



MERCADOLIBRE 1Q'21 EARNINGS CONFERENCE CALL SCRIPT



March 1st, 2021

PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the Mercado Libre earnings conference call for the quarter ended March 31st, 2021. I am Lissa Schreurs, Investor Relations Officer for Mercado Libre. Our Chief Financial Officer, Pedro Arnt, will be leading today's prepared remarks. Joining him on the line is Chief Executive Officer of MercadoPago, Osvaldo Giménez, who will be available during today's Q&A session.

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 included in this conference call, for a variety of reasons, including those described in the forward-looking statements and risk factor sections of our Form 10-K for the year ended December 31, 2020, "Item 1A-Risk Factors" in Part II of our Form 10-Q for the quarter ended March 31, 2021, and any of MercadoLibre, Inc.'s other applicable filings with the Securities and Exchange Commission, which are available on our investor relations website.

Now, let me turn the call over to Pedro...

PART II - OVERVIEW & FINANCIAL RESULTS – PEDRO ARNT

Hello everyone and welcome to our first quarter 2021 earnings call.

Our financial results were once again marked by accelerating growth due to strong demand for e-commerce and FinTech services within an improving but still challenging environment. While some key markets began to gradually open physical retail, in others lockdowns were enforced in major cities towards the end of the quarter. Online consumption throughout remained strong and we experienced favorable consumer trends as digital services share of wallet continue to grow.

Our solid quarterly performance illustrates our commitment to executing our long-term strategic priorities as we remain focused on our purpose of democratizing access to commerce and money in Latin America, recognizing the important economic role we play in the countries where we operate.

Let me start us off with results for our Commerce business in Q1. We generated triple digit growth in items sold and maintained record levels of transactions per buyer QoQ. This constituted a formidable level of engagement given seasonal differences between Q4 and Q1. Volume wise, consolidated gross merchandise volume grew 114% year-over-year on an FX neutral basis.

Across our geographies, all countries either maintained or posted higher growth rates compared to the fourth quarter of 2020. In Brazil, our largest market, we doubled items sold and nearly doubled GMV versus the prior year. In Mexico we continue to accelerate our sequential growth in items sold and GMV. All other geographies showed positive trends in GMV growth, as well, with Chile in particular increasing its share in our business substantially.





MERCADOLIBRE 1Q'21 EARNINGS CONFERENCE CALL SCRIPT



Product diversification is becoming an increasingly important driver of growth to overlay on to our ever improving delivery service levels and highly competitive pricing. To achieve this we are focusing on both category and merchant type expansion.

For example, during Q1 we made significant strides in amplifying our experience in consumer packaged goods. We established initial partnerships with traditional large food retailers in Mexico and Brazil and reached new record levels of inventory depth across categories. User experience in CPG is also benefiting from our logistics footprint. In Brazil, over half of CPG items are already being shipped from our own fulfillment centers, helping us improve user experience and deliver consumer expectations.

On the merchant front, our marketplace is composed of a mix of small sellers and big brands, and we have been attracting more global and local household name brands across multiple verticals as we continue to strengthen our commerce ecosystem. In consumer electronics, for example, we have added partnerships with Panasonic, Asus and Intelbras, while our CPG portfolio now includes stores by JMacedo and Mondelez. As a result, approximately 20% of our marketplace sales are already from Official Stores, an increase of 7 percentage points over the same quarter last year.

Overall product depth continues to improve, as live listings have reached almost 300 million listings this quarter, increasing versus Q4 in all major geographies. Part of this increase was driven by the growth of unique sellers in our marketplace, with almost 1 million total sellers with successful sales during the quarter. We will continue to grow our already ample seller base, adding almost 200k new sellers to our marketplace this quarter.

Before moving on to logistics, let me briefly address our growing loyalty program. We continue to expand our content offering while delivering great value in terms of new subscribers for our initial content partners, Disney+, Deezer and HBO. More importantly, we are seeing strong signs of incremental engagement from user cohorts that purchase content through our loyalty program. Building on this initial success will be a growing focus for us.

Let's now move to developments relating to Mercado Envios, a primary contributor to our Commerce business. During Q1, our logistics capabilities were a focal point of our operating strategy, reaching new company records in terms of reach, speed, scale and cost.

Our managed network reached a penetration of 80% on a consolidated basis, with Argentina, Brazil and Mexico at 87%, 83% and 79%, respectively. Our expansion in Brazil was particularly notable, and we are also pleased with our progress in Colombia and Chile which demonstrate our speed in execution. We have now reached 63% and 53% penetration of items shipped through our managed network in those markets, respectively. We view this as remarkable progress considering we began implementing our managed network operation in Colombia and Chile only a little over a year ago, at the height of the COVID-19 pandemic outbreak.

Regarding our fulfillment operation, on a consolidated basis, we now have over 32% of all items sold on our platform originating in our fulfillment centers. This is driven mainly by expansions in Brazil, Argentina and other countries in the Andean region. Mexico maintains the leading position, with 60% of items sold being fulfilled by Mercado Libre, but stable in penetration sequentially.

In Q1 we shipped over 208 million items and for the third consecutive quarter registered a year-over-year growth above 130% in shipments. Our lead times per shipment set a new record for speed. We significantly improved the share of same-day and next-day deliveries in every single country, even while sustaining high levels of growth in total items shipped. Overall, 74% of all volume was delivered in less than 48 hours, a notable 21 percentage point improvement versus a year ago.





MERCADOLIBRE 1Q'21 EARNINGS CONFERENCE CALL SCRIPT



These results were driven by the sustained expansion of our logistics network. We recently started operating two new fulfillment centers -- one in Santa Catarina, Brazil and another near Monterrey in Mexico. New service centers were also added to our network in Brazil. Simultaneously, our same-day logistics solution gained greater participation in Brazil, Colombia and Chile. This advances our objective of increasing fast deliveries within major urban centers, and we are now operating deliveries during weekends, as well.

As you can see, the Mercado Envios team is operating at an outstanding pace while unlocking greater levels of efficiency within our network.

Additionally, recognizing that free shipping is an attractive value proposition for our customers, in March we reduced our free shipping threshold to \$79 reais in Brazil. This delivers several benefits. First, we now have an even more comprehensive free shipping program for buyers in the region, a key differentiating factor for Mercado Libre. Second, we expect to cover a greater portion of our GMV and items that ship for free. We strongly believe that these developments within our logistics services will be drivers of sustained improvements in customer satisfaction and experience.

Finally, on a related matter, we are also proud of our ecological conservation initiative, Regenera America, following the issuance of our sustainability bond earlier this year. Integrating sustainable practices that complement our logistics operations and get us closer to carbon neutrality, is a growing part of our strategy to positively contribute towards stopping climate change over time.

With that, I'll now address the FinTech side of the business, a critical lever within our ecosystem to democratize money and access to financial services.

For the first quarter, Mercado Pago total payment volume reached \$14.7 billion dollars on a consolidated basis, growing almost 130% year-over-year on an FX neutral basis. This represented a total of 630 million transactions for Q1, at a growth rate of 117% compared to the same quarter last year.

On Platform payments volume grew by 119% on a consolidated basis, largely driven by the strong performance of the commerce business in Brazil.

For our Off Platform payments, TPV grew by 136% compared to Q1'20. We are continuing to successfully build our network of active collectors and payers. On the collectors side, we have over 11 million off platform merchants on a consolidated basis, with almost 7 million in Brazil alone. Additionally, during Q1 we reached almost 35 million off-platform unique payers during the quarter.

I'll now detail the various segments of our Off Platform payments business, starting with Point, our point of sale offering.

Point was resilient throughout the lockdown. Despite reduced physical retail volume, Point payment volume grew 90% on an FX-neutral basis, setting new volume records in Brazil, Mexico and Argentina. New device sales reached almost 1 million units, with strong growth in Mexico. POS sales in Mexico benefited from the launch of our top-of-the-line device geared towards larger merchants, where we improved our value proposition by distributing debit cards to Point device holders, as well. Conversely, POS sales in Brazil were challenged by increased restrictions on mobility, as well as seasonality, resulting in 650k new merchant POS sales this quarter, a very solid number, but down from previous quarters, despite the record high volume processed through POS in Brazil.





MERCADOLIBRE 1Q'21 EARNINGS CONFERENCE CALL SCRIPT



Online payments grew 139% year-over-year on an FX neutral basis. Underlying this growth are two opposing trends. On one hand, we continue expanding our services to online merchants and SMEs, establishing ourselves as a payment solution of choice for many new online businesses. During the quarter we maintained our small, mid and larger sized merchant acquisition productivity with no indication of volatility in seller churn. On the other hand, long tail sellers that boosted activity during the peak of lockdowns in the region have decreased in volume as economies open, and also driven by seasonality.

To complete the review of our portfolio of financial services, let me address the growing number of financial solutions for payers offered through our digital wallet.

Total payment volume associated with the wallet, on a consolidated basis, was \$2.9 billion dollars. This represents a deceleration to 192% year-over-year on an FX neutral basis. The slowdown was driven by Brazil and Argentina, where diminished government financial aid this quarter negatively impacted growth in total payers, while less marketing spend as a % of wallet TPV reduced user growth but improved profitability.

Although we are pleased to see nearly 3X FX neutral growth in wallet payments volume, our ultimate goal is more ambitious than primarily payments. Our strategy is to transition from being primarily a digital payments platform to a principal financial services provider. To accomplish this, we are beginning to better balance the investments required for growing the number of payers in our ecosystem, with investments in driving higher levels of adoption of our multiple financial services; thus setting the foundation for product diversification towards a more balanced and sustainable revenue and profit mix between payment, credit, insurance, and savings tech offerings.

To advance this objective of broadening our service offerings within the wallet, we made important product development steps during Q1.

- On the insurance front, we saw consistent acceleration in our extended warranty product in Brazil, Argentina and Mexico, with solid multi quarter sequential improvements in sales attach rates. We also expanded the roll out of theft and damage insurance in Brazil for cell phones, a service that we can cross sell within our marketplace.
- Regarding our proprietary cards, we issued 3.8 million more cards this quarter, 2.6 million being in Brazil. The advantage of these recently rolled-out cards is that they can be enabled as hybrid debit and credit cards, and they will be our platform to grow our revolving credit product in the coming months.
- Our asset management services within the wallet are another example of growth in added financial services, having added over 770k new users with invested funds in their wallet accounts in Q1, for a total of over 15 million investment accounts with positive balances.
- Finally, incoming deposits into our digital account have increased such that payers with account money have doubled compared to Q1 of last year, potentially confirming the increased intention to engage with the financial services provided in our wallet beyond mainly payments.

Consequently, we reached 14 million active wallet users during Q1; similar in number to Q4, while seeing growth in per user engagement, as payers are increasing the frequency and value of transactions consistently over time, as well as solid growth in adoption of incremental financial services in the wallet as I have just described, service by service.

We are still in the early days of our journey of becoming a principal provider of financial services through the wallet, and the initial results are encouraging.





MERCADOLIBRE 1Q'21 EARNINGS CONFERENCE CALL SCRIPT



Finally, I'll provide a performance update from Mercado Credito. In Q1, our portfolio surpassed \$575 million dollars, more than doubling our volume versus the same quarter the previous year. During the quarter, we originated over \$582 million dollars, and our consumer credit portfolio continues to drive growth in all geographies.

This growth has come with increases in NPLs. Specifically we've seen NPLs increase among a particular segment of users who have found it difficult to service small loans once government financial aid subsidies were removed. Upon observing this at the beginning of the year, we incorporated these new conditions into our credit scoring models in a timely manner, thus exiting the quarter with improving performance on NPLs. Consequently, notwithstanding this quarterly increase in bad debt in the Brazilian consumer credit books, we remain confident that we will be able to continue growing credit originations with sustained profitability going forward.

Let's now move on to a review of our financial progress for the first quarter.

I'll begin with consolidated net revenues. We began 2021 booking the highest net revenue growth rate over the last 5 quarters. Having reached almost \$1.4 billion dollars, we grew 111% in US Dollars and 158% on an FX neutral basis.

At the country level, on an FX neutral basis, Argentina once again grew above the 200% mark for the fourth consecutive quarter. Mexico nearly grew 150%. We were encouraged by our Q1 net revenue growth in Brazil of 139%, surpassing the growth rates of previous quarters.

Gross Profit in Q1 was \$591 million dollars at a margin of 43%, decreased from the 48% recorded in Q1 of 2020, but increasing 6 percentage points sequentially. This trend is explained by our growth and expansion of investments which support our long-term strategy.

Over the past 12 months, we've expanded our 1P business, booking product costs in our COGS line. In addition, as we continue to roll out our own shipping network and have built more fulfillment centers, shipping operating costs have increased as a proportion of costs over net revenues. For greater detail, and as we do every quarter, we've included a detailed breakdown of these margin effects in the slides accompanying this presentation, along with the OPEX margin evolution, as well.

We see efficiencies and scale reflected in our operating expenses compared to last year. Operating expenses were \$500 million dollars in Q1 and we have sustained improved operating leverage. OPEX as a percentage of revenues improved 17 percentage points year over year, decreasing from 53% to 36% this year.

Between our new sustained net revenue growth and continued investments in developing our brand, user base and logistics capabilities, we reached Q1 of 2021 with positive EBIT in dollars compared to a loss in Q1 of last year.

Moving down the P&L, the company incurred \$91 million in financial expenses this quarter, turning a very strong EBIT quarter into the red. However, the main driver of this is non-recurring. We recorded a \$49 million dollar charge related to our convertible debt repurchase transaction. We also increased year over year tax payments from increased earnings in multiple geographies. This quarter we also have a foreign exchange loss of a little above \$15 million, primarily from share repurchases carried forward in Argentina at the blue chip swap rate. Interest income was \$25 million dollars, a 32% decrease year over year resulting from lower interest rates on investments versus the first quarter of 2020.





MERCADOLIBRE 1Q'21 EARNINGS CONFERENCE CALL SCRIPT



Ultimately, Q1 closed with a net loss of \$34 million dollars after tax, yet with an improved net income margin of almost 1 percentage point compared to last year, and more importantly, a return to profitability if excluding one off charges.

To wrap up, I'll note that we've gotten off to a great start to 2021. Our top line growth is very solid and we have successfully executed our plans to drive incremental EBIT through our financial model. We are still facing trying times in Latin America as the Covid-19 pandemic remains present. We remain immensely grateful to our almost 19 thousand employees and all collaborators for their continuous commitment to provide financial inclusion and democratization of commerce while keeping us safe and thriving. As has been the case over the past 12 months, we will keep building towards our goals, elbow to elbow with our community of users throughout Latin America.

As always I want to thank everyone for joining our quarterly conference call, and we look forward to keeping you updated on our progress in a few months. With that, we can now take your questions...

THANK YOU

