MERCADOLIBRE 1Q14 EARNINGS CONFERENCE CALL SCRIPT

Date: May 8, 2014

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended March 31st, 2014. I'm Martin de los Santos, VP of Finance and 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 Gimenez, Executive VP of Payments will be available during today's Q&A session. This conference call is also being broadcast over the Internet and is available through the investor relations section of our website. [PAUSE]

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 first quarter 2014 earnings press release available on our investor relations website.[PAUSE]

Now let me turn the call over to Pedro.

Part II: Overview & Financial Results – Pedro Arnt

Thank-you Martin. Good afternoon and welcome everyone to our first quarter 2014 earnings call. MercadoLibre's platform for e-commerce is off to a solid start this year, and as always I want to highlight for you all our key developments, metrics, and areas of progress. [PAUSE]

Reviewing key metrics for the first quarter:

- Registered users topped the hundred million marker, reaching 103.7 million, up 21% year on year, after adding 4.3 million new users in the period
- Successful items grew 20%, reaching 21.7 million

- Gross merchandise volume grew 58% in local currencies, reaching $1.8 billion
- Total payment transactions grew 36% to 9.2 million
- Total payment volume grew 64% in local currencies, reaching $664 million
- All this led to solid revenue growth, in local currencies, of 50% YoY. Excluding our Venezuelan operations, revenue growth in local currencies came in at an equally solid 39% YoY.

Additionally, mobile sales reached 14% of GMV, MercadoEnvios, our suite of shipping solutions surpassed 11% of shipped items sold in Brazil and Argentina combined, and our "Mall" initiative continued to move ahead as we onboarded a growing number of brands onto our platforms.

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These are some of the headlines, but what best summarizes our first quarter is consistent progress on stated goals which are already proving transformative to the user experience we offer our buyers and sellers. MercadoLibre has keyed in on a set of fast growing initiatives which we view as value drivers to the Company in the future. While many continue to be in their early stages, as we have consistently pointed out, we believe that our sustained commitment to these catalysts will ramp growth of e-commerce for the company as they gather further momentum and penetration. Consequently, these have been the key strategic priorities for MercadoLibre during the first quarter, and will continue to be so for the remainder of 2014.

As you are familiar by now, these include:

- The promotion of our payments and shipping solutions as strategic facilitators for e-commerce, helping to eliminate friction points and enhance user experience, on and off our platform. [PAUSE]
- The ongoing development of mobile and category specific vertical capabilities for our users, which are widening both our reach of consumers and of supply, while generating new and customized markets for incremental trading on our platform. [PAUSE]
- The promotion of our open platform, making our services increasingly accessible to third parties, be they outside developers building new solutions, or brands and retailers requiring technological integration and support for their businesses. Through this approach we strive to be the technological partner of choice for anyone looking to trade on-line in Latin America. [PAUSE]
- And finally, all of this necessarily is underpinned by ongoing efforts to deliver a constantly improving overall customer experience. We are devoted to innovation on this front, coming up with new solutions for the growing functionalities and features that we offer, and anticipating rather than reacting to the needs of our users, through investments in our technology products and customer service operations.

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Beyond the highlights I started out with, let me give you a little more data around how these evolved during the first three months of 2014.

- Total payments penetration was up 291 basis points, with a strong push from on-platform which reached new highs in our total marketplace, surpassing 60% of GMVe in Brazil and 38% in Argentina by the end of the quarter. That's an on-platform penetration increase of 13% and 8% of GMV respectively, year on year.
- Shipping also gained considerable ground, as MercadoEnvíos volume in Brazil went from 10% of SI in December to more than 14% in March, and from 3% to 4% in Argentina for the same periods.
- Mobile doubled its year on year penetration from March to March, from 7% to 14% of our GMVe, and our mobile app reached 10 million downloads. Mobile remains accretive to the platform, as new registrations from either mobile web or app already account for approximately 20% of our total new users registering on our site in a given period.
- We kept advancing our mall initiative efforts, as we continued to onboard brands in Brazil and Argentina. By the end of the first quarter we more than doubled our number of active official branded stores, reaching a total of 85 stores by the end of March.
- Our vertical category efforts continued to gain traction, led by sports and apparel
- Finally, our customer experience efforts remain in full gear, and we confirmed this with significant gains to our net promoter score in the first quarter. [PAUSE]

All in all, we made good progress across our strategic initiatives, and we will continue to develop and execute our key business plans around these priorities in 2014.

We operate in a thriving competitive environment where online shoppers are becoming increasingly sophisticated. As a growing number of business models compete for traffic and user acquisition, often ramping up their marketing spend to do so, we remain convinced that the best ROI comes from investing in technology that drives ever-improving user experience.

Looking forward to the next few quarters, we must keep turning reliable payments and shipping into the norm on our platform by penetrating MercadoPago and Envíos further, making sure we offer the best financing options, the most efficient settlement of transactions and delivery of product. We will cater to the ever more relevant mobile consumer by perfecting our capabilities on those screens and use cases. And, we must keep expanding the mall concept on our platform, onboarding new brands at a faster pace but also building new relationships with large retail and within the development community. Look for all this in the coming year.

[PAUSE]

And now let's take a closer look at our financials. The business drivers we've discussed yielded healthy growth rates to our P&L, partially offset by year on year foreign exchange headwinds across that we continue to experience across our major countries.

All growths are year on year unless I indicate otherwise. For the first quarter of 2014:

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- Net revenues were $115.4 million, 50% growth in local currencies and 12% growth in USD. Excluding Venezuela, Net Revenues grew 39% in local currencies and 10% in dollars.
- Income from operations was $34.0 million, 19% growth in USD and 68% in local currencies. Excluding Venezuela, Income from operations grew 5% in USD, and 29% in local currencies.
- Net Income before Income/Asset Tax Expense was $39.1 million, growing 54% in USD, 117% in local currencies.
- Net income was $30.3 million, growing 73% year-on-year in USD, and 150% in local currencies. Excluding Venezuela, Net Income grew 48% in local currencies, and 16% in dollars. [PAUSE] Resulting earnings per share were 69 cents for the quarter. Excluding Venezuela's impact on Forex and income tax, earnings per share for the quarter would have been 63 cents.

[LONG PAUSE]

Now let's take a look at our topline growth for the quarter.

Marketplace revenues accelerated on strong revenues from placement fees, while final value fees maintained their solid year on year trend, in line with stable growth of our unit volume sold.

Specifically for Brazil, items sold grew 25% year on year, with local currency marketplace revenues outpacing that, and showing year on year acceleration versus prior quarter mostly on favorable listing type mix.

While I'm still on Venezuela, I´d like to remind you that, as we had informed earlier, the company determined that the Venezuelan SICAD 1 exchange mechanism is the primary system through which the company could request US dollars to settle transactions during the first quarter. As a result, the exchange rate we have used to re-measure the monetary assets and BsF transactions of our Venezuelan operations, as of January 24, 2014, is the SICAD 1 exchange rate, the average of which was 10.1 BsF per U.S. dollar in the first quarter of 2014. I will cover the P&L impact of this devaluation later on in my prepared remarks.

Additionally, there have been further developments in terms of Venezuelan exchange rate alternatives and we are monitoring these closely to determine what is appropriate for MercadoLibre. Specifically, during late March 2014, the Venezuelan government introduced an additional exchange mechanism known as SICAD II, which trades at approximately 50 Bolivars to the USD. We have not requested to exchange currency at this new rate, but are currently evaluating the viability of SICAD II and its availability and accessibility during future periods. The mechanism is still in its early stages and there is very limited information being published around it, hence it is still very difficult to determine how the SICAD II mechanism works and the volume constraints that would limit our ability to access it. Depending on our final assessment of these issues, and our ability to access the SICAD II market with consistency and regularity for exchange and repatriation purposes, we could decide to start using this rate to re-measure the monetary assets and transactions of our Venezuelan operations. We will keep you posted on any developments along this front throughout the quarter.

To illustrate our sensitivity to a potential move to SICAD II for Venezuela reporting purposes, we have included a detailed sensitivity analysis in our earnings press release and 10Q documents to be filed with the SEC.

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Non-marketplace revenues grew above 30% year on year in local currencies, robust though a deceleration versus last quarter's growth mainly driven by a slowdown in Classifieds & Advertising.

The main effect came from Classifieds, which slowed down mainly driven by weak Motors and Real Estate activity across our main countries, particularly in Venezuela which has a higher share of Classifieds than of the rest of our businesses.

Payments continued to post high growth through both our financing revenue stream, and our off-platform processing. Financing was very much in line with prior quarter, growing north of 40% in local currencies, while off-platform continued to outpace all other revenue streams, accelerating in Brazil but decelerating in Argentina as some of the verticals for which we process payments were negatively impacted by the currency devaluation that occurred during Q1..

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Summing up our topline performance, the sum of our revenues grew a robust 50% in local currencies, constant versus last quarter's growth. Consolidated net revenues excluding Venezuela also maintained their previous quarter growth rate of 39% year on year. Finally, local currency revenues by country grew: 30% for Brazil, also constant, compared to last quarter, 66% for Argentina, 9% for Mexico, 116% for Venezuela, and 31% for the segment that contains the remaining countries in which we operate.

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Moving down our P&L:

Gross profit grew 13% in the fourth quarter, to $83.8 million. Gross profit margin was 72.7% of revenues, versus 72.1% in the first quarter of 2013, and 73.1% in the fourth quarter of 2013.

Year on year, higher payments processing fees resulting from growth in MercadoPago account for 121 bps of margin contraction, partially offset by efficiencies in taxes also related to our payment volume. When you add scale of 120 bps in our customer support operations, this accounts for the slight margin expansion versus prior year. [PAUSE]

Operating expenses for the period totaled $49.8 million, 10% higher than in the same period of 2013. Operating expenses as a percent of revenues were 43.2% in the first quarter, versus 44.3% in the same quarter last year, and 34.4% in the fourth quarter of 2013. Our yearly salary adjustments contribute to sequential margin compression as typically happens each start of the year. Year on year, long term retention plan accrual is lower by 125 bps due to lower stock price, and our fraud loss provisions kept posting year on year gains for a 300 bps positive impact on margins. This gets partially offset by a write off in tax credits, higher bad debt and higher product development spending year on year.

Let me break this down for you by line item.

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Sales & marketing, our largest operating expense line, remained flat at $22.4 million, or 19.4% of revenues, vs. 21.7% for the same period last year.

A higher bad debt ratio than usual increased expenses by 105 bps year on year, though this was amply offset by scale coming from salaries and chargebacks.

Scale in salaries accounts for 50 bps of margin improvement, 5 bps owing to lower long term retention plan accrual year on year.

Chargebacks from our MercadoPago operation scaled almost 300 bps year on year. Our efforts to substantially reduce our rate of chargebacks over total payment volume have definitely paid off, meaning that while payments far outpace revenue growth, the chargebacks they generate are scaling.

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Product Development expenses grew 31% to $12.3 million, representing 10.6% of revenues in the first quarter versus 9.1% in the same period last year, with higher infrastructure as well as outsourced development costs partially offset by 43 bps in lower long term retention plan costs.

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Finally, G&A increased 10% year-over-year to $15.2 million in the first quarter, or 13.2% of revenues versus 13.4% a year ago.

Salaries scaled 134 bps, 77 of those coming from long term retention, and outside services also scaling approximately 80 bps from lower legal fees than last year.

This scale was largely offset by more than 200 bps worth of margin compression coming from a $2.4 million write-off of certain tax credits that will expire with the current software development law that applies to us in Argentina. While a new law replaces the old, extending benefits for 5 more years, unused tax credits from the previous law expired, generating these writeoffs.

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As a result, operating income margin for the quarter was 29.5% vs. 27.8% in the first quarter of 2013. Below Operating Income, we benefited from $3.0 million of interest income, down 11% year on year as a result of lower amounts invested. [PAUSE]

In our forex line, we saw a $3.1 million gain versus a $6.2 million loss in the first quarter last year. Last year's loss resulted from the devaluation of Venezuela's local currency cash balances which were considerable at the time. The current devaluation in Venezuela generates an FX loss of $1.3 million, a smaller impact as local currency holdings in Venezuela have been considerably reduced year on year, after the purchase of commercial real estate in that country. These losses are more than offset by a $4.6 million FX gain resulting from the appreciation of US dollar current assets held by our Argentine subsidiary.

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Income tax expense was $8.8 million in the first quarter, resulting in a blended tax rate of 22.4%, lower than usual and considerably lower than 30.9% in the same prior year quarter. The prior year quarter had an unusually high tax rate due to Venezuela's larger non-deductible FX loss in that period. In the current quarter, USD liabilities on Venezuela's balance sheet appreciated, resulting in losses recognized under Venezuelan GAAP, driving Venezuela's effective tax rate down to 2%. Excluding these impacts, blended tax rate for the first quarter would have been 31.4%.

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Net income margin came in at 26.3% in the first quarter versus 17.1% for the same quarter of 2013, resulting in a basic net income per common share of 69 cents. Excluding the foreign exchange loss and income tax effect resulting from Venezuela's devaluation. earnings per share would have been 63 cents.

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Purchases of property, equipment, and intangible assets during the quarter totaled $7.1 million, primarily driven by upgrades in hardware and software critical to our business. For the period ended March, 2014, this resulted in Free cash flow, defined as cash from operating activities less payment for the acquisition of property, equipment, intangible assets and acquired businesses net of cash acquired, was $20.5 million, versus $24.0 million last year. Cash, short-term investments and long-term investments at the end of the quarter totaled $263.5 million.

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This ends my review of a solid start to the year, with financials accompanying solid performance from our main business drivers. I look forward to updating you throughout 2014 as we keep working on the strategic goals we've discussed today, driving important improvements to our value proposition, and helping to speed up the rate at which e-commerce takes a hold of our region's retail space. With that, we will now take your questions.