



# MERCADOLIBRE 4Q'21 EARNINGS CONFERENCE CALL SCRIPT



November 4<sup>th</sup>, 2021.

## PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the Mercado Libre earnings conference call for the quarter ended December 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 upcoming Form 10-K for the year ended December 31st, 2021, and any of MercadoLibre Inc.'s other applicable filings with the Securities and Exchange Commission, which are available on our investor relations website.

I will now turn the call over to Pedro...

## PART II - OVERVIEW & FINANCIAL RESULTS – PEDRO ARNT

Hello everyone. Thanks for joining our earnings announcements this past quarter and the full year 2021.

Last year presented us with challenges, and with those also came many more opportunities. With our teams' resilience and focus on delivering on our strategic objectives, we have been able to overcome shifting pandemic lockdown measures, rising inflationary cost pressures and a highly competitive environment in the digital commerce space. The final outcome was a year with record results across the board, sustained strong growth in key business metrics and topline, and improving margins and operating income for a second consecutive year.

In commerce, we had another very strong year, reaching \$28.4 billion dollars in gross merchandise volume, a full-year growth of over 48% in GMV on an FX-neutral basis. This represents an additional \$7.4 billion dollars over 2020's GMV, positioning us well ahead of our competitors in market share in the region for yet another year. More importantly, we saw a sustained shift in consumer behavior on our platform. Customer loyalty and retention are improving consistently and our clients are buying more with us - on average items per buyer were up by 17% on a year-over-year basis, growing over a strong 2020 baseline. Even with the reopening of physical stores, customers in Latin America have embraced shopping online, paving the way for further long-term growth in our region.

We attribute this growing engagement and improving cohort behavior to our free shipping program (that delivers over 80% of GMV on our network at no cost to our buyers), continuous improvements in delivery speed, a robust buyer protection program and customer service, an enhanced loyalty program, and our increasingly wide assortment of products sold on our marketplace as we push into new categories. All this, in turn, has resulted in more than two-thirds of our GMV coming from organic, non-paid traffic, mostly through our app, cementing our position as a pull rather than push business.





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In fintech, growth comes from both our established strength in the payments business and, increasingly, from our newer, consumer-facing financial services businesses.

Total Unique Fintech Active Users topped 51 million annually, with transactions per unique fintech active user also increasing steadily throughout the year, as our product suite became more comprehensive.

Originations on our credit book surpassed \$3.8 billion dollars this year, as we improved our credit underwriting capabilities. The Credits business has become a central piece of our ecosystem, enabling merchants to invest in more inventory and working capital, and consumers to finance their consumption needs in all of their touchpoints with our platforms.

We also distributed over one million insurance policies during the year, and began rapidly expanding the portfolio of savings and investments products available to our users towards the latter half of the year with the launch of our crypto wallet in Brazil.

Our payments business delivered consistent growth in 2021. Total Payment Volume reached \$77.4 billion dollars for the full year, growing 78% on an FX-neutral basis. Considering just the off-platform TPV, we reached over \$48 billion dollars, an FX-neutral growth of 97% year-over-year. We continue to onboard more merchants into our ecosystem, doubling the number of off-platform merchants year-over-year, reaching over 20 million unique payment collectors in 2021. We sold over 4.7 million MPOS devices this year, and are expanding greatly in Brazil and Argentina, while making important strides in Mexico, and we also launched the MPOS business in Chile at year's end.

Regarding our financial model, we are increasingly focused on efficiencies and operational leverage across our expenses and cost bases, while continuing to invest appropriately in our long-term growth to maintain our competitive leadership. Our desired outcome is to construct a financial model that can gain overall market share while growing our profits.

During 2021, net revenues grew by 78% year-over-year, reaching \$7.1 billion dollars on a consolidated basis. The revenue expansion was coupled with margin expansion at the EBIT level, improving by 300 basis points year over year, reaching a 6.2% EBIT margin in 2021, up from 3.2% in 2020 and -6.7% loss in 2019. Our EBIT dollars reached \$441 million dollars in 2021, which translates to over \$313 million in incremental EBIT dollars compared to 2020, and \$594 million dollars compared to 2019. While there may be oscillations between quarters to accommodate for seasonality and product launches, we aim to deliver consistently growing profits over time, on a full-year basis.

With that broader overview of the year, let's now jump into a deeper review of our fourth quarter results, starting with the commerce business.

During the fourth quarter, Gross Merchandise Volume reached almost \$8.0 billion dollars, growing 32% on an FX-neutral basis, despite the challenging comps. Our 2-year CAGR trend on an FX-neutral basis was relatively stable compared to the prior quarter, with a 71% growth in Q4 compared to the 74% growth in the prior quarters of the year.

Our unique buyer base continues to grow year-over-year and sequentially, with 40.5 million unique buyers on our marketplace in the fourth quarter. Not only are we expanding our user base, but we are also increasing the number of purchases per unique buyer. In Q4, items per buyer grew by 14% year-over-year, and are now over 50% higher than pre-pandemic rates. The higher engagement levels throughout the year were sustained across all of our key geographies.

The improvements in buyer experience are also linked to our relationships with sellers on the platform as we continue to increase assortment and improve the quality of our merchant base. We had close to 300 million live listings in Q4, and our seller base is diverse - sales from official stores represented over 23% of GMV in the fourth quarter and the remainder comes from an array of mid and long tail sellers. For the promotional





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season, we also ramped up our first-party assortment, reaching almost 5% of our total gross merchandise volume in the quarter.

This promotional season was also marked by improvements in the logistics network. In the fourth quarter, we shipped over 275 million items, while decreasing our average delivery times and simultaneously lowering average shipping costs per order. Almost 90% of all our volumes were delivered through our managed logistics network, compared to a 77% penetration level in the fourth quarter of 2020.

The evolution of efficiencies in delivery times has also been significant. In the fourth quarter, almost 80% of the volume was delivered within 48 hours, and close to 60% of the volume was delivered within the same or next day of when the purchase was made. Particularly for the items within our fulfillment centers, average delivery times are less than 24 hours. Volumes in fulfillment increased sequentially in Brazil, Mexico, Chile and Colombia this quarter. We are now able to handle heavy and bulky items within our fulfillment network, unlocking our potential to execute better service levels in consumer electronic categories like home appliances and white goods. Our continuous improvements in the productivity of our fulfillment centers have enabled us to deliver cost efficiencies during the peak shopping season compared to last year, and therefore we are encouraged to keep scaling our warehousing operations.

Moreover, we continue to invest in additional capabilities and efficiencies for our cross-docking network. MELI Places, our network of pick-up and drop-off points, have been leveraged to provide more services to our customers. 90% of our Places are enabled for both package pick-up and drop-off, and we have already started the technology roll-out to receive returns from buyers through MELI Places. Our MELI Places network spans Brazil, Mexico, Argentina, Chile and Colombia.

The reliability of our shipping solution has become a key driver of our net promoter scores, and we continue to believe that shipping is a key lever to drive higher e-commerce penetration in Latin America. As a result, we remain committed to decreasing delivery times and offering a wide variety of services to a larger range of customers across the region.

Let's now turn to the fintech business, starting with a review of our Credit portfolio performance. We are very pleased to see that our credit book continues to grow, as we expand our credit offering to a broader group of users, without signs of behavior shifts in loan default rates.

We closed the fourth quarter with a credit book of almost \$1.7 billion dollars, and originated close to \$1.5 billion this quarter. Over 65% of these originations were consumer credit loans. In consumer credits, we saw for the second quarter in a row originations in the MercadoPago app outpacing originations in the Marketplace app, especially driven by personal loans. We finished the quarter with 7.4 million consumers with an active loan, and we have been consistently growing the base of pre-scored users with an active credit offer. This growth is driven by the strong combination of more user data from interactions with our ecosystem being fed directly into our risk and pricing models, and continuous improvement in our technology and models.

Looking into the future, we are excited about the role the credit business plays in our ecosystem. Growth will remain spurred on by increasing the knowledge we have on merchants and consumers and our continued access to several proprietary distribution channels to offer credit. We have developed an attractive and resilient business model that allows us to grow sustainably and adapt quickly when uncertain circumstances arise.

We are managing the default risk levels in our credit book very closely, and observed sequential improvements in non-performing loans during the fourth quarter. Total non-performing loans as a percentage of our outstanding portfolio have improved from 28% in the third quarter to 24%, and the allowance for uncollectibles has also reduced relative to the size of the portfolio, sequentially.

Our funding strategy has also evolved as the portfolio matured over time, having ended 2020 with 20% being funded through external securitization, and now closing 2021 with 45%.





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Other financial services beyond credit are also presenting important growth. We reached 34.5 million unique active fintech users in the fourth quarter, growing 23% versus the previous year, and the new product launches are boosting engagement levels for these users. We had 22.3 million investment accounts in Q4, an additional 7.4M compared to the same period in 2020. Users have also increased payment transactions for utilities and in peer-to-peer transfers using the wallet in our key geographies.

Digital Account TPV, which includes these wallet payments as well as card payments, reached \$7.1 billion dollars, growing 138% in the fourth quarter on an FX-neutral basis. Within insurtech, we launched the distribution of insurance for card and PIX payments in Brazil, expanding on our insurance product offering. Our goal is to keep adding to these services such that the digital account becomes a more integrated offering, making it a seamless experience for individuals to concentrate their financial lives with us.

Among the most recent launches is the trading function for cryptocurrencies. Within the digital account, all users in Brazil can now buy, hold and sell Bitcoin, Ethereum and the USDP stable coin. Our cryptocurrency custodian partner will provide the blockchain infrastructure platform while we act as the distribution channel and user interface. Consistent with our other products, the crypto trading interface is very user-friendly, simple to navigate, secure and inclusive, with a minimum investment value of only 1 Brazilian real. It is still early on in our crypto journey, but we are encouraged with the uptake we are seeing in the number of Brazilian users transacting with crypto in our wallet.

Finally, I would like to go over some of the highlights for our payments processing and acquiring business. Acquiring TPV grew 51% in the fourth quarter on an FX-neutral basis, reaching \$17.2 billion dollars. On-platform and off-platform online merchants accelerated payment volume growth in the fourth quarter, surpassing 32% and 54% respectively on an FX-neutral basis. The off-platform online payments are particularly improving in Brazil and Argentina, where we are adding more new merchants to our base. In Brazil, the addition of PIX as a payment checkout option online is also gaining traction.

Our offline payment solutions with the QR network and MPOS devices are growing steadily and the cross-sell opportunity for payment services is starting to come to fruition. The QR network continued to post triple-digit growth rates for TPV in Argentina, where we have our most mature QR network. And we are happy to see that we have been able to accelerate our expansion of the QR merchant base in Brazil and Mexico in the last few quarters. In Brazil, new active QR merchants are soaring as we leverage the PIX rails to introduce the QR network to long tail sellers. Furthermore, within SMBs, we have stepped up our go-to-market strategy and improved our capacity to convert MPOS device merchants to also use QR, and vice-versa.

We also achieved some exciting milestones in the MPOS business in the fourth quarter, which grew 69% in TPV on an FX-neutral basis. We sold over 1.3 million devices across our core markets, a record sales mark for us. In addition, we made an important acquisition in the Chilean market by adding Redelcom, a payment service provider, to our ecosystem, allowing us to accelerate our expansion of financial services for local SMBs and micro-merchants in Chile. We are encouraged by the initial growth potential that we have seen as we ramp up our payment services in these new markets and transition SMBs into digital financial solutions.

With that, let's review the financial results for the quarter.

In terms of net revenues, we delivered a record \$2.1 billion dollars on a consolidated basis; a growth rate of 61% in US dollars and of almost 74% on an FX-neutral basis for the fourth quarter of 2021.

Strong revenue growth, on top of a record in absolute dollars, was achieved despite headwinds in Fintech monetization.

Our Fintech take rates over the total payment volume have been pressured by increases in interest rates, mainly in Brazil. This spread compression effect on take rate is about 10 basis points year-over-year. We recently announced a new pricing structure for our financing fees, starting in 2022, to contemplate new interest rate levels and begin offsetting these pressured financing revenues and the subsequent impact to





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profitability.

On the other hand, we had a strong year-over-year improvement in take rates over gross merchandise volume in our commerce business, as well as a higher penetration of first-party sales, both of which are boosting our commerce revenues across all key geographies.

Even more relevant than these two offsetting monetization trends, is the increasingly positive impact on take rate coming from the Credit business. Credit revenues reached almost \$300 million dollars during the fourth quarter alone, triple the value of the previous year.

In the fourth quarter, our gross profit reached \$853 million dollars at a margin of 40%, a 320-basis point improvement compared to the 36.8% in Q4 of 2020. Our shipping operations were more efficient this quarter compared to last year, and we were able to further scale other costs associated with customer service, fraud prevention and collection fees for processing payments.

Consolidated operating expenses represented 38.9% of revenues this quarter, similar to the 38.7% in the fourth quarter in 2020, albeit with a different mix, and more importantly with solid operational leverage across key expenses.

General and Administrative expenses were \$148 million dollars, or 6.9% of revenues, down from 8.7% in the fourth quarter of 2020.

Product Development expenses were almost \$180 million dollars, or 8.4% of revenues compared to 8.8% last year. We have scaled across our investments in product development, even while onboarding four thousand additional software developers and data engineers to our employee base this year.

Within Sales and Marketing, the 23.6% spending as a percentage of revenues, up from 21.3% last year is explained by increasing bad debt allowance. Our Credit book's bad debt provisions, which are booked under Sales and Marketing expenses, have increased compared to the fourth quarter of last year due to our expanding Credit origination. While this does add pressure to an otherwise scaling expense line, the incremental revenues from the Credit business more than offset the bad debt charge when looking at impact on dollar earnings. Other S&M investments in marketing activities such as branding, customer acquisition, buyer protection program and other incentives are showing operational leverage of 170 basis points as a percentage of total revenues compared to 2020.

Consequently, our fourth quarter EBIT was \$23.3 million dollars, at a margin of 1.1%, an improvement compared to the negative 1.9% of the EBIT loss we had in Q4 of last year.

In the fourth quarter, our interest income was positively impacted by the higher interest rates, reaching \$53 million dollars and more than doubling compared to last year. Similarly, Interest expenses were \$54 million dollars, offsetting the capital gains from interest income.

We also had a foreign exchange loss of almost \$57 million dollars in the quarter mainly due to the difference of Argentine official exchange rate and the blue-chip swap rate at which we effectively repatriated the retained earnings of the Argentine subsidiary.

The resulting net loss after income tax in the quarter was \$46 million dollars, at a negative 2.2% margin over net revenues, which is an important improvement compared to last year of -3.8%

As I noted previously, we are closing 2021 with several important achievements in terms of growth, and our ability to deliver consistent improvements at the EBIT margin level for the full year marks our long term commitment toward growth with sustained operating leverage and increasing earnings.





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To conclude, we would like to reiterate that there remains a huge runway of opportunities ahead of us. Even after the significant uptake in digital services we experienced over the last couple of years, e-commerce penetration in our region is still only at the 10% range. In the same light, even with all of the recent advances in the financial technology space in Latin America, we still live in a context where most people have difficulty accessing credit, savings and insurance products, and controlling their finances. This emboldens us to remain committed to our mission to democratize access to commerce and financial services in our region. There is still a lot to build, and we trust that our continuous investments in technology and human capital will be determining factors in our future success.

I am also happy to announce that we are releasing our annual impact report, simultaneous with our 10-K, allowing us to communicate with shareholders both our financial and non-financial objectives and performance. We believe this allows for a more cohesive understanding of our value creation capacity and its impact over time. We are also publishing our first sustainability bond report in connection with the 2026 Sustainability Notes issued a year ago, with 15.5% of proceeds already allocated. Finally, we can now share an in-depth analysis of climate-related risk factors following the framework of the Task Force on Climate-Related Financial Disclosures that we conducted during 2021 and will be deep-diving in upcoming years. We are proud of this integrated approach and are committed to improving upon it year on year, and encourage you to review the material to get a clear understanding of our sustainability programs and their impact.

Thank you again for joining us today to review our results. We are happy to take your questions and to connect with you within the next few weeks.

THANK YOU

