

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended September 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 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 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

Hi everyone and thank you for joining the call. I am pleased to report another quarter of solid performance in our business. From a top line perspective, Gross Billings ascended to \$463 million dollars, growing 25% in dollars and 48% on an FX neutral basis. On a country by country basis gross billings were even stronger in our main countries: 69% growth for Brazil, 83% for Argentina, and 84% for Mexico.

From a bottom line perspective, operating losses showed a 61% reduction versus last quarter, coming in at \$11 million dollars and with a break-even EBITDA, as we've continued to make progress over the last three months in adjusting our operational and financial model for sustainable profitable growth, despite strong currency headwinds and additional adverse policy changes from carriers in Brazil.

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Before I walk you through the highlights for the quarter, one comment on disclosure; you'll notice that many of the metrics we had been sequentially updating in the past will not be covered in my prepared remarks today, as we've now included in the accompanying presentation to the third quarter 2018 earnings script available on our website.

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So, let's begin this time a fintech progress report, as it has become a growing area of focus for our organization. Quarterly TPV reached \$4.5 billion dollars, a growth of 74% year on year on an FX Neutral basis excluding Venezuela.

During the quarter, off platform TPV explained 80% of the total incremental total payment volume, as we increasingly focus our efforts on growing our online-to-offline payments offerings, successfully expanding the financial services we offer our merchants, and growing the markets we are currently in. During the month of September, for the first time ever not only Mercado Pago processed more total payment transactions off platform than on it did on MercadoLibre marketplaces, but total payment transactions surpassed the hundred million mark in a single quarter. This is a testament to the strides we've made growing our fintech ecosystem over the last few quarters.

This growth has been driven in large part by our mPos business, which continues to fire on all cylinders. During the quarter, and on a consolidated basis, FX neutral total payment volume from mPos grew 636% year on year. Going forward, we will remain focused on merchant sign-up as we look to continue growing the number of net new adds to our MPOS solution, which is already robust and forming a large and growing installed base of active merchants processing payments through us. We see this segment as a still underserved and very large total addressable market, that is also going to be key to the distribution of most financial products and services will develop in our fintech portfolio.

We are also very pleased with the progress we are seeing in our mobile wallet initiatives, which have reached an important milestone this quarter, crossing the 1 million monthly active payers mark in a single month. In line with that, active payers grew triple digits in Brazil, Argentina, and Mexico during this quarter. Through the MercadoPago wallet, an

individual can set up our mobile wallet within minutes and be able to send peer-to-peer payments, top up his mobile device, pay for utilities, store money, and pay physical world merchants via our growing QR payment network. As we continue to build greater ubiquity and add more usage cases to our two-sided network, total payment volume from the mobile wallet on an FX neutral basis, should also continue to grow triple digits year on year in Brazil, Argentina, and Mexico as it did during the third quarter of 2018.

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This quarter also marked an important breakthrough in in the roll-out of new fintech products, as we launched our Asset Management feature in Argentina. Since its launch, we are enthused to see that asset management users have invested almost 20% of the total stored balance that existed in MercadoPago, indicating good product market fit from the get-go, and increasing our commitment to the regional roll out of this new product.

We believe that all these results are indicative of the large market opportunity that exists for this type of service. Unbanked or underbanked users typically struggle with savings products, as they usually do not have the know how to access more sophisticated options and are generally offered less competitive yields on traditional savings accounts. So in essence, what we believe makes our asset management product disruptive, is its ability to bring an inclusive and attractive wealth management product to individuals and SMB's with minimal transaction costs and complexity. Today, if you are a small saver in Latin America there are very few venues to invest your money in, and that bodes well for us as we are uniquely positioned to change that as we scale out these asset management products throughout the region.

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Let's move on to some of the highlights in the marketplace business now.

The marketplace business continues to show great resiliency. We've delivered solid growth rates, despite increasingly tougher comps and reductions in shipping subsidies we offer. On a consolidated basis, Gross Merchandise Volume reached \$3 billion dollars. On an FX neutral basis that growth is of 28% year on year. However, excluding Venezuela (which we have deconsolidated this year), FX neutral growth would have been an even stronger 38% year on year.

On a market by market basis, Mexico continues to consolidate as an engine for growth in our business. Since early 2017, we've grown the size of that business by a factor of roughly 2.5 times, as we leverage our depth and breadth of selection, fast and free shipping value proposition, and aggressive customer acquisition investments to gain incremental share of wallet from our Mexican buyers. Consequently, Mexico has delivered 7 and 5 consecutive quarters of items growth and FX Neutral GMV above 65.0% year on year respectively. All this, at the same time as we continue to hold our leadership position in brand awareness and reach in Mexico.

Moving on to our largest market, Brazil, marketplace grew on FX neutral GMV at 33% year on year, sustaining 12 consecutive quarters of FX neutral growth above 30% on the back of tougher two-year comparisons and shipping subsidy reductions we carried out in order to improve monetization rates and unit economics in that market. This is an

encouraging datapoint, as in Brazil, according to EBIT, e-commerce is calculated to be growing at roughly 15% YoY in local currency, indicating we continue to gain share of overall e-commerce despite the deceleration in our business.

Staying on Brazil, as a result of launching the R\$5 flat fee in July for all items sold worth less than R\$120, and also the restrictions that we placed on selling items worth less than R\$6, units sold have decelerated sharply to 1% year on year. Although this is never optimal, it is self-inflicted, and comes with the intended benefit of growing average ticket levels, that drive the improved economics for our free shipping program that we were able to deliver during the quarter. Also, important, is that despite the reduction in these sales of low-ticket items, volume per unique buyer continues to grow at a healthy clip both in dollars and local currencies.

Moving further south, Argentina continues to maintain momentum both on an FX neutral basis in GMV and also in units sold growth, rising to 49% year on year for both metrics, as our free shipping & loyalty program continues to gain traction, despite the challenging macro and currency trends during the quarter in that market. On free shipping, we are pleased to report that within less than a year of the launch of the program, almost half of all our sales in Argentina are already being delivered to consumers without them having to pay anything for the shipping.

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Let's now move on to our logistics progress report, another critical building block of our enhanced marketplace vision.

The adoption of our proprietary logistics network is making strides. Exiting the quarter over 15% of the shipments through MercadoEnvios were sent through it, rather than on our dropship network. As we continue to have greater control over the end-to-end shipping experience, we visibly eliminate friction, improve customer satisfaction, and consequently drive greater frequency of use and share of wallet.

Not only is the mix of shipments through our prop network growing, but the efficiency of that network is also improving. Over the last year, we've been able to shorten our lead times by almost 20% on a consolidated basis on that proprietary network. Brazil is the geography where we've observed the greatest improvement as we shortened lead times by 1.9 days versus last year. Additionally, we have also improved lead times in Mexico and Argentina, where we've seen improvements of approximately half a day in both countries.

We've also made advances in enhancing our dropship network in Argentina where we launched a MercadoLibre Flex logistics solution. This application will enable our sellers to adopt proprietary MELI technology, while leveraging their existing logistics relationships with small carriers to deliver products within hours in large metropolitan areas through our MercadoEnvios logistics network.

One final update on delivery times, a key metric we use to gauge service levels. During the quarter, on a consolidated basis, the percentage of items delivered within 48 hours increased by 15 percentage points versus a year ago. Mexico has led the way with almost

80% all volume being delivered in two days or less, while Argentina and Brazil also continued to improve their share of shipments delivered in that time window.

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Now that I've covered the key highlights on operational KPI's for the quarter, let's move on to financials where we've continued taking steps to balance our financial model as a result of the unforeseen changes in cost structures of our logistics operation in Brazil during the previous quarters of this year. We feel we have made inroads in that trajectory towards profitability, despite additional pressure during this quarter from unforeseen and large currency devaluations. Going forward we'll continue to make changes in shipping subsidies and pricing as we see fit in order to finally achieve this goal.

On top of the solid growth in gross billings during the quarter that I mentioned at the opening, increased efficiencies in shipping managing subsidies also drove strong revenue growth on an FX neutral basis. Consolidated net revenues came in at \$355 million dollars, accelerating on an FX neutral basis 14 percentage points sequentially, to 58% net revenue growth year on year. Just as with gross billings, on a country by country basis net revenues were strong in our main countries: 56% growth for Brazil, 68% growth for Argentina, and 168 percentage growth for Mexico, all of these expressed on an FX neutral basis.

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Gross profit ascended to \$170 million dollars during the quarter, representing 48% of net revenues versus 58% in the third quarter of last year.

Net realizable value discounts on mPos devices, warehousing costs, and increasing costs of deploying our infrastructure on public clouds explain the gross margin compression. We've 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 \$181 million dollars, or 51% of revenues versus 49% of revenues during the third quarter of 2017.

Main drivers of OPEX margin compression this quarter were attributed to buyer protection payouts, increased loan loss provisions from our credit portfolio, and incremental marketing costs as we invested behind promotional campaigns and online advertising. For comparative purposes, OPEX as a percentage of gross billings was 39% this quarter versus 40% the same quarter a year ago, a 100 basis point leverage in operational expenses.

As a result, and as mentioned earlier, operating losses contracted by 61% versus last quarter to \$11 million dollars despite higher free shipping penetration on a sequential basis, as we better optimize the availability of our free shipping and loyalty options and have driven better economics behind these.

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Below operating income, we saw \$15.9 million dollars in financial expenses attributed for the most part to interest accrual on the new convertible note we issued this quarter due 2028, and also working capital facilities we took out in Argentina, Uruguay, and Chile. Interest income decreased by 39.2% year on year to \$8.6 million dollars due to the devaluation of the Argentine Peso and a lower float in Argentina as we've launched our asset management product.

Our forex line was positive \$3.9 million dollars as a consequence of a \$5.2 million gain arising from the U.S. Dollar revaluation over our Argentine Peso net liability position in Argentina, which was partially offset by \$1.3 million dollars of losses arising from the appreciation of the Mexican Peso over our U.S. Dollar net asset position in Mexico.

As a consequence of all this, net loss as reported for the third quarter was also lower versus the previous quarter, at \$10.1 million dollars, resulting in basic net loss per share of \$0.23 cents.

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That wraps up the high-level strategic review of the quarter. We remain convinced that a key measure of our success will be the value we generate over the long term for our shareholders. This value will come to fruition as a direct consequence of how quickly we solidify and extend our current leadership position throughout the region. The hurdles and threats we will face to achieve our long-term vision are: aggressive, ingenious and well-funded competitors; growth challenges and execution risk, and the need to deploy considerable investments to meet an expanding opportunity throughout multiple countries. However, not only online commerce and fintech is still huge and underpenetrated market, but we feel very positive about what we've have accomplished so far this year and continue to remain even more excited of what we will be achieve as we move into end of this year, 2019 and beyond.

Thanks. We can now take your questions.