MERCADOLIBRE 1Q15 EARNINGS CONFERENCE CALL SCRIPT

Date: May 6, 2015

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended March 31, 2015. I am 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, Osvaldo Giménez, 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 2015 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

Thanks Martin, and welcome all to our first results conference call for our 2015 fiscal year.

We are pleased with the way 2015 has started, maintaining the strong momentum our platform has shown since the back half of last year. The roll-out of our enhanced marketplace in Brazil continues to advance, delivering improvements in operating, financial, and customer satisfaction metrics; while we are starting to see positive returns along these same lines from our deployments of similar services in other markets. When we look at the state of our marketplace in Brazil today, and compare it to where we were at the same point last year, we cannot help but feel optimism that we are well on our way to delivering a best-in-region user experience. That optimism comes from seeing how our marketplace is offering users a constantly enhanced quality of service through successful rollouts of:

- Integrated payments, as we are already processing over 90% of Brazilian GMV through MercadoPago,
- Quality shipping, with over 40% of all units sold in Brazil during March being delivered through MercadoEnvios,
- Continued flow of attractive credit terms on our marketplace, exiting the quarter with over ⅔ of all GMV in Brazil having been done on credit,
- And, consequently, yet another quarter of record NPS levels being registered.
- Furthermore, it is important to note that we are accomplishing this while still delivering a healthy and profitable financial model.

And so, as we look forward to the rest of the year, we believe that the first quarter confirms the sustained momentum of our business, and also points to a clear path for our company through the remainder of 2015: replicating the success we are having in Brazil across all our geographies. We are confident that if we are successful in executing on this strategy we will be in great shape for the foreseeable future.

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Before I take you into greater detail on the specific advances made to our enhanced marketplace strategy, let me walk you through some key high level operational results that the strategy has allowed us to deliver:

- Registered users were up 22% year on year, reaching 126.7 million, after adding 5.7 million new users in the period
- Successful items grew 26%, reaching 27.5 million
- Gross merchandise volume grew 77% in local currencies, reaching $1.6 billion dollars

- Total payment transactions grew 62% to 14.8 million, the 6th consecutive quarter of acceleration in payment transaction growth
- Total payment volume grew 102% excluding FX headwinds, reaching $1.0 billion dollars

These operational highlights led to solid revenue growth, in local currencies, of 100% YoY. Excluding our Venezuelan operations, revenue growth in local currencies came in at an equally solid 64% YoY. Despite currency devaluations, revenues in USD grew 28% YoY. Excluding our Venezuelan operations, revenues in USD grew 40% YoY. These dollar growth rates are worth noting, since they occur in a general context of strong currency devaluations across most of our markets. The Brazilian real has weakened by 35%, the Argentine Peso by 11%, the Mexican Peso by 15% and the Venezuelan Bolivar by 384% since March of 2014.

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Let´s take a closer look at the key initiatives and results by business unit, starting with payments.

The focus during the last quarter was to continue driving on-platform MercadoLibre penetration of both payment processing and zero cost installment credit plans, and to continue deploying features and usability improvements that propel the growth of the merchant service business. On both these counts our execution is proving successful, with TPV growing 56% in US dollars despite the strong currency headwinds previously mentioned, as:

- First of all, on MELI penetration of MercadoPago reached a record high of 50%, up by more than 20 percentage points versus the same quarter of last year. Brazilian penetration exited the quarter at 92%, effectively addressing all listings where it makes sense to pay through MercadoPago. These share gains have been driven primarily by four key catalysts: settlement exclusively through MercadoPago for all transactions larger than BRL 200 in Brazil, improvements in approval and conversion rates of MercadoPago payments across all geographies, a recently launched feature that allows for MercadoPago to be offered on free listings, and sustained growth of MercadoEnvios that drives incremental payment adoption;
- Secondly, continued adoption of our zero cost installment plan. By quarter's end 48% of all GMVe in Brazil was being done on a zero cost credit plan; quite remarkable given that the financing option did not even exist one year prior. In Mexico, where we launched the option during November of last year, it accounted for 14% of all transaction volume in March, less than where Brazil was after 5 months, but a solid adoption rate nonetheless. We plan to follow the roll-out in Mexico with similar launches in other markets over the next few months.

Complementing the strength of our on MercadoLibre payments performance during the quarter, was our merchant service business, which enables MercadoPago solutions on merchants’ own websites and apps. Total merchant services TPV accelerated to 37% yoy in USD, or 65% excluding FX headwinds. Brazil and Argentina led the way with local currency growth of 53% and 61% yoy respectively. The renewed strength of the merchant service business comes primarily from improved traction in on-boarding large clients whom we are now working with, such as AliExpress, Sony´s Playstation unit, Spotify and Wish.com to mention a few, and declines in our merchant churn rates, as a consequence of an improved product offering that continues to differentiate us from many of our competitors.

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The strong performance of our payments business both aided and was aided by similar strength in the marketplace business. Performance in the countries where the rollout of our enhanced marketplace is further along, outperformed smaller markets where we have yet to deploy many of those services, lending further evidence that our strategy is the right one.

Units sold sustained high growth levels, growing at 26% yoy, while units sold using at least one of our payments, shipping, official stores or credit offerings, a measure for the success of our enhanced marketplace deployment, grew 38% yoy during the quarter. Excluding FX headwinds GMV grew 77% for total MELI, and of 22% if we exclude our Venezuelan operations.

Some of the key factors driving marketplace performance were,

1. Progress in customer acquisition, with Registered User growth accelerating to 34% YoY through improved marketing spend, SEO gains, and incremental user base starting to trickle in from mobile platforms,
2. Very solid selection expansion, as the number of listings being offered on MELI grew by over 50% yoy, the 4th consecutive quarter of acceleration in that metric, as a consequence of improved sales efforts and an active promotional events calendar that is helping us convince sellers to list more inventory through us so that we can assist them in merchandising more effectively,
3. And…marketplace growth was also in part attributable to improved customer retention and engagement, with numbers of repeat buyers growing at a multi quarter high, and the % of total GMV coming from repeat buyers at record levels. This growing shift towards repeat purchase should also be interpreted as further proof of the improved user experience being delivered.

Continuing with the marketplace business, our official stores efforts, aimed at attracting a growing number of brands and branded retailers to MELI also continues to evolve positively. This in part helped explain the growth in listings. During the quarter:

- Total branded stores selling through our marketplace grew to over 750 vs 85 a year ago
- Some of the well known brands that were on boarded during the quarter include Garmin, LG, Sony, Verbatim, Guess, Michael Kors, Marc Jacobs, Armani, and DKNY.

Although the % of GMV coming from them is still in the single digits we are pleased with the advances we are making with this new and promising seller segment, and will continue working with these brands to drive more volume to their stores.

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Our shipping initiative also played an important role in growing marketplace engagement metrics, as they continue to perform very well, with over 40% of units shipped in Brazil, and more than 30% on a consolidated basis already being delivered through our shipping platform. This latter metric is particularly relevant, underscoring the growing adoption of MercadoEnvios in Argentina, where nearly 20% of units sold are being shipped through it, as well as in Mexico, where just 5 months after launch penetration is close to 10%.

Let me remind you that the shipping platform we are building aims to deliver top in class shipping and delivery alternatives to our buyers and sellers through a marketplace model, where we integrate the operations of our logistics partners into our e-commerce offerings. From our users perspective we are able to drive down the cost of shipping, and generate consistent and improving service levels by working closely with our partners.

So far the results we have seen are very encouraging, and we aspire to drive penetration of Envios on marketplace to levels similar to MercadoPago over time, while eventually also offering the service to off platform merchants, similar to what we have done with payments.

With that, I’ve covered some quarterly highlights for payments, financing, marketplaces and official stores and shipping, the key initiatives behind our enhanced marketplace vision. As you can see, we believe they are all advancing well, with ample room for further growth, particularly beyond Brazil. Perhaps, the most definitive confirmation of this, beyond the strength in key operating metrics I just shared, and the flow through to financials I will cover next, is the sustained improvement in Net Promoter Scores we continue to see. Q1 2015 was the 7th consecutive quarter of increases in NPS, with nearly a 20 percentage point improvement as compared to March of last year. So, in summary, we are moving forward at a good pace with our initiatives to offer a marketplace where we have more touch points with the transaction and can thus secure a better experience. Our customers are perceiving these benefits, driving acceleration in growth of many key operational metrics, and most importantly satisfaction metrics.

Before moving on to a review of our financials, I’d like to briefly mention our classifieds business unit as well. Over the past 12 months we have made a series of moves on the corporate development front to strengthen our position in the Real Estate Classifieds market, to place it on par with the strong position we hold in automotive classifieds throughout Latin America. With this objective in mind, we have acquired a series of strong Real Estate sites and brands in Chile and Mexico, through the purchases of Portal Inmobiliario and Guía de Inmuebles last year, and more recently, Metros Cúbicos at the beginning of Q2.

With these additions to our portfolio of classified properties, we now own and operate leading classified sites, measured in traffic by ComScore, in multiple countries throughout the region. These acquisitions signal our commitment to becoming the leading vertical classifieds platform in these two segments. As you may recall, recent results for the segment had been sluggish, as we transitioned to a monetization model that has become primarily free for individuals looking to list their vehicles or properties, and that charges listing fees only to dealers and realtors. We believe that recent results for the business unit, aided by the abovementioned acquisitions, that are strong in the dealer/realtor segment, point to an inflection in the trajectory of the business. During Q1 we hosted 1.8M live listings, and saw revenue growth for the segment of 55% in LC over last year. Both metrics that we think confirm this trend.

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Let's now take a look at how these operational highlights translate over to strong financial results. All growths are year on year unless I indicate otherwise. For the first quarter of 2015:

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- Net revenues were $148.1 million, 100% growth in local currencies and 28% growth in USD. Excluding Venezuela, Net Revenues grew 64% excluding FX headwinds and 40% in dollars.
- Income from operations was $25.6 million. Excluding certain one-off impairment charges due to the devaluation in Venezuela, which I will cover in more detail briefly, Income from Operations would have been $41.8M, up 23% from $34.0M in Q1 of last year.
- Net Income before Income/Asset Tax Expense was $16.4 million. Excluding the one-off impairment and FOREX loss due to the Venezuela devaluation, it would have been $53.0M, 36% higher than in Q1 of 2014.
- Net income was $1.7 million. Excluding the impairment, FOREX, and tax effects of the Venezuelan devaluation, Net Income would have been $34.6 million, up 14% from $30.3M in Q1 of 2014. All this resulted in earnings per share of 4 cents for the first quarter. Excluding the impacts of Venezuelan devaluation, earnings per share for the quarter would have been 78 cents.

As you can note, we have called out results both on an as reported manner, and also with certain exclusions related to Venezuela. The reason for this, are recent changes to Venezuelan currency exchange rates that impact YoY comparisons as well expectations for the remainder of the year. As we reported in the 8k of April 6, we adopted the SIMADI floating exchange rate in Venezuela as of March 31, 2015 to re-measure our bolivar-denominated monetary assets and liabilities and to re-measure our revenues and expenses. At the end of the first quarter, the SIMADI rate traded at roughly 193 bolivars per U.S. dollar, considerably higher than our previously employed SICAD 2 rate, which was approximately 52 bolivars to the dollar.

As a consequence of our transition to this new exchange rate on March 31, we've booked a $32.8 million loss in the first quarter that includes:

- A $16.2 million impairment on our long-lived fixed assets
- A forex loss of $20.4 million resulting from the devaluation of our local currency net monetary assets in Venezuela.
- A deferred income tax gain of $3.8 million derived from the loss on foreign exchange related to the revaluation of U.S. dollar-denominated liabilities

These effects were similar to those we experienced in Q2 of last year when we moved from Sicad 1 to Sicad 2 exchange rates in Venezuela.

As SIMADI was adopted the last day of the quarter, revenues and expenses of our Venezuelan P&L were measured at the SICAD 2 exchange rate for the entirety of the three month period. The second quarter of 2015 will show the effects of our full transition to this new exchange mechanism.

We believe these changes reflect the reality of our Venezuelan operation under current situations, and have the added consequence of further reducing our future exposure to Venezuelan currency swings, as the segment should represent less than 5% of our total revenue for the upcoming quarter.

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Now let's take a look at our top-line growth for the quarter. Before breaking down the revenue streams, I'd like to remark that all of our business units accelerated in their USD year over year growth, despite strong currency headwinds.

In Q1, we saw strong marketplace revenues growth of 14% in dollars, mainly driven by growth of our unit volume sold. In local currencies marketplace revenues grew by 96%, driven by GMV growth excluding FX of 77%. Excluding Venezuela marketplace growth was 24% in USD and 46% in local currencies.

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Non-marketplace revenues also experienced remarkable growth in this quarter, accelerating in both local currencies and USD for the fourth consecutive quarter.

The main contributions to this growth came, in order of relevance, from:

- Financing revenues accelerating to local currency growth of 100% year on year, aided by the high adoption our interest-free listing type in Brazil. In USD, financing revenues accelerated for the fourth consecutive quarter.
- MercadoPago processing revenues grew 66% in local currencies, driven by the solid growth of payments volume outside of our marketplace platform.
- Our advertising business, though a small portion of our non-marketplace revenues, experienced high growth thanks to great results from the new ad format: Product Ads

- Classifieds revenues, which accelerated to 55% YoY growth in local currencies as I previously mentioned.

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All of these effects resulted in a robust net revenue growth of 100% year over year in constant dollars, and 64% in constant dollars excluding Venezuela. Total Revenue growths in local currencies for each country were: 58% for Brazil, 94% for Argentina, 32% for Mexico, and 284% for Venezuela

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Moving down our P&L:

Gross profit grew 23% in the first quarter, to $103.4 million. Gross profit margin was 69.8% of revenues, versus 72.7% in the first quarter of 2014, and 70.5% in the fourth quarter of 2014.

This represents a loss of 285 bps of margin, primarily from 237 bps of higher processing fees resulting from the growth of MercadoPago, a business unit with lower margins than those of our marketplace, and 104 bps of incremental sales taxes generated by our shipping and financing initiatives, which were partially offset by 35 bps of scale in customer support, as we continue to streamline our operations.

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Operating expenses for the period totaled $77.8 million. Excluding the one-time impairment charge related to our Venezuelan fixed assets, operating expenses totaled $61.6 million, a 24% growth versus last year's first quarter. As a percentage of revenues, operating expenses were 52.5% in the first quarter, versus 43.2% in the same quarter last year, and 42.4% in the fourth quarter of 2014. Excluding the one-off, operating expenses were 41.6% of revenue during the first quarter, 162 basis points of margin improvement vs last year.

Let me break the remaining OPEX down for you by line item.

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Sales & marketing, the largest operating expense line, grew 17% year over year to $26.2 million, or 17.7% of revenues, vs. 19.4% for the same period last year.

Year over year scale was mainly driven by successful collection efforts leading to improvements of 242 bps in bad debt, and 70 bps in chargebacks from our MercadoPago operation. This was partially offset by 132 bps of margin contraction due to higher investments in our buyer protection program, as we expand the guarantees and coverage we offer our buyers to entice greater engagement.

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Product Development expenses grew 41% to $17.2 million, representing 11.6% of revenues in the first quarter versus 10.6% in the same period last year. This contraction in margin is due primarily to 131 bps of salaries and wages, 29 of those coming from long term retention plan, as we added north of 200 engineers to our talent pool versus last year.

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Finally, G&A increased 19% to $18.1 million in the first quarter, or 12.2% of revenues versus 13.2% a year ago, if we exclude the impact of the Venezuelan devaluation.

This scale in G&A is largely driven by an easy comp as last year´s Q1 had roughly 200 bps from a write-off of certain tax credits related to the expiration of the prior Software Development Law in Argentina. This quarter, we also saw 83 bps of efficiencies in outside services due to savings in legal fees. All this, offset by a contraction of 116 bps in salaries, 102 of those coming from the long term retention plan, and 30 bps from depreciations and amortizations due to the acquisition of Portal Inmobiliario in Q2'14 and our new offices in Argentina which we started amortizing in January 2015, when we moved in.

As we highlight each start of the year, our annual merit compensation and inflation adjustments account for a significant part of the increase in our salaries and wages line items in the first quarter and the resulting margin compression. Total salary and wage expenses, a component of our COGS as well as our OPEX lines, grew 7% on a quarter on quarter basis, and 41% on a year on year basis. Additionally, headcount grew 22% versus last year, as we added almost 500 employees over the last 12 month. Furthermore, long term retention plan accrual was higher by 142 bps due to higher stock price, also negatively impacting the scalability of the business.

Finally, also included in OPEX was the aforementioned charge of $16.2 million for impairment on our Venezuelan long-lived fixed assets remeasured at the SIMADI exchange rate. [PAUSE]

As a result, operating income for the quarter was $25.6M, or 17.3% of revenues. However, excluding the one-time impairment charge, Operating Income would have been $41.8 million, or 28.2% of Revenues, versus 29.5% in the first quarter of 2014, and 28.0% last quarter.[PAUSE]

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Below Operating Income, we benefited from $4.3 million of interest income, up 42% year on year thanks to higher interest rates on larger amounts invested.

We also saw a $5.0 million loss in financial expenses, a majority of those corresponding to interest accrual on our convertible bond.

In our forex line, we saw a $8.6 million loss versus a $3.1 million gain in the first quarter last year. The adoption of SIMADI in Venezuela generated an FX loss of $20.4 million, which was partially offset in $10.1 million by a net increase in the value of our forex holdings in Brazil.

These effects led to a net income before taxes of $16.4 million, which would have been $53.0 million excluding Venezuela's impairment charge and FOREX loss. That is 36% above last year's first quarter.

Income tax expense was $14.7 million in the first quarter. As happened with the switch to SICAD 2 in second quarter of 2014, USD liabilities on Venezuela's balance sheet further appreciated, resulting in losses recognized under Venezuelan GAAP for a one-off tax benefit of $3.8 million.

As reported USGAAP blended tax rate was 89%, driven by the one time charges in Venezuela that I previously mentioned, which are non-deductible under USGAAP. Excluding impacts of this devaluation on G&A, FOREX, and taxes, the blended tax rate for the first quarter would have been 34.8% up from 22.4% in the same quarter last year. The year on year increase results mainly from a higher tax rate in Argentina due to the expiration of the software development tax law. As noted last quarter, if we are eventually granted access to the new tax holiday the government has launched, we currently understand we will be able to recognize certain tax gains in future quarters.

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Net income came in at $1.7 million or 1.2% of revenues in the first quarter, resulting in a basic net income per common share of 4 cents. Had there been no impairment, foreign exchange and income tax effects resulting from Venezuela's devaluation, net income would have been $34.6 million, a margin of 23.3%, and an EPS of 78 cents, vs 26.3% and 69 cents a year ago respectively.

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Purchases of property, equipment and intangible assets during the quarter totaled $8.3 million. For the period ended March, 2015, 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 $29.9 million, versus $20.5 million last year. Cash, short-term investments and long-term investments at the end of the quarter totaled $558.0 million.

Wrapping up, we declared our quarterly dividend of $4.5 million, or 10.3 cents per share, payable on July 15, 2015 to shareholders of record as of the close of business on June 30, 2015.

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That wraps up my review of financial and operational metrics for the quarter. In summary, our business continues to perform well, with good traction along most of our strategic initiatives, and very positive customer feedback primarily in Brazil where the roll-out of our latest services is further along. We will spend the remainder of the year very focused on rolling these services out to more markets, and are confident the results should also be positive there once we do so. We look forward to sharing the advances on these fronts in upcoming quarters.

We can now take any questions you might have…