



MELI Q3'11 Earnings Conference Script

Date: November 2, 2011

MERCADOLIBRE 3Q11 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 September 30th, 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, and thanks all of you for joining us on today's conference call.

[PAUSE]

MercadoLibre had an excellent third quarter. Items sold accelerated significantly versus the prior quarter, actually growing at the fastest rate since the first quarter of 2010. We believe that well-timed changes on our platform have combined with a very positive

context for e-commerce in general, keeping supply and demand on our platform very active.

I would like to begin today by sharing some key metrics that highlight our performance, followed by a more in depth revision of the progress of each of our business units. This will pave the way for a discussion of our work in progress, and how we aim at keeping this momentum intact. Much of this has to do with our technology efforts underway, and the traction we are getting out of our new platform architecture.

[PAUSE]

Now, as I call out some key performance metrics, please bear in mind that they are year on year growth rates unless specified otherwise.

[PAUSE]

In the quarter:

- Confirmed registered users were up 23%
- Items sold grew 38%
- Gross merchandise volume grew 52%, reaching \$1 billion 348 million in the quarter.
- And the number of payments performed through MercadoPago grew 103%, adding up to a total payment volume of \$368.5 million.

With solid growth coming from our remaining adjacencies as well, our financial results showed marked acceleration from top to bottom. In the third quarter, our company generated:

- Revenues of \$81.6 million, an increase of 46%;
- Income from operations of \$30.0 million, an increase of 55%; and
- Net Income of \$26.3 million, an increase of 40%...
- ... resulting in 60 cents of earnings per share.

Pedro will soon go into greater detail on the health of our P&L, particularly as we were able to scale our business significantly. In the meantime I would like to take a closer look at our ecosystem, addressing the significant progress of each of our business units.

Starting with our core marketplace, last quarter we took some important steps to make buying on MercadoLibre an even more intuitive, social and streamlined process.

Social integration, improvements to search, and a better tracking of our users' history were some of the improvements we performed on our overall buyer experience. A shorter registration process streamlined with our buying flow led to the year's peak in quarterly registration of new users as we saw 3.6 million new users register on our site during Q3. That 28% growth rate is well above the typical growth in internet users for our region.

Our 52% growth in GMVe is well above our gain in users and shows how involved both new and existing users have been. Sellers are therefore seeing a positive trend in their conversion rates, meaning more successful listings over total listings, and also greater item sales per average listing. I would like to distinguish a few different effects that are taking place on our marketplace, each of them very positive for our market's dynamic:

1. New sellers are trying out our site, often starting out with our lower cost alternatives for listing and for selling
2. New and established sellers alike are finding success on our platform
3. Our premium listings, offering the option to pay for the best placement and conversion on our site, are also the ones posting the greatest gains in efficiency

In other words, we have a virtuous cycle underway. MercadoLibre's listings are growing at a fast pace, the marketplace offers very good chances of success, and our demand, the foremost in the region, keeps growing. As users try our services, they find that they can pay to increase their chances of success significantly. In the meantime, eventual sellers with the occasional item for sale are not left out of our freemium model.

[PAUSE]

In the meantime we continue to focus on delivering an ever-improving user experience, adding on functionalities for our buyers and sellers. This quarter we re-launched improved recommendations features on our platforms, calculating the best product choices for each user based on their track record on the site. We have also improved our recommendation capabilities with related searches that appear under our search box, maximizing possibilities of search success for our buyers, and using their clicks to fine-tune the effectiveness of the application. Our testing has shown very good acceptance of these and other new features in the quarter, such as bookmarks to remember interesting products or to store a wish list. Understanding the importance in improving conversion rates of good images and less clics, we also added a browse feature for pictures on the search results page, allowing our users to

get a better sense of the product before entering a specific listing. All of these improvements have already gained acceptance from our users.

[PAUSE]

During the quarter we also made our initial forays into mobile commerce. Our new mobile application, although already downloaded over half a million times in less than 60 days, is much more important for its huge potential going forward than for its immediate results. For now let me just say that this new and convenient tool for browsing and buying via smartphones is bound to become a popular shopping alternative in a region with one of the highest rates of mobile penetration. As more of these mobile users begin using phones with broadband connectivity and internet capabilities, mobile should become an important source of activity and GMVe for us. Our incursion into mobile is a clear example of how we strive to stay on top of trends even before they hit their inflexion points.

[PAUSE]

Wrapping up our core marketplace, I can say that we are successfully catering to the evolving needs of an increasingly broad base of users. The current health of our volume confirms this, and I look forward to bringing you updates as this positive dynamic continues to unfold.

[LONG PAUSE]

I would now like to turn to our Classifieds marketplace: which continues to show very good traction versus last year, as illustrated by our 48% growth in total new listings this quarter. We also continue to promote it very actively, foreseeing the millions of new users who will be coming online in the near future, often trying out classifieds solutions as their first step into e-commerce. This quarter we followed up on our recent radio campaigns in Brazil, Venezuela and Columbia, spreading them to Argentina and to Mexico as well.

A key factor in our growth is the way we are catering to the professional sector by improving our service, and offering convenient package deals for broker-dealers with a continuous flow of classifieds volume. For this reason, of our growing listings volume, 37% now come from dealers, versus 28% at this time last year. As part of our improved service to them, we have revamped our View Item Pages in Motors, Real Estate and Services.

We remain extremely active on the classifieds front, not just boosting our organic growth, but also by improving our product and investing in marketing.

[LONG PAUSE]

Moving on to our Ads business, as a consequence of our stated strategy shift from display driven advertising to search driven advertising, search gained 175 basis points of revenue share over display banners quarter-on-quarter. The mix is now 64% MercadoClics search revenue to 36% display revenue. At this time last year, the mix was exactly the opposite: display with 64% and search with 36%.

With total advertising revenues for the third quarter accelerating their year-on-year growth versus the second quarter significantly, it can be gathered that MercadoClics has a growth on growth dynamic. As established advertisers grow at high organic rates, we keep growing through client acquisition as well.

Advancing on our stated objective of building a bridge between large retailers and the MercadoLibre ecosystem, this quarter we were able to add some very important names to our list of advertisers. To give you an idea of the breadth of industries we are reaching, this quarter we signed on car manufacturers such as General Motors, Citroen, Peugeot, Ford and Volkswagen. Spanning other businesses, new advertising clients included Nextel and 3M.

Gearing MercadoClics towards large-scale clients has provided them an excellent entry way to e-commerce in many cases. It has also assured us a new way of monetizing our ample traffic. We look forward to developing this high-margin business well into the future, as we have many directions in which to expand and multiple spaces to cover. Even as MercadoClics revenues grow in the triple digits, our cost per click is still evolving as we maximize the volume of quality traffic that we bring to our clients. This business is still at an early stage, and I see it as a great opportunity.

[LONG PAUSE]

Now let's review our payments business.

[PAUSE]

Payments continues to perform very well, most recently growing at a rate of 94% year-on-year. That's a total payment volume of \$368.5 million this quarter, versus \$189.9 million in the third quarter of 2010.

While off-platform payments grew at a much faster pace, meaning that we are quickly expanding volume outside of our own marketplace, today MercadoPago is still mainly

concentrated on our platform, and we have driven its impressive year-on-year growth by bundling it with our marketplace fees, eliminating any possible barrier to entry that a separate processing fee might generate.

As a result, MercadoPago is now offered as a means of payment on almost all listings, and buyers have been using it more and more. Third quarter payments penetration, measured as total payments volume over gross merchandise volume for the period, was 27% versus 21% a year earlier. Our installment plans offered exclusively through MercadoPago continue to prove an additional incentive for buyers, as financed volume continues to grow at approximately the same rate as TPV.

While MercadoPago growth unfolds, we continue to keep our focus on positive innovation and substantial improvements to user experience as the key to our success. With this in mind, this quarter we launched a new MercadoPago Checkout process representing a great improvement in terms of usability, aesthetics, and efficiency. Our new checkout spans across MercadoPago's on and off-platform offerings, taking place on a "lightbox" that is superimposed over the specific listing or merchant's website where the transaction is taking place. This allows for an improved integration of MercadoPago with outside merchants, allowing buyers to use the service without having to leave the merchant's website.

All in all, while MercadoPago maintains its fast-paced trajectory, we know that we have levers such as these to boost its performance even further. In the meantime our new MP3 platform keeps gaining ground in Mexico, and we look forward to spreading it across the rest of our payments operations, with an eye on Venezuela in the near future. With all this in place, and heading into a holiday season that typically shows a boost in the demand for our payments service and its financing options, I look forward to the next few months.

[LONG PAUSE]

I see this as a very good moment for our business. Particularly as our new technology platform is living up to the potential that we saw a year back. It is enabling important improvements to the services we offer, be it the recent and ongoing refreshing of our View Item Pages, or the inclusion of social content, recommendations, bookmarks and many other features that make purchasing on MercadoLibre a more dynamic and integrated experience, ever more present in the day-to-day activity of internet users in our region. MercadoPago Checkout is an example of how these tangible improvements extend throughout our ecosystem. And our new mobile app shows how New World helps us break new ground as well.

Our work in progress right now centers on continuing to extract value from this groundwork that we've laid out. In the meantime we are also investing time in developing

great vertical shopping experiences. We know this will provide an ideal format for a wider array of product offerings, including fashion-related ones, but extending to various types of articles that come in varying sizes, colors, and materials. In other words, we are aware that e-commerce is expanding in all directions at once, broadening its breadth of offering considerably. Within this reality, we are uniquely positioned as the most relevant marketplace in Latin America, offering the widest range of choice, and doing everything to continue leading the way.

With that, I will now turn the call over to Pedro for an in depth look at our financials.

Part III: Financial Results – Pedro Arnt

Thank you. [PAUSE] Marcos has just given you a detailed look at the factors driving the present success of our business, and now I would like to show you how this flowed through our P&L, allowing us to post very strong financial results in the third quarter. In doing so, I will quote specific growth rates which are always year-over-year unless I indicate otherwise.

Once again, unit volume was the key element underlying what proved to be strong revenue growth this quarter. Items sold grew 38% in the third quarter, accelerating from 26% a quarter ago. GMVe grew at an even faster pace, 48% in local currencies and 52% in USD, for a total of \$1 billion 348 million in the third quarter.

Within this total, Brazil grew 49% in items sold versus 32% in the previous quarter. Local currency GMVe for that country grew 46%, accelerating versus 17% in the second quarter of this year. USD GMVe growth for Brazil was 56% year on year, also accelerating versus 31% in the prior quarter.

Now turning to our financials, let me remind you that as of this quarter our revenues are entirely comparable on a year-on-year basis, since changes to MercadoPago's financing operations were already effective in the third quarter of 2010. For this reason, it is no longer necessary to call out apples to apples growth rates for the current period.

[PAUSE]

During the third quarter we generated solid growth in all of our key financial metrics.

Specifically:

[PAUSE]:

- Net revenues grew 46% in US dollars to \$81.6 million, 41% growth in local currencies.
- Gross profit margin came in at 75.4% vs. 75.6% in the second quarter of 2011, and 79.5% in the third quarter of last year.
- Income from operations grew 55% to \$30 million, with an operating income margin of 36.7% vs. 34.5% in the third quarter of 2010.
- Net Income before Income/Asset Tax Expense for the third quarter of 2011 was \$35.1 million, representing 78% growth in US dollars.
- Net income was \$26.3 million, a 40% growth year-on-year. This represents a 32.2% net income margin versus 33.6% a year earlier. [PAUSE].

Now I would like to provide further depth on these results, starting with our topline.

[PAUSE]

Consistent with the overall strength of the quarter across all our businesses, net revenues in USD accelerated year-over-year from 32% in the second quarter to 46% in the third quarter, and from 22% to 41% in local currencies.

On a country basis, in local currencies, consolidated net revenues grew 38% for Brazil, 55% for Argentina, 14% for Mexico, and 57% for Venezuela.

In USD, consolidated net revenues grew 48% for Brazil, 47% for Argentina, 19% for Mexico and 57% for Venezuela.

Let me take a brief detour from this impressive acceleration in revenues to give you some detail on take rate.

As is the case with quarters in which gross merchandise volume grows significantly, take rate was down as not all of our revenue sources are tied to GMVe.

Upfront fees, for example, increased less than GMVe as sellers saw increased efficiency on their listings, as they were able to generate higher volume of sales per dollar invested in these fees.

Also, as Marcos mentioned, some of our New World initiatives have obviously proven extremely successful at generating new merchandise volume, a considerable portion coming from entirely new users, typically generating lower initial take rates but presenting us with the opportunity to engage them further in the future.

Additionally, classifieds and consumer financing revenues also continued to see great traction, but are growing at a lesser pace than GMVe.

All of these factors, resulted in a consolidated take rate of 6.05%, versus 6.30% in the third quarter of last year [PAUSE].

Needless to say, despite the expected decline in take rate, we are extremely pleased with the evolution of our topline.

[PAUSE]

Now turning to a detailed look at our cost structure during the second quarter:

Gross profit grew 38% to \$61.6 million, representing 75.4% of revenues, declining from 79.5% in the third quarter of 2010. These 410 bps of gross margin contraction are primarily attributable to increased penetration of MercadoPago transactions and the costs associated with processing this added payment volume.

In other words, as we have stated numerous times, this contraction in margins is a consequence of a mix shift towards a lower margin business that is none the less generating significant incremental revenues and profit.

To a lesser extent, gross margin contraction was also caused by incremental investments in customer service, as we continue to concentrate on improving the support extended to our user base.

[PAUSE]

Operating expenses for the period were 38.7% of revenues, down from 45.0% in the same period last year, an improvement of 630 basis points mostly attributable to leverage achieved on our operating expenses.

In absolute terms, Operating expenses totaled \$31.6 million, a 26% increase over the same period in 2010.

Specifically:

- Sales & marketing remained the largest line item expense, increasing 36% for the quarter to \$16.7 million from \$12.3 million in the prior year quarter. As a percentage of revenues Sales & marketing was 20.5%, vs. 22.0% for the same period last year. Most relevant in driving scale in sales & marketing are:

- Customer acquisition related marketing costs down approximately \$0.5 million when compared to the previous year quarter, reflecting our continued capacity to grow our user base organically.
 - Bad debt grew by 30% in absolute terms on revenue growth of 46%
- Product & technology expenses grew 40% to \$5.9 million compared with \$4.2 million for the third quarter of 2010, mainly derived from the strengthening of our IT team and increased investments in technology. As a percentage of revenues product development was 7.3% vs. 7.6% for the same period last year.
- Finally, G&A grew 3% year-over-year to \$9.0 million in the third quarter of 2011. This moderate growth is explained by certain one-timers in 2010 related to our new offices, and also by a reduction of approximately \$1 million in our 2011 LTRP accrual, which is based on our stock price at the time of calculation. As a percentage of revenues, G&A was 11.0% vs 15.5% for the same period last year.

[PAUSE]

Moving on, operating income for the third quarter of 2011 was \$30.0 million. For this quarter, improved leverage on our operating expenses was sufficient to offset gross margin compression, leading to operating income margin for the quarter of 36.7% vs 34.5% in the third quarter of 2010.

Below Operating Income, we benefited from \$2.9 million of interest income, aided by higher cash balances and interest rate yields in Brazil. We also recorded a \$3.3 million foreign exchange gain as USD balances appreciated in local currencies, arriving at a pre-tax income of \$35.1 million, 78% higher than in the same quarter of last year.

Tax expense was \$8.8 million in the third quarter of 2011, representing a lower tax rate than usual due to a reversed tax valuation allowance in Brazil of \$2.0 million. The resulting blended tax rate was 25.1% versus 4.9% in the third quarter of 2010 as we reversed an even larger valuation allowance in that period. [PAUSE]

Net income for the three months ended September 30, 2011 was \$26.3 million, reflecting an increase of 40% when compared with \$18.8 million during the same period of 2010. This represents a 32.2% net income margin, resulting in a basic net income per common share of 60 cents. [PAUSE]

Purchases of property and equipment, intangible assets and businesses acquired, net of cash, for the quarter totaled \$9.3 million.

\$5.5 million of these correspond to the acquisition of 60% of Mexican classifieds site Autoplaza, an operation with revenues currently estimated at approximately \$0.3 million per quarter, but that we feel has very strong brand and upside potential, as we integrate it into the MercadoLibre ecosystem over the next few years.

Consequently, for the period ended September 30, 2011, free cash flow, defined as cash flow from operations less purchases of property and equipment, intangible assets and businesses acquired, net of cash, totaled \$19.2 million.

Cash, short-term investments and long-term investments at the end of the quarter totaled \$168 million, a testament to the consistently increasing strength of our balance sheet.[LONG PAUSE]

Our quarterly dividend was paid on October 17th, 2011, to all stockholders of record as of the close of business on September 30, 2011, in the amount of \$0.08.

[LONG PAUSE]

As we have just seen, our company is in excellent shape, undoubtedly benefitting from our own recent innovations in addition to underlying e-commerce trends that remain extremely positive. Our business is getting bigger and better, as we enhance our fast-paced organic growth with innovations that immediately capture value for our users and bring about additional growth in volume. With the busiest part of the year immediately ahead of us, I look forward to a vibrant holiday shopping season, and to the next update I can bring you on this exciting time for our company.

Having said this, we will now take your questions.