MERCADOLIBRE 2Q'19 EARNINGS CONFERENCE CALL SCRIPT

August 7th, 2019

PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended June 30th, 2019. I am Federico Sandler, Investor Relations Officer 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.

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 second 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

Great, thank you. So let's dive straight in, and let me kickoff this quarter's call by saying that we are pleased and optimistic about how this year is playing out. We've delivered another very strong quarter from a gross billings perspective as we continue to grow and gain scale on our leading ecommerce and FinTech ecosystems across Latin America.

Let's first take a look at how we closed a great second quarter, that carries us into the third quarter of 2019 with solid momentum. The following KPI's place consolidated quarterly results within context:

- Gross Merchandise Volume accelerated to 33% YoY on an FX neutral basis reaching $3.4 billion dollars.
- Total Payment Volume also accelerated versus the prior quarter to 90% YoY on an FX neutral basis to $6.5 billion dollars.
- While Total Payment Transactions grew in triple digits at 112.5% YoY and reached 182 million payments processed.
- Gross billings grew 73% YoY on an FX neutral basis ascending to $606 million dollars.

We are encouraged to observe these robust rates of growth in key performance indicators, all of which are pointing to increasing consumer validation of the innovative product and service offerings we have built around ecommerce and FinTech. As a result of this, and given the size of the opportunity, we continue to garner confidence in our cycle of investing aggressively to add more users at the expense of near-term profitability.

Let me now walk you through our FinTech progress report. During the quarter, Total Payment Volume accelerated both in USD and on an FX neutral basis driven for the most part, by off-platform TPV growth. The latter, not only explained a majority of total TPV growth during the quarter, but reached an important milestone during June, as that was the first month that TPV from off-platform surpassed on platform TPV in our history. In line with that, consolidated Total Payment Transactions also grew triple digits, driven by strong growth in off-platform transactions as a result of the performance in the growth of transactions across our product portfolio of merchant services, mPOS and wallet initiatives. Off marketplace (in other words off-platform), Total Payment Transactions grew 233% YoY, the second consecutive quarter of total transactions in number from off-platform growing above 200% YoY.

We also continue to execute well on our mPOS business. Device sales grew again during the second quarter in Brazil, Mexico, and Argentina, while at the same time the size of the active installed base of mPOS devices continues to grow. On a consolidated basis, we have more than doubled the number of quarterly active devices versus the second quarter of last year, while mPOS TPV both in dollars and on an FX neutral basis grew triple digits in all of the countries where we offer the device. Also, and as a result of this solid execution, mPOS devices that processed at least one transaction over the last 12 months on a consolidated basis almost reached 3 million.

Our merchant services business, where we process payments of other online businesses, had an exceptional quarter both in terms of merchant net new adds and TPV growth. On an FX neutral basis, merchant services Total Payment Volume accelerated to 130% YoY, reaching $1 billion dollars for the first time ever in a single quarter. Additionally, and as a result of the aforementioned TPV growth of this business, merchant services revenues accelerated for the 3rd consecutive quarter to 113% YoY on an FX neutral basis.

On our wallet initiative, we observe that the shift to a mobile first digital payments ecosystem continues to resonate with our users. As such, we are fortunate to benefit from increasing secular tailwinds as cash digitalizes and more aspects of the lives of our users become mobile. Consequently, during the quarter, wallet Total Payment Volume accelerated both in USD and on an FX neutral basis to 251% YoY and 419% YoY respectively, driven mainly by successful execution Argentina (the first market where wallet initiatives were launched).

Complementing this solid growth, and also helping us scale out the buildout of our network digital mobile wallet, during the second quarter we have more than doubled the issuance of prepaid cards tied to wallet account balances versus the first quarter of 2019. Additionally, we are encouraged to see TPV coming from these prepaid cards continue to grow triple digits both in dollars and on an FX neutral basis.

Still on our wallet initiative, during the month of June, we reached the 3 million monthly active payer mark on our mobile wallet in a single month for the first time on a consolidated basis.

We are also making inroads building and distributing innovative and inclusive asset management products for our users, as adoption of our asset management solution continues to grow. During the quarter in Argentina and Brazil (the countries where the product is available), already over half of Mercado Pago balances in both countries were invested in these asset management products.

Lastly on FinTech, let me give you an update from our merchant and consumer credit business. During the quarter, MercadoCredito delivered healthy metrics. Loan portfolio grew 75% YoY and 44% QoQ in USD driven by the successful rollout of consumer credit and mPOS credit products in Brazil, and by retraining of our behavioral credit scoring models that have enabled us to roll out the product to new users with improved credit terms and conditions.

We're also pleased to report that Argentina also contributed to the loan portfolio growth, as we have began offering loans to consumers to purchase away from our marketplace. This is the first country, and we look forward to replicating this consumer credit business line in other markets, as it is the largest addressable market in terms of size, and a potential source of very relevant profit stream for us going forward.

With that, let's now move on to marketplace & logistics.

On a consolidated basis marketplace GMV on an FX neutral basis accelerated versus the prior quarter, growing 6 percentage points faster. Unique buyers as well as new buyers delivered robust rates of growth as well, with unique buyers accelerating to 21% YoY while new buyers accelerated 14% YoY growth respectively. Supply is also growing nicely, as live listings grew for the 10th consecutive quarter above 50% YoY reaching 224.1 million live listings.

On a market by market basis let's start with Brazil. FX neutral GMV accelerated almost 10 percentage points versus the first quarter of 2019 to 27.1% YoY. This sequential acceleration was driven in part by easier comps (as we had the trucker strike and the World Cup during the same quarter last year), as well as greater investments targeted to generate traffic and improve conversion rates.

Mexico continues to maintain momentum growing almost in line with the first quarter of 2019. On an FX neutral basis, GMV grew 45% YoY as assortment quality continues to grow (Mexico is the country with the highest Official Store penetration at almost 18% of GMV). Another positive read out for the hyper competitive Mexican market is that our Net Promoter Scores are also ticking higher, signifying growing user promotion of our platform.

Moving south to Argentina; despite the implementation of a AR$ 10 Argentine peso flat fee during April, our marketplace continues to show resilience growing FX neutral Gross Merchandise Volume meaningfully above the rate of inflation while also accelerating traffic. On an FX neutral basis, GMV grew 63% YoY on the back of solid 57% YoY growth during the same period last year. Growth in apparel and home & garden verticals were highlights during the quarter.

On the mobile front, Mobile App GMV surpassed 50% of total GMV during the month of June for the first time, while our ecommerce app ranked #1 on Android Play Store in Argentina, Brazil, and Mexico. Also, registrations through mobile devices grew over 10 percentage points YoY to 80% of all registrations as we successfully transition users from desktop to mobile.

Let's now move on to the buildout of our warehousing and logistics managed network, another strategic building block and critical enabler of our Enhanced Marketplace. We continue adding more product features and tools for our merchants into our proprietary logistics and warehousing management technologies while also improving productivity in those distribution centers. The latter initiatives should also enable us to add more verticals to our logistics network and consequently help us drive higher penetration as we head into the coming quarters.

On a consolidated basis, managed network penetration continued to gain share from drop-shipping, as it gained 16 percentage points YoY reaching 26% of items shipped. These gains were driven mainly by execution in Argentina and Mexico.

In Argentina Mercado Envios penetration reached an all-time high of 62% of items shipped (vs. 42% last year) driven by the successful adoption of MELI Flex shipping platform, which reached 8% of items shipped. It is important to highlight here that MELI Flex adoption is positively impacting the efficiency of Mercado Envios in Argentina as almost 60% of Flex shipments are same day. Additionally, we also continued to optimize lead times through addition of more zone skipping routes in Argentina and improved service levels on existing ones, also contributing to higher Envios penetration we delivered in the second quarter.

On the fulfillment front, not only did we successfully initiate operations of our 65 thousand square meter fulfillment center in Buenos Aires with adoption numbers that give us confidence that we can continue scaling the solution as we enter into the back half of 2019, but also, our fulfillment operations in Mexico exceeded expectations, growing 27 percentage points year on year reaching 29% of items shipped.

Additionally, and as part of our efforts to expand our managed network, during the months of May and June, we also successfully launched our MELI logistics platforms in Brazil and Mexico. Along with Flex, MELI logistics is another innovative proprietary logistics platform that we have built from the ground up to prop-up the scale and reach of our managed networks. It combines in-house technology and existing physical distribution capacity to reduce dependency on traditional carriers, shorten lead times, cost, and perhaps more importantly to significantly enhance the end-to-end shipping experience for our buyers.

Lastly on logistics, the Brazilian managed network penetration increased 13 percentage points versus last year, driven for the most part by our cross-docking centers and initiatives. As of the second quarter, 20% of all items shipped went through our own managed logistics network of cross-docking and fulfillment.

Although penetration of fulfillment solution was flat versus last quarter in Brazil, we have continued iterating to improve processes, productivity, and also improved our warehousing management technology and algorithms. As a result, we have observed a re-acceleration of adoption of our fulfillment solution in the back end of the quarter, generating expectations on our end that we have positioned ourselves to drive higher merchant adoption of fulfillment during the second half of 2019.

Now that I have covered the main highlights and KPI’s for the quarter, let's move on to financials, where we’ve began to accelerate the pace of investment in our growth initiatives as we move into the back half of 2019. During the second quarter, Gross billings ascended to $606 million dollars and grew 73% YoY on an FX neutral basis. The latter, I remind you, marks the 21st consecutive quarter of gross billings growth above 60% driven by continued monetization on our marketplaces, as well as successful execution on our FinTech initiatives. In particular, our financing business, merchant and consumer credit, and off-platform payments processing through our merchant services and mPOS businesses have been strong drivers of this growth.

Gross billings in our main countries on an FX neutral basis was robust across the board. Mexico delivered a 6th consecutive quarter of growth above 50%, while Brazil and Argentina maintained momentum growing 55% YoY and 117% YoY respectively.

Consolidated net revenues grew faster than gross billings on an FX neutral basis, accelerating to 102% YoY and reaching $545 million dollars as we continued calibrating and optimizing shipping & loyalty program subsidies and implemented flat fee initiatives in Argentina for the full quarter.

Gross profit ascended to $272 million dollars, representing 50% of revenues during the quarter versus 48% a year ago. The 233bps of scale YoY was driven, for the most part through collection fees and sales taxes, which were partially offset by shipping subsidies and warehousing costs as our managed logistics network expands.

We’ve included a detailed breakdown of these, and also other OPEX margin evolution in the slides that accompany this presentation.

Consequently, as reported operating expenses ascended to $285 million dollars or 52% of revenues versus 56% during the second quarter of 2018. On a sequential basis, however, operating expenses increased almost 26% explained, for the most part, by increases in marketing expenses as we begin to invest more aggressively in customer acquisition for our multiple product lines, as well as new headcount we've added to our engineering Product Development teams which increased by over 50% versus the same period last year.

Operating losses decreased to negative $12.5 million dollars as a result of the aforementioned investments.

We saw $14.7 million dollars in financial expenses attributed for the most part to interest accrual our convertible notes due 2028.

Interest income increased by 240% year on year to $33.7 million dollars mainly attributable to the proceeds from the convertible note, and the follow on offering proceeds from earlier this year.

Our forex line was $0.8 million dollars mainly as a result of the strengthening of the Brazilian Reais over our U.S. dollar net liability position in Brazil during the second quarter of 2019.

We delivered an income tax gain of $8.9 million dollars attributed, for the most part, to tax loss carryforwards in Mexico which were partially offset by income tax expenses in Argentina and Brazil.

Net income ascended to $16.2 million dollars for the second quarter of 2019, resulting in a basic net income per share of $0.31 cents.

In summation, we feel we have delivered another great quarter, which leaves us on a strong footing to pursue our strategic objectives in the second half of 2019 and beyond. Our focus will be on disciplined execution against our priorities as we aspire to be a leading platform for mobile digital commerce and FinTech throughout all of Latin America. We have already built out a well-diversified product portfolio across multiple countries, and are confident that the strength of these business lines, the flexibility our balance sheet offers us, and the still nascent digital opportunity in Latin America will continue to enable us to deliver long-term value to all our stakeholders as we move into the rest of 2019 and beyond.

And with that, we can now take your questions.

Thank you

