MM, respectively. Additionally, in store QR payments in Argentina already represent over 50% of the total wallet TPV for the quarter.

As we advance with our payments strategy, we aspire to replicate the success we are seeing in Argentina across other markets in the region, that have been launched at a later date.

Still on fintech, I want to take a moment to update you on our credit business, MercadoCredito. Overall, the merchant credit business continues to grow at a healthy clip in terms of originations and is contributing to diversifying our revenue streams while generating more value added services to our merchant base.

We continue making inroads in growing our Merchant credit business in Brazil and in Mexico. During the quarter, as originations grew 118% YoY and 216% YoY, respectively. Additionally, in Mexico as we strengthen our scoring algorithms and have more data on our merchants, we have increased loan terms while still maintaining a very low levels of uncollectibility. In Argentina, and as a consequence of the strong FX headwinds and increasing local benchmark interest rates that followed during the quarter, our overall merchant loan portfolio is down on a sequential basis when measured both in USD as well as in terms of credit originations.

On the consumer credit side, on platform consumer credits in Argentina continue to show resilience, giving us confidence that our scoring models continue to strengthen, as we do not observe increases in non-performing loans despite the deteriorating macro conditions and higher benchmark rates. In Brazil, however, we are still observing higher levels of bad debt as models continue to improve and older vintages start to seek repeat loans. Additionally, I am pleased to report that during the quarter, we launched our consumer credit business in Mexico, which should help us to further improve our value proposition to buyers in that country.

We have also hit strides in funding sources for Mercado Credito as we continue advancing in lowering funding costs and driving scale. In Argentina we issued a public market securitization under the “SME” figure which has allowed us to lower funding costs, while in Brazil we launched our first consumer credit trust also generating savings in funding that we will be able to pass through our buyers and sellers in the form of lower interest rates.

Before we delve into the rest of the prepared remarks, I'd like to first make a few comments in regards to the increase in bad debt stemming from our credit business.

During the third quarter, bad debt increased by $13.3 million dollars, an increase of 86% versus last quarter. This increase is explained for the most part, by two of our more recently launched products in Brazil: consumer credits and mPos merchant credits. Given that we are at such an early stage in both of these products, the higher levels of loan losses are within our expectations.

It's important to highlight that both in consumer credit and mPos credits in Brazil we are taking the appropriate measures to improve these loan losses going forward. We have adjusted pricing, taken advantage of incremental information we collect on non-performing payers to strengthen our churn and behavioral credit scoring algorithms, and have refocused on performing payers.

That wraps up the finech progress report. We still have much to execute in the back half of the year and beyond. It is imperative that we continually innovate and deepen our customer engagement, in order to maintain and try to further widen the distance between our value proposition and that of our competitors. And in keeping with that focus, the third quarter saw significant progress in consumer and merchant engagement on the MercadoPago platform.

Let's now move on to some of the high points from our marketplace business.

Consolidated GMV accelerated for the third consecutive quarter to 37% YoY on an FX neutral basis driven by solid execution in Argentina, Mexico, Colombia, and Chile.

Despite macro headwinds, Argentina delivered the best quarter since Q2'15 on an FX neutral basis and continues to grow meaningfully above inflation. During the quarter, Argentina accelerated GMV on an FX neutral basis to 80.2% YoY.

Moving on to Mexico, it continues to be one of our fastest growing markets accelerating GMV growth on an FX neutral basis to 47% YoY, continuing to gain market share and growing well above market growth rates. Additionally, we continue to see higher Net Promoter Scores as we improve our user experience and bring down delivery times and costs year-over-year as our managed logistics network expands.

Colombia FX neutral GMV grew at the fastest pace over the last 28 quarters, accelerating to 50% YoY, while Chile also accelerated to deliver the best quarter since the beginning of 2018 delivering FX neutral GMV growth of 32% YoY. Incremental marketing investments, greater traffic and improving conversion rates explain the results delivered in the latter countries.

Lastly, a recap of Brazil during the quarter, were results were uneven. FX neutral GMV growth came in at 24% YoY. The deceleration was driven, in part, due to a Correios strike which created approximately 200 bps of quarterly headwind during the month of September. Additionally, initiatives to cap free GMV (to 2% of GMV vs. 5% last year) also had a negative impact on growth. Despite the deceleration, incremental GMV added during Q3'19 when compared to GMV of the prior year during the same quarter, was still a robust $378.6M ...among the highest in recent quarters.

In line with that, we are also encouraged to see unique buyers accelerating for the second consecutive quarter in Brazil to 25% growth YoY growth, while new buyers delivered the fastest pace of growth in over a year. Additionally, in Brazil selection continues to deepen as we reached 120.4 million listings during the quarter, another indicator that we continue to execute well on key KPI's.

Demand metrics for other countries continue to trend well, as unique buyers reached 26% YoY growth on a consolidated basis, while Argentina, Mexico, Chile and Colombia all accelerated sequentially YoY to 22%, 50%, 38% and 53% growth, respectively. Also, new buyers are accelerating in all geographies as we begin to invest more aggressively in marketing. On a consolidated basis, new buyers grew a robust 10 percentage points versus last quarter.

On the supply side, we also continue to focus on deepening selection available to our buyers through our cross border initiatives, as cross border trade seller base and pipeline continues to grow and we integrate our international sellers into our logistics platforms. Fulfillment by MELI for cross-border is operational in Mexico and we continue to strengthen partnerships with international carriers. Additionally, we are starting to deploy our international sellers' supply into Brazil with early positive results.

Moving on to another key strategic priority for us and enabler of our enhanced marketplace vision: logistics.

Our own logistics network continued to grow during the quarter on a consolidated basis, reaching ⅓ of all items shipped and gaining almost 20 percentage points of adoption versus last year and 7 percentage points versus last quarter.

In Brazil, reliance on dropshipping network continues to come down reaching 71% of items shipped (versus 90% last year), a clear reflection that our managed network continues to grow and gain share of items shipped. As of Q3'19 this managed network reached almost 30% of items shipped, while fulfillment penetration grew to 7% up from last quarter.

In Mexico, fulfillment penetration continues to move along full steam. During the quarter it reached 35% of items shipped, growing penetration 6 percentage points versus the prior quarter and almost 30 percentage points versus Q3'18. This successful execution is also allowing increase by 2 percentage points the amount of shipments in 2 days or less in Mexico versus last year.

Argentina is making progress as well on the logistics front. Mercado Envios penetration reached almost 70% of items shipped, while fulfillment reached 5% of items within a quarter of launching the service.

Another positive data point from Argentina is that our Flex logistics platform continues to fire on all cylinders and reached 10% of items shipped during the quarter, meaningfully contributing to increase by 23 percentage points the amount of shipments in 2 days or less in the country versus last year.

Now that I have covered the main highlights and business KPI's for the quarter, let's move on to financials where we have continued accelerating the pace of investment in our growth initiatives mainly in marketing as we move into the second half of 2019. During the third quarter, Gross Billings continued to maintain strong momentum growing on an FX neutral basis above 60% for the third consecutive quarter, while also accelerating in USD to 45.4% YoY despite FX headwinds in some of our main countries. On a by country basis gross billings delivered excellent performance as well on an FX neutral basis: Brazil 43.5% YoY, Argentina at 118.1% YoY and Mexico at 104.4% YoY.

Consolidated net revenues grew faster than gross billings both on an FX neutral basis and USD basis, growing to 91% YoY and 70% respectively, and reaching $603 million dollars as we continue investing behind free shipping & loyalty and optimize subsidies which have minimized contra revenues.

Argentina was a highlight, as net revenues accelerated sequentially over 20 percentage points in USD to 38.8% YoY during the quarter despite a devaluation of 13% of the Argentine Peso versus the prior quarter. On an FX neutral basis revenues accelerated again to 118.9% YoY, demonstrating the resiliency of our business in that country.

Net revenues in Brazil and Mexico also continue to grow at a very good clip both in USD and on an FX neutral basis. Net revenues in Brazil accelerated to 76.6% in USD, while on an FX neutral basis it grew 77.3% YoY. Mexican net revenues grew triple digits in USD for the 4th consecutive quarter to 146.4% YoY, and an equally impressive 152.5% on an FX neutral basis.

Gross profit was $284.3 million dollars, representing 47.2% of revenues during the quarter and relatively flat versus 47.8% a year ago. This 62 bps margin compression was driven for the most part by shipping subsidies and warehousing costs of our managed network, which was partially offset by collection fees, sales taxes and hosting fees.

On a sequential basis, gross profit was $284.3 million dollars, representing 47.2% of revenues during the quarter versus 50.0% during Q2 of 2019. This 281 bps margin compression is explained for the most part, by incremental inventory costs from the robust sales of mPos devices during the quarter, and increased shipping subsidies to promote adoption of our logistics network.

We've included a detailed breakdown as we do every quarter of these, and also the OPEX margin evolution I am about to cover in the slides that accompany this presentation.

As reported operating expenses ascended to $366.3 million dollars or 60.7% of revenues versus 50.9% during the third quarter of 2018. On a sequential basis, operating expenses increased $81.4 million which resulted in sequential margin compression of 848bps mostly attributed to incremental marketing expenses and bad debt, as I previously discussed.

From these 848bps sequential margin compression in OPEX, 689 bps are explained by the incremental marketing expense, while 194 bps are explained by growth mainly in bad debt from our credits business in Brazil, both of these partially offset by 101 bps of scale in salaries and wages in G&A, given that a significant portion of our G&A headcount is in Argentina.

The step-up in marketing is explained almost entirely (90% of it) to the launch of our branding campaigns in our main countries as we continue to strengthen our ecommerce brand, but perhaps more importantly, as we begin the build the MercadoPago brand and begin to communicate the benefits of our payments ecosystem to our users through more traditional marketing channels. It is important to highlight that although the volume and revenue returns on these branding initiatives will play out more in the mid-term, we have already begun to see increases in unaided brand awareness of MELI in the most recent brand tracking surveys we've conducted.

If we break down the $51.3 million of incremental marketing spending QoQ during this quarter the vast majority, $46.2M were deployed to branding initiatives: 60% of those for Marketplace and 39% of those for Payments.

As a result of these incremental investments I've walked you through, operating losses ascended to $81.9 million dollars. The 848 bps contraction that I just explained plus the 281 bps gross margin contraction covered earlier in COGS explain the sequential decline and also the difference between positive EBIT and negative EBIT.

Moving down the P&L, we saw $14.5 million dollars in financial expenses attributed for the most part to interest accrual our convertible note due 2028 and financial guarantees in Argentina.

Interest income increased by 229.5% year on year to $28.5 million dollars mainly attributable as well as the proceeds from the convertible note issued in August 2018 on our follow on offering earlier this year, which both generated more invested volume and interest gain, and also due to higher float in Brazil and Argentina from our payments business.

Forex gain was $987 thousand dollars primarily as a result of strengthening of the U.S. dollar over our Argentine Peso net liability position in Argentina.

We recognized a valuation allowance on deferred tax assets in Mexico and Colombia which accounted for $91.5 million dollars and $7.2 million dollars respectively. We still anticipate the possibility of eventually being able to use these tax credits in the future. Should we be able to use the valuation allowances, they will be recorded as P&L gains in future periods.

As a consequence of all this, net loss for the quarter ascended to $146.1 million dollars, explained, for the most part by the incremental investments in marketing and the aforementioned tax valuation allowances. On a per share basis, all this resulted in a basic net loss per share of $2.96.

Free cash flow, defined as cash from operating activities less payment for the acquisition of property, equipment, and intangible assets net of cash acquired, was $124.1 million, versus $74.4 million in the same period last year. Cash, short-term investments and long-term investments totaled $3,1 billion dollars.

Reflecting on the first three quarters of 2019, we remain very encouraged by the performance of our business overall and remain excited about the opportunities that lie ahead of us. We believe we are building superior experiences and products for our consumers and merchants, and the sustained momentum we see in the business gives us the confidence to continue investing. We look forward to keeping you updated on our progress next quarter, and for now we can take your questions…

Thank you

