# MERCADOLIBRE 3Q'21 EARNINGS CONFERENCE CALL SCRIPT

November 4th, 2021.

## PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the Mercado Libre earnings conference call for the quarter ended September 30th, 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 31st, 2020, "Item 1A-Risk Factors" in Part II of our Form 10-Q for the quarter ended March 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

Hi everyone, thanks for joining our earnings call this quarter.

I will start with a few notes regarding our operating environment. Fortunately, we have seen a consistent easing of mobility restrictions across our region in the last few months, with signs that we are approaching a new phase in our response to the COVID-19 pandemic. This is great news, as only a year ago we had experienced the peak of severe lockdowns and government financial aid interventions in the third quarter of 2020. On the business side, these positive trends also mean that this is the quarter of toughest year-over-year growth comparisons for our main metrics.

Having spent over a year working through difficult macroeconomic and healthcare conditions throughout Latin America, we are starting to take stock of our role and our impact in commerce and financial services businesses throughout this time. In September we released the results of a study titled "Impacts that Matter" conducted by Euromonitor that assessed our contribution to the socio-economic environment and ecosystemic effects in our key geographies over the past year.

We are proud to see that our mission of creating sustainable prosperity in our region through the democratization of commerce and access to financial services is coming to fruition. Our platforms have enabled the main source of income for over 900 thousand families in our region and we generated 6 new jobs per hour during 2020, directly or semi directly, through our ecosystem. As we expanded our Credit business, over 40% of our SMEs accessed their first loans ever, most of which were geared towards investing in working capital for their businesses. Overall, we have enabled our merchants to grow their operations well beyond their cities and amplified their reach into a larger economy, becoming an even more important source of revenues during the challenging year of 2020. The full Euromonitor report summary has been uploaded to our website, and we encourage you to have a look at it.

 

As a result of what we believe to be these lasting contributions to financial inclusion and the democratization of commerce through an improved experience for our users, our volume growth rates continue to demonstrate a solid trajectory over the long term. We have once again reached new records in gross merchandise volume, payment volumes and credit portfolio size, which demonstrates resilience and strength across all parts of our ecosystem. Moreover, we see our engagement and satisfaction improving sequentially for both commerce and fintech services, which is particularly encouraging given the user base expansion that we have driven over the last year.

Let me dive deeper into the third quarter results, starting with our commerce business.

For the third quarter, we achieved a new record in gross merchandise volume of over $7.3 billion dollars, posting a growth of almost 30% on an FX-neutral basis. This represents an increase of over $1.4 billion dollars compared to the same quarter last year. We also see consistency on a 2-year CAGR growth in FX-neutral GMV of 73%, very similar to the 74% achieved in both Q1 and Q2 of this year.

We sold almost 260 million items in the third quarter, growing over 26% year over year. This growth is fueled by continued increases in our commerce user base. We reached 38.6 million unique buyers on the commerce side alone, and our buyers are demonstrating higher levels of engagement, with increasing transactions per unique buyer sequentially. We are still seeing higher levels of new buyers to our platform compared to the periods before the pandemic, and of equal importance, we are maintaining better retention levels, as well.

Taking a look across our geographies, the first that stands out in terms of growth is Brazil. With an FX-neutral growth of 28% in GMV, Brazil reached almost 138 million items sold in Q3. These growth rates are above what we had experienced prior to the pandemic, and the 51% 2-year CAGR is flat compared to the prior quarters, with 53% in Q1 and 51% in Q2. In Mexico, gross merchandise volume grew over 34% on an FX-neutral basis, accelerating compared to Q2, and growing unique buyers sequentially. Argentina reached almost 37% of GMV growth on an FX-neutral basis. All three key geographies improved in transactions per buyer versus the previous quarter, and net promoter scores are also trending at the highest levels yet in several of these key geographies.

We attribute the sustained and continuous increase in buyer engagement to several initiatives that we are running in parallel. First, our developments in product assortment and depth of product can be linked to this change in behavior towards higher frequency. Our marketplace is increasingly filled with well-recognized brands in the fashion, beauty, consumer electronics and consumer packaged goods categories, not only from marketplace sellers but also through the development of our first party assortment. For example, in the last few months, items from Nike, Enjoei, Nivea and PlayStation can be found in our marketplace in Brazil, as well as Apple, Samsung and Asics that have been added to our platform in Mexico.

Particularly for the grocery strategy, we have taken an additional step to expand our assortment with our first pilot programs for fresh items. In São Paulo, we started operating with Mambo, a local food retailer, to offer their fresh selection, and we are setting up similar partnerships for the coming quarters in Buenos Aires and Mexico City. During these early days of moving into the supermarket categories, we have observed that supermarket buyers not only have a higher purchasing frequency, but also are demonstrating better user retention rates.

Second, we continue to enhance our tiered loyalty program, which not only builds strength on the commerce side but also ties in our fintech services. With the strong partnerships we have developed with our content providers, we believe the benefits and discounts offered through the loyalty program are among the best in class. More recently, in September, we started giving users the option of purchasing access to our highest loyalty tier, offering our most comprehensive benefits with the highest shipping and content discounts to these paid users.

 

Finally, the consistent results of the last year proved the great importance of reliable, fast shipping to remove barriers to ecommerce. We made significant investments in the continued rollout of our managed logistics network in the third quarter.

So, turning to Mercado Envios, the advances in speed and execution of our managed network are transforming the commerce experience in our region. In Q3, we shipped almost 248 million items and developed more capabilities to expand fulfillment in our key geographies. Our managed network penetration reached 86%, up from 64% in the same quarter last year. Within that network, fulfillment by Mercado Libre is propelling growth, having reached 37% penetration. We launched two new fulfillment centers in Brazil this quarter and converted two existing fulfillment centers into centers managed by us. In Mexico, an additional fulfillment center was implemented and will be expanded in the coming months. In Argentina, Colombia and Chile, more sellers and items moved into our fulfillment centers. Overall, we have now 16 active fulfillment centers already in the region, enabling our delivery times to improve every quarter.

Faster shipping is also coming through our cross-docking network, which represents over 40% of shipments. We are improving our service levels within cross-docking as we scale and mature the various nodes of this extensive network. As part of this expansion, we signed an agreement to acquire a specialized logistics technology company, Kangu, in the third quarter after having developed a strong partnership of accelerated growth and shipping capabilities with them starting in 2019. Operating over five thousand pick-up and drop-off points, Kangu has created a differentiated value proposition for logistics in Brazil, Mexico, and Colombia. It is asset light and technologically integrated. This network, which we call MELI Places, is now part of our logistics assets, allowing us to increase our network's capillarity, reaching more sellers and buyers at faster speeds and growing the model based on our geographical and service expansion opportunities. One example of this is over 60% of the MELI Places are already enabled for pick-up functionality for buyers who have opted not to receive their purchases at their home address. In Mexico, we are already using some of these Places to receive returns, an experience we will roll out to other countries shortly.

We can also count on our Flex solution to improve shipping times for shipments travelling within the same urban area. Flex is already operating seven days a week for all sites where it has been deployed. The Flex technology is also running part of the hybrid shipping model for supermarket items - while dry goods are being shipped from our fulfillment centers, fresh products ship directly from store to the buyer leveraging the capabilities of the Flex network. Flex represents almost 10% of our shipments today and has developed particularly quickly in Argentina, Chile, Colombia, and Uruguay so far, while also delivering the fastest times on our network.

Combining all of these flexible shipping capabilities, we are achieving our goals to run a faster and more reliable delivery operation. In Q3, almost 80% of all items were delivered within 48 hours, while consistently increasing the number of free items shipped. We are developing more specialized capabilities to take on a variety of categories with our network. The continuous improvement around our shipping solutions goes hand in hand with our category development expansions. Our strategy to create the proprietary technology and infrastructure around logistics continues to open new strategic doors for us and has become one of our key assets and strengths for our ecommerce operations.

I'd like now to spend some more time delving deeper into our fintech business, which we are very excited about. We are encouraged by signs that we have reached a level of product maturity in certain parts of the fintech business, and simultaneously we see vast opportunities to keep developing our reach into a large market of unbanked and underbanked users throughout Latin America.

We are focused on fueling these next growth engines by taking our new upcoming fintech products to market. In light of this, we have transitioned the organization to approach solutions based on the end-user and not the product offering and are therefore dividing our products and services into two organizational units, Merchants, and Individuals. This should allow for better cross selling opportunities, and also a more consumer focused go-to-market strategy. A more integrated view of each segment of merchants will enable us to provide more customized solutions within our product portfolio. On the individuals' side, our strategy is to drive deeper relationships with our users and offer them a greater array of services through the digital account. To illustrate our efforts under this framework, we will begin disclosing our TPV with an additional breakdown of Acquiring TPV and Digital Account TPV from now on.

Together, Acquiring TPV and Digital Account TPV add to our consolidated TPV in the region, which reached $20.9 billion dollars in the third quarter, growing 59% on an FX-neutral basis. This represents over 865 million payment transactions in the quarter, growing 55% year over year.

Now let me give you a more detailed update of the third quarter performance for our Acquiring TPV, which encapsulates On Platform payments, as well as merchant services for Online Payments, the mobile point of sale business, and QR payments. Acquiring TPV reached $15.4 billion dollars, growing 46% on a consolidated FX-neutral basis. Within that, On-Platform TPV reached $7.5 billion dollars at 29% FX-neutral growth, in line with our On-Platform GMV growth. Online payments outside of our platform had a similar growth level of 32% on an FX-neutral basis, though with a more accentuated deceleration compared to Q2, as expected since physical retail started to reopen during this period and the year over year comparison steepened.

The leading highlights in terms of growth were MPOS and QR payments during the third quarter. We were happy to see strong payment volume figures in both of these segments as individuals and merchants are now back to safer mobility in the region, with Point TPV growing 78% on a consolidated, FX-neutral basis and with 1.3 million in device sales this quarter. Equally important are the advances of the QR payments for our merchants, which have accelerated in growth this quarter in all geographies.

The new Digital Account TPV encompasses the individual payment services available in our Wallet as well as all card payments, including debit, prepaid and credit, but we are excluding unmonetized transfers other than peer-to-peer between Mercado Pago accounts. Digital Account TPV reached $5.5 billion dollars in the third quarter, with a 101% growth on a consolidated, FX-neutral basis. The Digital Account is also the platform that hosts multiple additional services for users beyond the payments reflected in our TPV, such as the adoption and management of a consumer credit line, hiring of insurance policies and certificates, and the typical bank transfers to other outside accounts. Though not reflected in our reported payment volume, these other services have increasingly better user interfaces and integration with our full ecosystem. We believe these other accessory services are key to maintaining users' trust and engaging with ample financial services available in the Mercado Pago Digital Account, as we increasingly vie for the principality in financial services of our user base.

While I'm on engagement, I would like to introduce our new methodology of counting and tracking Unique Fintech Active Users. Within our full Mercado Libre ecosystem of almost 78.7 million active quarterly users, we also have a subset of users that are employing a Mercado Pago fintech product, which we call Unique Fintech Active Users. We count a user as a Unique Fintech Active User if they have engaged in at least one of the following services within the quarter: wallet payments online, in app or in store; transfers; withdrawals; consumer or merchant credit borrowers; card users; fintech sellers; and fintech active products such as asset management and insurtech users. We had 31.6 million Unique Fintech Active Users in Q3 of 2021 alone, a growth of 13% compared to last year.

Until the last quarter, we had been giving a lot of attention to the number of Wallet Payers, which continue to trend up in the third quarter, reaching 16.8 million wallet payers, up from 15.1 million in Q2. Yet, given our increasing attention to serving individuals beyond the payment facilities offered in the Wallet, we believe that the Unique Fintech Active Users metric better reflects our user base that is engaged with our Digital Account. We are looking forward to sharing more around this metric as our products continue to mature and the number of features per user presents growing trends.

A key extension of our fintech services that supports our merchant and individual user bases is our Credit business. We have exciting developments taking place in this part of our ecosystem, and we believe it will be core to serve users that are entering basic financial services in our region. Our Credit business took another significant step in Q3, surpassing the $1 billion dollar mark in total portfolio size.

The $1.1 billion credit portfolio is the result of originating over $1 billion dollars during the quarter. Our consumer credit book is leading the growth with our two main products: personal loans and credits for purchases on our platforms. While credits for purchases is still the main product, personal loans for possible uses outside of our platform are accelerating and achieving a greater presence in the consumer credit book. On the country level, our consumer credit book is growing at high triple digits across all countries. Overall, we have reached almost 36 million consumers with pre-approved credit lines at their disposal, up from 27 million in the second quarter.

In the merchant credit portfolio, for both online and offline merchants, we see continued expansion in our merchant base opting for a credit line. We've made improvements to the product interface and collection processes that create a seamless and effective experience for our merchants. We developed repayment methods so that merchants can now settle their loans on either a fixed installment over time or opt to settle through a percentage of their transacted volume with us. At the country level, we saw a spiked increase in credit loans in Argentina, Brazil, and Mexico.

Considering our full credit portfolio, non-performing loans are stable compared to the previous quarter. Overall and at the individual portfolio level, we are encouraged to see our ability to score and manage risk as we extend more credit lines to our users, and all of our credit books were profitable during the third quarter.

Building on our credit capabilities and our ambition to extend the services attached to the digital account, we are excited by the first waves of implementation of our credit card, for now only rolled out in Brazil. We expect the credit card to be one of the key features of our digital account to unlock future payment volume growth, as well as a means to increase user engagement and retention. In Q3, we were focused on new features for the credit card product and understanding our user behavior better.

There are several encouraging signs that we are headed in the right direction for the credit card. Net promoter scores for Mercado Pago credit card holders trended significantly above our Mercado Pago averages in Q3. Secondly, over half of the credit card transactions are occurring outside of our marketplace and payment platforms, which is significant in our roadmap to drive the principality of our digital account. We also have a long waiting list of users, demonstrating interest in accessing our credit card, which we will begin to score and unlock in the coming months.

By stitching together our credit products with our payment and commerce services, our ecosystem is becoming increasingly more robust. We are seeing greater depth in our relationships with merchants and users that begin to engage with several touch points throughout our ecosystem. The credit business has the ability to fuel these increased connections between consumers and merchants, unlocking higher conversion rates and overall, more financial inclusion.

With that overview, now let's go over our financial results for the third quarter.

 

We had a record achievement in quarterly revenues, surpassing $1.8 billion dollars on a consolidated basis, growing 66.5% in US dollars and 72.9% on an FX-neutral basis. In Brazil, revenues grew 69% on an FX-neutral basis, while Argentina and Mexico posted even higher FX-neutral growth rates, with 83% and almost 76%, respectively. Revenue growth is driven by consistent growth in our first party and third-party merchandise as well as payment volumes, and the expansion of our Credit business, and maintaining the consistent monetization levels seen in the previous quarter.

These strong results occurred despite revenues being negatively impacted by continuous rises in interest rates in Brazil, which compress spreads on our financing businesses that are reported net of funding costs. During the quarter we were able to partially offset this impact by implementing initiatives that diversify funding sources and through pricing.

In the third quarter, our gross profit was almost $807 million dollars at a margin of 43.4%, very similar to the 43% margin in Q3 2020 and to the average of the first half of the year. We face some bottom-line headwinds as we expand our first party business and incur more operational costs while expanding our own logistics network, but these effects are partially offset by cost reductions on our payment collection fees and leveraging our customer service costs as we reach scale. As we do every quarter, we've included a detailed breakdown of these margin effects in the slides accompanying this presentation, as well as the OPEX margin evolution.

Regarding our operating expenses, which represented 34.8% of revenues, we see sustained operating leverage from the scale and efficiencies over the last year and an improvement of 80bps on a year over year comparison. Operating expenses were $646 million dollars, with higher bad debt expenses as we grow our credit book that are offset by efficiencies in other marketing initiatives and G&A expenses. Consequently, we booked $160 million dollars in EBIT in the third quarter, at a margin of 8.6%.

It's important to note that this quarter our Argentine subsidiary's eligibility under the knowledge-based economy promotional regime was approved, which we have described further in our 10Q filing. The tax benefits granted under the promotional regime are retroactive to January 2020 and will also apply to our future results. We have recognized this retroactive effect in full in our Q3 financial results.

In terms of Net Income, in Q3 we reached over $95 million dollars at a margin of 5.1%, including these one-off impacts. On an adjusted basis, correcting for savings that are non-recurring in nature, Net Income margin would have been closer to 2% for the quarter.

Before final comments, one announcement on our executive leadership structure. We'd like to share the news that after 22 years working with us Stelleo Tolda has decided to leave his full-time role as President, Commerce Business, effective on April 1st, 2022. Stelleo has been a key executive at Mercado Libre from the beginning of our journey, having had multiple roles during these years. Words fail to describe the impact Stelleo had during this time; We are incredibly lucky and grateful to have been able to count on him over the years. Fortunately, Stelleo will remain closely linked to Mercado Libre as a formal advisor to the company and its board of directors, allowing us to continue to benefit from his continued advice in the future.

As previously stipulated by the company's executive succession planning process, we are pleased to announce that Ariel Szarfsztejn will take on the role of Executive Vice President, Commerce. Many of you already know Ariel from his time leading our Strategy and Corporate Development teams, and more recently he has been the driving force behind the build out of our Logistics Network, a key differentiating aspect of our business today. Ariel has been working closely with Stelleo for the past few years and will continue to do so in the future.

It is a bittersweet feeling to make this announcement. On behalf of everyone at Mercado Libre, we will miss having Stelleo involved in day-to-day operations and are at the same time pleased we can transition this leadership position through an in-house process, highlighting the depth of internal talent in our organization. We are all very confident that under Ariel's leadership our Commerce operations will continue to thrive.

In closing, I would like to reiterate that our mission to democratize commerce and financial services in Latin America remains at the forefront of our minds, even as we begin to see positive indications that we are exiting the gravest part of the pandemic in our region. We continue to include and care for the communities around us through the expansion of our business. We had another quarter of consistent, robust results and in parallel, we continue to plant seeds for our next growth avenues across the business and the geographies where we are present. We are excited about the opportunities we have in front of us that will allow us to both build upon our current accomplishments and further innovate as we focus on our long-term growth strategy.

Finally, I would like to mention that we have 27 thousand employees that are making all these achievements possible along with our increasingly connected network of partners. I am grateful to see the consistent level of execution and coordination within this ever-growing group of talents. I am also very proud that despite the hard work we demand of them, they continue to rank us highly as an employer, having ranked us among the top 25 best employers globally according to Great Place to Work.

Thanks everyone for joining us on the quarterly conference call to follow our progress, as always. We are now happy to take your questions.

THANK YOU

 