

MERCADOLIBRE 2Q18 EARNINGS CONFERENCE CALL SCRIPT

Date: August 8th, 2018

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended June 30th, 2018. 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 2018 earnings press release available on our investor relations website.

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Now, let me turn the call over to Pedro.

Part II: Overview & Financial Results – Pedro Arnt

Thanks Federico. Let me kickoff today's call by saying that our business continues on a positive trajectory, the outlook for our industry is as positive as ever, and our investment thesis remains intact. The internet is rapidly becoming a driving force for Latin America to develop and modernize faster, turning a history of underdeveloped infrastructure in the areas of retail, and banking from a disadvantage to an advantage, as it allows for innovation to flourish unencumbered by existing legacy players. It is in this context of inefficient retail and payments industries that we are deploying our technology solutions, allowing consumers to leapfrog traditional means of buying, selling and paying, straight into digital use cases. This long-term secular trend of digitally enabled commerce and money bodes well for Mercado Libre's future growth prospects, and marks the path for significant long-term value creation for both our users and shareholders.

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Never losing sight of this promising long-term outlook, it is fair to say that the second quarter of this year has been a transitional quarter for us, with mixed results. As a consequence of events in Brazil that were beyond our control: principally, the price increases from our major postal partner, and the May truckers strike that lasted ten days and had a negative impact on e-commerce, we have had to adjust our operational model to re-balance growth and profitability. Throughout the quarter we have had to carry out price increases, limit the amount of shipping subsidies offered, and accelerate the deployment of our logistics operations in Brazil and Mexico, so as to be able to return to profitability during the second half of the year. As a consequence of these necessary modifications, we have seen a deceleration in our growth rates in these markets. Notwithstanding this lower, yet still robust growth, we trust the operating model put in place for H2'18 is the correct, profitable one, that sets us up for the sustainable, long term value creation I outlined in my opening remark.

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With that context, let's begin by taking a look at our Marketplace business highlights for the quarter.

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Let's start with our largest market, Brazil. On an FX neutral basis, GMV there grew 44% and items sold 43% YoY. The deceleration in growth is explained for, by the most part, by price increases carried out in late March, tougher comps and the trucker's strike that started during the end of May, and finally, rationalization of the availability of free shipping subsidies in certain routes and categories carried out in June.

Beyond Brazil, on a per country basis results were more encouraging:

In Mexico, another critical market for us, FX neutral GMV grew at 73% and continued to grow at one of the fastest rates of the last few years. Items sold in Mexico grew at a very strong 91% YoY, as our free shipping program reached 92% of shipped merchandise volume and was complemented with successful execution of seasonal promotional initiatives during the second quarter, such as the Mexican Hot Sale week.

Argentina continues accelerating both in units sold and FX neutral GMV basis. FX neutral GMV grew for the third consecutive quarter above 50% reaching 57% growth YoY. Items sold delivered the fastest pace of growth in the last 10 quarters growing 54% YoY aided in part by easier comps as well as promotional initiatives similar to those in Mexico.

Colombia was a highlight for the quarter, as we reignited vibrancy on the platform as our free shipping and loyalty programs begin to gain critical mass there. From a GMV perspective on an FX neutral basis, Colombia delivered the fastest pace of growth in the past five years, reaching 45% YoY, while items sold also followed suit accelerating to an all-time high of 100% YoY growth.

And finally, Chile which is also on a solid growth trajectory delivered FX neutral GMV growth of 53% YoY, while in units sold it delivered a record 82% YoY growth, as Mercado Pago gains rapid adoption on our marketplace there, and free shipping also expands its footprint.

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Growth during the quarter had a strong impulse from increases in buyer engagement. Brazil, Mexico, and Argentina are all maintaining user engagement momentum, as items per unique buyer per quarter grew again above 20% when compared to last year. Chile & Colombia grew at an even faster clip in this metric, at 42% YoY and 32% YoY respectively. Consequently, items sold per unique buyer, accelerated for the 21st consecutive quarter, and surpassed 5 items purchased per quarter when looked at on a consolidated basis for all our marketplaces.

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These segment results in our retail key performance indicators, translated into a strong consolidated marketplace quarter.

During this quarter:

- Units sold on consolidated basis grew 39% to 85.4 million. However, if we exclude Venezuela from last year's comp now that we have de-consolidated that operation, same-country items sold growth was 51 YoY%.
- Gross Merchandise Volume reached \$3.14 billion dollars, growing 15.2% year on year in dollars, while on an FX neutral basis GMV growth was 35.9% year on year. Here again, if we exclude Venezuela, same-country GMV growth was 29,3% in dollars and on an FX neutral basis would have been 52.5% year on year.
- Same country unique buyers grew by 16% versus the prior year. And excluding Venezuela, unique buyers would have grown by 24% YoY.
- And finally, live listings, where we remain the top e-commerce offering in product assortment, accelerated for the sixth consecutive quarter above 50% YoY. It was also the first time in our history that we exceeded 150 million listings available on our websites.

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Before we move on to payments, let me give you a quick status update on where we are on our logistics initiatives.

During the month of June, we launched our second cross docking center in Brazil, contributing incremental capacity to our logistics network, and allowing us to gain more control over network efficiency. Exiting the quarter, close to 10% of the shipped volume in our Brazilian operation was being handled by partners on our logistics network of cross docking & fulfillment centers, vs. the remainder of the volume still running on our drop-ship network.

Mexico continues to delight our consumers with great service levels in logistics. 98% of shipments there were made within the promised delivery window, and 78% of these occurred in less than 48 hours. We are also able to report that during the month of April, we began operations of our new 323 thousand square foot fulfillment center in Mexico City managed with our in-house proprietary warehouse and transportation management technology. Although at quarter's end we were still fulfilling single digits of total shipped orders from that fulfillment center, the amount of orders we are processing is growing fast, and we expect for our fulfillment solutions to grow in share of shipments for many years to come.

In Argentina we drove adoption of shipments made on our network to a record high 40% of shipped volume, entirely through our existing cross docking centers, as fulfillment operations operated for MELI are only scheduled to launch there in the first half of 2019.

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Let's now move on to payments, an ever more important building block for our business.

The growing scale of Mercado Pago in tandem with better user engagement and higher retention, were powerful catalysts that contributed to the solid on marketplace payment volume growth we delivered during the quarter. On an FX neutral basis, consolidated on marketplace total payment volume grew by 49% YoY, driven by strong penetration gains in Chile, Colombia, and Uruguay which were partially offset by lower TPV growth in Brazil.

Almost 9 out of every 10 items sold on our marketplaces are now already paid for and settled with Mercado Pago. As a result of this nearly full adoption of MercadoPago on our marketplaces, we now can increasingly re-assign resources in the payments teams towards our off marketplace opportunities in fin-tech, where we believe the opportunity is enormous.

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With greater focus and resources than in the past, our off marketplace efforts are beginning to pick up steam. TPV grew 142% on an FX neutral basis and 96% in USD, growing almost 3x faster than on marketplace growth TPV on an FX neutral basis. The excellent execution in off platform payments efforts both online, through our merchant services business, and offline through our mPos offerings and mobile wallet businesses are resulting in a growing share of payment volume away from Mercado Libre's

marketplaces. Over the last year alone, off platform total payment volume has gained almost 10 percentage points, reaching almost $\frac{1}{3}$ of total payments during the quarter.

On a segment basis, Brazil was a stellar performer again, as FX neutral off platform total payment volume grew for the 5th consecutive quarter above 100% YoY and delivered the fastest pace of growth in over a year, reaching 170% YoY. Argentina followed suit, delivering the second straight quarter of FX neutral off platform total payment volume that was north of 100%. Mexico, Colombia, and Chile were also strong contributors, with FX neutral TPV accelerating on a year on year basis to 88% in Mexico, 103% in Colombia and 110% in Chile.

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Let me now take a moment to talk about the biggest driver of this growth in off marketplace payments in Brazil and Argentina: our O2O initiatives powered by the rollout of our mobile point-of-sale devices and co-branded credit card units. When we began distributing mobile Pos devices we made our first steps in providing bottom of the pyramid merchants the ability to accept credit cards and offered them opportunities to engage in commerce whence they were traditionally excluded. The growth of these mPos devices sold and FX neutral TPV yielded from mPos devices in Brazil and Argentina have been key levers to continue scaling off platform payments ecosystem and this quarter's results were an example of that. On an FX neutral basis TPV on mPos grew north of 550% both Brazil and Argentina as we continue to serve long-tail merchants, a segment of sellers we believe is still largely under-penetrated. Mexico also delivered encouraging results on the mPos business with record sales of devices in May and June as we launched a new device and improved performance of online customer acquisition channels. On the card side, the installed base of cards has reached nearly one million prepaid cards linked to Pago accounts in Brazil, Argentina and Mexico, allowing our users to use their stored balances on our merchants MPOS devices, or wherever Mastercard is accepted both in online and offline venues.

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During the quarter we also took further steps to grow our offline service offering through the buildout of a proprietary alternative payments network powered by QR codes and our digital mobile wallet. In our view, this network has the potential to empower millions of people throughout Latin America to participate more actively in the formal economy than ever before. As such, we officially launched our QR code and mobile payments ecosystem in Argentina this quarter, as we began to scale our two sided payments network, adding important lighthouse merchants that drive greater frequency of use and payment volume.

Along those same lines, we are encouraged to see unique payers and unique collectors in our mobile wallet business growing well, as each type of user grew triple digits YoY during the quarter, albeit still from a small base.

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And finally within the fin-tech ecosystem, our merchant and consumer credit business is also performing well. We are proud to be able to empower buyers and sellers by improving the flow and access to credit to them, and we took important steps in those

respects during the second quarter principally in Brazil. On the merchant side, we began to unlock capital constraints to growth in our credits business, as we began securitizing funding from private investors in order to provide loans to our merchant base without being limited by our own capital capacity. On the buyers side, we launched our consumer credit lending business, taking another important step in stimulating demand by offering more compelling credit offerings to them. This is an important milestone for us, as it will not only begin to allow many of our buyers who do not hold a credit card to be able to purchase on credit in our marketplace, but also improve the value proposition for those buyers who do own a credit card but are constrained by its low limits. During the quarter, our credits business surpassed the \$10 million dollar mark in revenues for the first time, reaching \$13.9 million dollars, growing triple digits both on an FX neutral basis and in USD, on a credit portfolio of \$112 million dollars.

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Having covered the strong quarterly KPI's, let's move on to a more challenging picture on the financial side. As mentioned earlier, financial results during the first half of the year were affected by the abrupt changes in the cost structure of our logistics operation at a period in which our free shipping offering has been in rapid expansion. Consequently, Q2 was a transition quarter where we spent the better part of the period adjusting our financial model in order to re-align with our commitment to deliver profitable growth. We feel that we have made strides in this direction, and will continue to make changes to our pricing model and free shipping program as we see fit and have found pricing levels towards the end of the Q that deliver both profit and growth once again.

During the second quarter, Gross Billings came in at \$432 million dollars a 36% growth in USD and on an FX neutral basis 65% YoY growth. This marks the 14th consecutive quarter of FX neutral growth above 60% YoY.

On a by country basis gross billings were strong across the board:

- For the second quarter of 2018, and on an FX neutral basis, gross billings would have been as follows: 68% for Brazil, 78% for Argentina, 63% for Mexico, 64% for Colombia, 62% in Chile, and 84% in Uruguay, all of these expressed on a constant currency basis.
- Shipping subsidies totaled to \$97 million dollars, down 13% versus last quarter. This QoQ contraction was attributed to two main factors:
 - The first one is related to our efforts in optimizing the unit economics and subsidies in our free shipping program in Brazil, where we limited the availability of free shipping in certain categories and routes (second and third tier cities of the North East of Brazil) as a response to the price increases from our main logistics partner at the end of the quarter.
 - The second, is due to the Brazilian trucker strike. This action affected volume of sales and shipments of free shipping for approximately 10 days during end of May and beginning of June.

As a consequence of the tinkering and optimizing of the free shipping program, we were able to accelerate Net Revenue growth versus Q1, as it came in at \$335 million dollars, growing 18% YoY in USD, and accelerating 14 percentage points to 44% YoY on when looked at on an FX neutral basis.

Bear in mind that during the quarter USD growth rates were negatively impacted due by the devaluation of currencies in Brazil, Argentina, and Mexico. The Argentine peso devalued 33% YoY, the Brazilian Real (11% YoY) and the Mexican Peso (4.5%).

On a segment basis, as reported quarterly net revenue year on year was solid as well: Brazil grew at 40%, Argentina at 68%, Mexico at 71%, Colombia at 51%, Chile at 42%, and Uruguay at 84%, all of these once again expressed in constant currencies.

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Non-Marketplace revenues where a strong contributor to revenue growth, reaching \$179.2 million dollars, growing 72% in USD, and accelerating for the sixth consecutive quarter on an FX neutral basis to 96% YoY.

Non-marketplace revenue growth was driven for the most part by:

- The stellar performance of our payments revenue streams off marketplace, which on an FX neutral basis grew above 100% for the second consecutive quarter reaching 132% YoY growth.
- And advertising, which also contributed to the strong performance in the segment accelerating to 65% YoY growth on an FX neutral basis and gaining share as a percentage of revenues.

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Gross profit ascended to \$159.7 million dollars during the quarter, representing 48% of revenues versus 60% in the second quarter of last year. This deterioration in gross margin is primarily explained by the formulaic changes in Revenues due to the implementation of ASC 606. For comparative purposes, COGS as a percentage of gross billings represented 40.6% this quarter versus 35.5% for the same quarter last year.

Additionally, the cost of mPos devices, issuance of MercadoPago credit and debit cards, increased collection fees from our growing payments business, and increasing costs of deploying our infrastructure on public clouds explain the gross margin compression. We have included a detailed breakdown, of these, and also the OPEX margin evolution I am about to cover in the slides that accompany this presentation.

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Operating expenses totaled \$188 million dollars, or 56% of revenues versus 50% of revenues during the same period last year. OPEX margin deterioration is also primarily explained by the formulaic changes in revenue recognition due to the implementation of ASC 606. For comparative purposes, operating expenses as a percentage of gross billings represented 44% this quarter versus 45% for the same quarter last year.

As reported drivers of OPEX compression were incremental marketing costs, as we continue to invest for growth, increased loan loss provisions as our credit portfolio grows, and buyer protection payouts as a consequence of deteriorated service levels by logistics partners during the quarter in Brazil.

Operating losses, therefore, amounted to \$28.2 million, or negative 8.4% of revenues, versus negative \$29.4 million the prior quarter, despite having been impacted by increased shipping costs in Brazil during the entire three month period, versus only 14 days during the first quarter.

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Further down our P&L, and with details also presented in the accompanying slides, we reported a net reported loss of \$11.3 million dollars, and a basic net loss per share of \$0.25 cents.

Operating cash flow for the quarter was \$144.2 million dollars. The increase in net cash provided by operating activities during the three-month period was primarily driven by improvements in the cash generation of our payments business in Argentina, as we discounted a larger volume of receivables than in the past.

Wrapping up, purchases of property plant and equipment, intangible assets and advances for fixed assets totaled \$24 million dollars during the quarter. Cash, restricted cash, short-term investments and long-term investments at the end of the quarter totaled \$605 million dollars.

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This concludes my review for the second quarter. Summarizing what we've seen, we believe that the secular trend of the internet and ecommerce in the region are playing to our strengths, leaving us well positioned to drive our future growth. As we move into the second half of 2018 and beyond, we will continue to drive sustainable efficiencies through cost discipline, while also fostering innovation, reducing complexity in our processes, and improving the user experience for our users. I look forward to keeping you updated as we continue to grow our platforms and strive to capture the still nascent opportunity behind payments and commerce throughout Latin America.

And with that, we can now take your questions...