MERCADOLIBRE 3Q17 EARNINGS CONFERENCE CALL SCRIPT

Date: November 2nd, 2017

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended September 30th, 2017. 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 third quarter 2017 earnings press release available on our investor relations website.

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Now, let me turn the call over to Pedro.

Thank you Federico, and hello to everyone to our third quarter conference call for 2017.

Let's kick off by stating that we have delivered yet another quarter of solid financial and operational results. Mercado Libre is now positioned more clearly than ever as one of the central engines of the digital revolution of the retail and financial landscape in Latin America. In many ways, the quarter has been our best this year so far, and we are delighted to witness firsthand how the company is executing against the set of goals it has set forth. Our aspirations are clear. We will strive to become an indispensable platform for our users that facilitates digital commerce, payments, and credit. And, as you will see throughout the results I will walk you through shortly, the primary driver in achieving that goal is continuing to grow as fast as possible and to gain as much economies of scale as possible over the next few years.

Throughout the quarter, as we increased the pace of investment behind product, marketing, and free shipping we saw exceptional results in traffic, vibrancy, and conversions in our marketplaces.

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With that, let me now take you through some business KPI's from a consolidated perspective:

- Units sold accelerated for the second consecutive quarter to 55.8% year on year, reaching 74.2 million units sold, delivering the fastest paces of unit volume growth in over five years.
- Gross Merchandise Volume surpassed the $3 billion mark for the first time ever reaching 3.075 billion dollars, and accelerating by almost 40 percentage points year on year to 50.7% in USD, while on an FX neutral basis GMV accelerated for the fourth consecutive quarter to 93.8% year on year.
- Total payment volume grew 86% on an FX neutral basis, reaching $3.7 billion dollars, while total payment transactions accelerated for the second consecutive quarter to 69.4% reaching 62.3 million transactions.
- All this led to solid revenue growth both in USD and on an FX neutral basis, growing at 60.6% and 79.4% respectively.
- Unique buyers accelerated for the second consecutive quarter to 31.1%, a total of 16.3 million unique buyers.
- And finally, registered users were up 21.0% year on year, adding 10 million new users during the quarter and surpassing the 200 million mark for the first time.

As we look ahead to the remaining quarter of 2017 and beyond, we will continue to direct our efforts in staying customer centric and prioritizing the needs of our users. This means continuously innovating and even disrupting ourselves to improve the customer experience on our platforms, and to deliver real differentiated value to buyers and sellers. By making customer choice a priority for us, we continue to generate an ever improving user experience that drives engagement and adoption of our services and solutions.

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Now, let’s begin by diving deeper into our Marketplace business.

Let me start with the largest market, Brazil. The performance of our Brazilian marketplace has been stellar during the third quarter, especially as we head into tougher year on year comparisons during the second half of the year. Off a comp of 60.7 percentage pointso of growth during the third quarter of 2016, Brazilian units sold accelerated year on year to 68.2% boosted, in large part by our aggressive free shipping offerings and loyalty program, Mercado Pontos. Let me remind you that this is the sixth consecutive quarter of unit volume growth above 50% and also the fastest pace of growth in over five years.

As far as GMV is concerned, growth was equally impressive during the quarter in Brazil. On an FX neutral basis, gross merchandise volume accelerated eight percentage points to 63% versus the third quarter of 2016, which had FX neutral GMV growth at an already solid 54.8% year on year. Additionally, this quarter’s year on year FX neutral GMV growth is almost 30 percentage points above our 4-year CAGR, and a 14.7 percentage point improvement vs last quarter.

Not only are we taking the right approach in stimulating buyer growth and engagement, but we also continue to expand our seller base while driving more traffic and traffic to these sellers. Case in point, unique buyers and unique sellers in Brazil accelerated sequentially to 40% and 33% respectively. In line with that, conversions continue to improve in Brazil as well, as items sold per unique seller grew 27% year on year, while items purchased per unique buyer grew by 20 percentage points when compared to the same quarter of 2016.

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Moving on to Mexico, another central market for us. I would like to start by saying that it continues to perform extremely well across key KPI’s. As a result of our aggressive investments in free shipping, customer acquisition, and product and technology initiatives, we have continued to drive growth in that country. On an FX neutral basis gross merchandise volume accelerated for the eighth consecutive quarter to a solid 76.4% year on year. That’s not only one of the fastest GMV growth rates on record for us in Mexico, but also 44 percentage points above the 4-year CAGR, 23.4 percentage points above last quarter, and almost 60 percentage points higher than during the third quarter of last year.

In Mexico, when taking a look at units sold, the results of our growth investments are even more reassuring. During the third quarter of 2017, items sold also accelerated for the eighth consecutive quarter to an all-time high of 128% year on year growth and reached 6.5 million items sold. Moreover, unique buyers in Mexico accelerated for the fourth consecutive quarter to a multiyear high of 67.4%, while purchase frequency per unique buyer has almost doubled over the last two years. We are also making strides in growing our seller base, as unique sellers accelerated for the second consecutive quarter above 25% year on year, while items sold per unique seller grew by almost 80% year on year.

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Additionally, product enhancements that we have launched in Brazil and Mexico, are also permeating to other countries like Chile and Colombia which are also accelerating in vibrancy, conversion, and buyer engagement metrics. In line with that, I am pleased to report that Argentina has returned to a positive growth trajectory, and expect to accelerate the business as we roll out the enhancements we have deployed in Brazil and Mexico over the next few quarters.

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One of Mercado Libre’s core differentiating factors is our deep selection and SKU count that we offer across multiple verticals in our marketplaces. As such, we remain the go to destination for ecommerce in Latin America, and supply and product assortment continues to grow at a fast clip. Live listings being offered on Mercado Libre’s marketplace accelerated to 51% year on year during the third quarter of 2017 reaching 106 million listings. That is not only the third consecutive quarter of 50% year on year growth in this metric but also the first time in our history that we have exceeded the 100 million listings available on our websites at any given time.

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Let’s take a minute to talk about our momentum in mobile. We are increasingly attracting consumers to transact on our mobile platforms and also in monetizing that traffic. In fact, we are well on our way to reach a historic milestone as GMV reaches 50% of total. In line with that, we also continued to observe meaningful conversion improvements year on year both in our mobile web platform as well as our mobile app. These solid penetration gains and improvements in conversions are a direct consequence of our relentless focus to deliver the best user experience across multiple screens, devices, and platforms.

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Moving on to shipping and logistics. MercadoEnvios is a critical building block of our enhanced marketplace, not only allowing us to play an ever important role in shipping products from sellers to buyers, but also allowing us to close the loop in delivering a world class user experience.

Shipping usage metrics have kept tracking positively during the quarter. Our strategic initiatives centered on free shipping and loyalty are significantly contributing to accelerate Envios penetration. Consequently, items shipped on the platform grew by a solid 80% year on year to 42 million units with solid volume gains across all countries.

On a country by country basis, close to ¾ of items sold in Mexico are already being shipped through our shipping solution and network of carrier partners. In Colombia and Chile, where we began offering free shipping and loyalty programs in late June, results have exceeded our expectations with penetration of shipping on items sold reaching 54% and 30%, respectively.

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Finally, payments. The accelerating scale of MercadoPago combined with continually growing user engagement and retention not only resulted in solid payment volume, and revenue growth during the third quarter, but also demonstrate the traction we are gaining when it comes to digital payments and fintech in Latin America.

On a consolidated basis, on Mercado Libre penetration of Pago grew by 1000 bps year on year, and exiting the quarter more than 8 out of 10 items sold through our marketplace already being paid for and settled through our payments solution. On a country by country basis, on platform penetration grew by 18 percentage points both in Argentina and Mexico from where they were a year ago reaching 93%. Chile's penetration more than doubled versus a year ago to 57%, while Colombia grew almost 30 percentage points year on year to 75%.

As a result, on platform total payment volume reached $2.8 billion dollars, accelerating at fast clip both on an FX neutral basis at 80.4% year on year, and in US dollars at an equally solid 67.1% year on year.

As we continue to increasingly onboard merchants of all sizes, we further expand the ubiquity and value of the MercadoPago brand, and move closer towards our vision of becoming an essential financial service for users. This quarter's results were no exception to this. Our merchant services business (where we process payments away from our marketplaces) continues to go from strength to strength, not only as one of the fastest growing non-marketplace revenue streams, but also as an increasing driver of overall Total Payment Volume growth.

Great performance of commercial initiatives and enhancements in functionalities resulted in consolidated off platform Total Payment Volume accelerating for the third consecutive quarter to 107.6% year on year on an FX neutral basis. The drivers of this growth story came from solid execution in Brazil, which delivered the 10th quarter in a row of triple digit TPV growth on an FX neutral basis at 155.6% year on year, as well as solid gains in TPV growth in Argentina, Mexico, and Chile, where the TPV of those countries has grown north of 55% year on year for over nine quarters.

One of the future growth engines within fintech that excite us the most is our ability to efficiently score, originate and distribute, credit offerings to merchants selling on Mercado Libre. Our merchant lending business, Mercado Credito, effectively capitalizes those aforementioned efficiencies and I am pleased to report that during the quarter we continued to see solid traction in loan origination growth both in Argentina and Brazil along with low default rates. We have a strong conviction that we are seeding a business that is highly synergistic with our core marketplace, that also builds merchant loyalty, and in the not so distant future could be a significant contributor of top line and bottom line to our overall business.

In terms of offline payments, we are also encouraged to see sales and adoption of our mobile-point-of-sale systems picking up nicely. When compared to the third quarter of 2016, mobile PoS devices sold in Brazil increased by nearly 450% year on year. Additionally, not only our physical point of sale devices has become one of the largest contributors to off platform TPV in Brazil approaching 30% of that country's payment volume, but we are also observing improvements in user retention as well.

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Wrapping up, although Q3's results clearly reflect a pickup in our pace of execution, we still have a lot of work ahead of us in order to deliver on our product roadmap and continue strenghtening our position.

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With that, let's review how the solid operational highlights I have just walked you through flow through our financials. Just as every quarter, greater detail on this can be found in the accompanying presentation to these prepared remarks.

We delivered net revenues of $370.7 million dollars, a growth rate of 60.6% year on year and the largest yet from an absolute value perspective in a single quarter. On an FX neutral basis, results continue moving up and to the right, as we delivered our 14th quarter in a row of revenue growth above 60% reaching 79.4% year on year growth excluding the impact of currency fluctuations.

Looking on a country by country basis, monetization continues to perform well and is sequentially accelerating in all countries. For the third quarter, revenue growth was as follows: 71% for Brazil, 51% for Argentina, 82% for Mexico, 42% in Colombia, 45% in Chile, and 91% in Uruguay, all of these expressed on an FX neutral basis.

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Unit volume acceleration in Brazil and Mexico were the most significant contributors to the strong marketplace revenue we delivered during the quarter. This is mainly as a result of the strong traction we are seeing in those countries due to our investments in free shipping, loyalty, and customer acquisition I mentioned earlier. On an FX neutral basis, total marketplace revenues accelerated to 97.5% year on year, the 4th consecutive quarter of growth above 60% and almost 27 percentage points above the same period last year. Core marketplace revenues in USD came in at a solid 69.1% year on year.

Mexico's performance is worth noting here as well, as marketplace revenues on an FX neutral basis grew in the triple digits for the third consecutive quarter to 109% year on year. That's a 43 point increase versus the same period last year, and one the fastest growth rates in over five years. USD revenues accelerated for the fourth consecutive quarter to 120% year on year, also a multiyear high.

Looking at non-marketplace revenues we also saw solid growth rates during the third quarter. In local currencies non-marketplace revenues grew 54% and in USD revenues accelerated to 49% year on year. The two main contributors to this growth were:

- Financing fees which accelerated to 56.8% year on year on a FX neutral basis aided by the adoption of installment purchases in Brazil and Mexico. Brazil was a highlight here as adoption of our credit product resulted in FX neutral revenue growth of 75.4%. That is 46 percentage points above last quarter, and 71 percentage points higher than the same period last year.

- MercadoPago processing revenues accelerated to 83.9% year on year on an FX neutral basis, driven by the solid gains in payment volume outside the marketplace through successful commercial efforts and improvements in user engagement. Brazil led the way when it comes to off platform payments with outstanding performance, as it delivered the 10th consecutive quarter of growth above 90% on an FX neutral basis.

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Moving down our income statement, gross profit grew 21% year over year during the third quarter of 2017 to $175.8 million dollars. Gross profit margin was 47.4% of revenues, versus 63.1% in the third quarter of last year, and 54.2% in the second quarter of 2017.

The main drivers of gross margin compression during the second quarter can be attributed to investments in free shipping in Brazil, Mexico, Colombia, and Chile, which accounted for a reduction of 1,774 bps of gross margin year on year. Additionally higher COGS related to the sales of our Mobile POS payment devices mainly in Brazil contributed an additional 112 bps of margin compression when compared to the same period of last year.

These effects were somewhat offset by 248 bps of sales tax leverage. Moreover, collection fees contribute 93 bps of improved margin due to lower costs of processing credit cards in Argentina. Combining these effects resulted in a gross margin compression of 1,566 bps year on year for the quarter.

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Moving down the income statement, operating expenses ascended to $148.3 million dollars, or 40% of revenues.

Sales & Marketing grew 111.8% year over year to $84.1 million dollars, or 22.7% of revenues vs. 17.2% for the same period last year, resulting in 549 bps of margin contraction. Higher offline and online marketing investments mainly in Brazil and Mexico contributed 539 bps of margin compression. Additionally, increases in our Buyer Protection Program contributed to an additional 147 bps of margin contraction, which was offset by 62 bps of cost savings in bad debt and salaries and wages.

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Product development expenses grew less than revenues at 24.2% to $32.4 million dollars, representing 8.7% of revenues in the third quarter versus 11.3% a year ago. 76 bps of scale were driven by salaries and wages, notwithstanding enlarging our IT headcount by more than 110 employees during the quarter alone. The rest of the year on year accretion, 180 bps, is the result of revenues growing faster than office expenses and maintenance costs.

General & Administrative expenses grew 21.5 percentage points year on year to $31.8 million dollars, growing less than revenues, and representing 8.6% of sales.

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As a result of this, on an as reported basis, operating income for the quarter was $27.5 million dollars, down 48.7% versus last year.

Below operating income we saw $6.7 million dollars in financial expenses mostly corresponding to the interest accrual on the convertible bond we issued in June of 2014.

Further down, interest income was $14.2 million dollars, up 43.6% year on year explained by higher interest rates on a larger investment base, as our MercadoPago stored balances have increased versus the third quarter of last year.

Our forex line was positive $1.6 million during the quarter due to an appreciation of USD balances held by our subsidiaries.

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Income tax expenses ascended to $9.0 million dollars during the quarter yielding a blended tax rate for the period of 24.5 percentage points.

Consequently, as reported Net Income came in at $27.7 million dollars or 7.5 percentage points of revenues during the third quarter, resulting in a basic net income per common share of 0.63 cents.

Capex purchases totaled $17.6 million dollars for the quarter. Cash, short-term investments and long-term investments at the end of the quarter totaled $682 million dollars.

Wrapping up, we declared our quarterly dividend of $6.6 million, or 15 cents per share, payable on January 16, 2018 to shareholders of record as of the close of business on December 31, 2017.

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And with that, we can end today's call and take your questions.