MERCADOLIBRE 1Q'20 EARNINGS CONFERENCE CALL SCRIPT

May 5th, 2020

PART I: INTRODUCTION AND DISCLAIMER – INVESTOR RELATIONS

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended March 31st, 2020. I am Federico Sandler, Investor Relations Officer for MercadoLibre. Our senior manager presenting today is Pedro Arnt, Chief Financial Officer. Additionally, Osvaldo Giménez, CEO of Mercado Pago 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 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 for the year ended December 31, 2019, "Item 1A-Risk Factors" in Part II of our Form 10-Q for the quarter ended March 31, 2020, and any of MercadoLibre, Inc.'s other applicable 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 2020 earnings press release available on our investor relations website.

Now, let me turn the call over to Pedro...

PART II - OVERVIEW & FINANCIAL RESULTS – PEDRO ARNT

Thank you Federico and hello everyone everyone, and thank you for joining us for MercadoLibre's first quarter 2020 earnings conference call.

So, given the unique circumstances the world is facing due to the coronavirus outbreak, I'd like to first address recent trends and developments, followed by our standard quarterly review.

Starting in March, towards the back end of a successful first quarter in 2020, we began to observe near term headwinds generated by the coronavirus outbreak. Although less affected than others, our business did register this impact. Particularly in Brazil and Argentina, and primarily during the first weeks of the imposed lockdowns, with a rebound throughout April.

From the on-set we have taken swift and decisive action to safeguard our employees and offer our platforms as solutions to the challenges being faced by our communities. We pride ourselves in being an agile and adaptable company whose business, people, and community have played an important role, alongside many others, in facing up to the COVID-19 crisis.

Consequently, our focus has mainly been on three fronts:

- The wellbeing of our teams.
- The uninterrupted operation of our commerce and fintech solutions, which are uniquely suited to help society face the current pandemic;
- and the coordination of our efforts with authorities in the countries we operate in to guarantee timely and well allocated resource allocation.

As early as March 16th, we determined that over 9,000 MercadoLibre employees in 8 countries and across 20 offices would start working remotely, to ensure and promote social distancing norms, while maintaining on site only the operational staff that was required to continue providing our services without disruptions. Precautions were taken to safeguard the health and safety of those staff members on site, which are primarily members of our logistics network. Precautions were maximized to guarantee their health and safety. For those who had to move to remote work overnight, all the technological, training, and emotional support that was necessary to guarantee efficiency, productivity and well-being was also made available.

With our remote and secure-on-site work plans in place, we activated our second area of focus: committing to support consumers and merchants through multiple initiatives which promote preventative actions and financially support their businesses or households. To that effect, we have put forth ten critical initiatives. We've:

- Leveraged our platform's broad reach to launch a COVID-19 readiness campaign by temporarily changing our Mercado Libre and Mercado Pago logos from a handshake to an "elbow-to-elbow" logo. We used this elbow-to-elbow campaign to amplify official recommendations from leading health organizations on how to prevent and minimize the spread of the coronavirus.
- Secondly, we launched our new branding campaign whose narrative is centered around, "Stay at home, we are still delivering."
- Deployed the necessary measures to ensure the continued operation of our logistics network, and that of our transportation partners, for all product categories, across all geographies could continue to operate.
- We tweaked our user interfaces to facilitate discovery of products of greatest demand and most reliable delivery times.
- We eliminated commissions on roughly 1000 SKUs of essential products for nearly 100K merchants, understanding that purchases of these items will be essential for our buyers over the next few months.
- We reduced listing fees for new sellers to facilitate their transition from offline to omnichannel, while stimulating depth of assortment on our marketplaces.
- We extended a 30-day grace period to repay loans for more than 2 million consumers and eliminated late fees for more than 150 thousand merchants to alleviate some of the financial burden of our users are facing as they seek to stabilize their finances.
- We launched fundraising campaigns with the International Red Cross to deliver safety and hygiene kits to health workers, and with regional NGOs to aid in the distribution of food to the most vulnerable.
- We launched a supermarket purchasing experience in Argentina and Brazil to facilitate access to Consumer Packaged Goods purchasing in cost effective carts and quantities.
- And lastly, to facilitate trade and mitigate economic hardship during periods of quarantine, governments throughout Latin America declared e-commerce an essential activity exempted from the lockdowns. To achieve this, we engaged and coordinated with governments in the region to keep our logistics operations functioning, helping to ease the negative economic impact of shelter-in-place lockdowns.

Our hearts go out to those individuals and families affected by COVID-19, and our gratitude and appreciation go out to all those brave individuals who are on the front lines working through this unprecedented global health crisis. At MercadoLibre we will continue to leverage our platforms to support our communities during this important time, allowing continued access to commerce and financial services as our users try to get back on their feet.

Let me now take just a few more minutes before getting into our traditional quarterly review, to update you on recent key performance indicators of the initiatives that I've just outlined.

Regionally, we saw a variation in how imposed total or partial lockdowns impacted merchants' businesses, with important improvements as time elapsed. Argentine merchants were initially more impacted than in Brazil, but they also rebounded more rapidly. Whereas in Mexico, Colombia, Chile and Uruguay, merchants faced less disruption during March and nonetheless saw increased activity during April. Marketplace KPI's hit a low point during the week of the 18th to the 24th of March. YoY growth rate for items sold during that week troughed at 3.3%, with FX Neutral GMV declining by 1.4%. From then onwards, we have seen a strong rebound, with growth rates accelerating in April to 76% YoY in Items Sold and 73% FX Neutral YoY in GMV for that full month.

More broadly, changes in demand trends led to a mix shift in sales as consumers prioritized essential items. Categories such as health, consumer packaged goods and toys and games showed strong volume growth exceeding 100% YoY on an FX neutral basis in some markets. Conversely, higher ticket, non-essential categories such as auto parts and consumer electronics saw marked declines in growth rates.

Moving on to recent trends in the fintech business, in mid March we also observed a deceleration in number and volume of payments processed; primarily as a result of lower foot traffic in bricks and mortar retail that use our MPOS and QR solutions. This negative impact was partially offset by strength in areas such as online payments merchant services, online wallet use cases, and convenience store merchants.

Just like in the commerce business, the magnitude of negative impact was greater in the initial weeks following government mandated lock downs, with gradual improvements since then. Consolidated April growth rates are above pre-Covid levels driven by Argentina, Chile, Colombia, and Mexico with Brazil still lagging somewhat. Consequently, off marketplace TPV growth during the second half of March was 95.4% YoY on an FX Neutral basis, and Total payment in number was 87.3% YoY; and for April these growth rates have been 155.6% and 119.8% respectively.

So, summing up where we stand, we've seen three phases: a strong start to the first quarter, that got derailed during the back half of March, and rebounded by April. Given these recent trends, we remain optimistic that, despite everything that has been occurring, we will still be able to make progress towards our annual objectives, without having to delay or materially modify our investments or strategic initiatives. We recognize that in these times the services rendered by both our commerce and payments platforms are essential for many people across the region and we will do our best to not let them down. We also remain attentive to any change in demand or supply or demand patterns that might again modify our capital allocation strategy.

Now that I've covered COVID-19 key related trends and updates, let's move on to our progress report for the quarter starting with the marketplace business.

Consolidated marketplace GMV grew 34.2% YoY on a FX neutral basis reaching $3.4 billion dollars while items sold grew 27.6% YoY reaching 105.7 million, also on a consolidated basis.

On a country by county basis, during the first quarter of 2020 Argentina, Brazil and Mexico GMV grew 81.5%, 15.0% and 54.5% YoY on a FX neutral basis, respectively. Late quarter mix shift towards lower ASP categories, and temporary demand pull back negatively affected these results. Items growth accelerated in Brazil and Mexico to 25.9% YoY and 66.5% YoY respectively, in showing the positive impact of mix shift. In Argentina, Items Sold during the quarter decreased 2.4% from the same period last year as we transitioned through the implementation of flat fee pricing last year during the second quarter. Chile and Colombia delivered robust rates of growth during the quarter, accelerating to 57% YoY and 44.8% YoY respectively on an FX neutral basis.

In terms of supply, live listings offered on MercadoLibre's marketplaces reached 267.4 million during the quarter, registering a 29.8% year on year growth. This deceleration was mainly driven by Brazil and Argentina, where some sellers were unable to operate under the current lockdown regimes. On average, sellers paused roughly ⅓ of listings during late March. Cross border trade has also been negatively impacted by COVID-19, as Chinese merchants listed around 40% fewer products in January and 15% fewer products in March.

Moving on to logistics, fulfillment penetration continued improving across the board, reaching 11.3% in Argentina, 14.1% in Brazil, 43.1% in Mexico, yielding 19.9% on fulfillment penetration on a consolidated basis. Meanwhile, cross-docking reached 51.1% in Argentina and 28.1% in Brazil, getting us to 23.4% on a consolidated basis. All in, we are rapidly approaching having half of our shipments already running on our own logistics network, quite a feat given where we were only a few quarters ago.

These positive results are in large part a consequence of the continued expansion of our network, as we launched new hybrid cross-docking centers in Curitiba and Belo Horizonte in Brazil, and added service center nodes and over 700 drop-off points. Additionally we also launched our Flex logistics solution in Chile and Colombia to complement our existing drop shipping offerings, enabling us to reduce reliance on any single carrier.

Let me now take on a quarterly update for fintech.

Off platform TPV decelerated during the quarter, growing 139.5% YoY on a FX neutral basis, with Brazil growing 101.8% YoY, Mexico 114.6% YoY and Argentina 221.2% YoY. TPN grew 102% YoY for the quarter on a consolidated basis. The deceleration in number and volume of payments processed, as already mentioned earlier, was primarily driven by lower foot traffic in physical retail during March, which had a direct impact on lower mobile point of sale and QR total payment volume growth, partially offset by the relative strength in our merchant services business where we process online away from our marketplaces.

MPOS business was still strong driven by January and February momentum, growing total payment volume 103.3% YoY on a FX neutral basis for the full quarter. Brazil, Argentina and Mexico grew 82.7%, 173.6% and 234.5% YoY on a FX neutral basis respectively.

The pace of mPOS sales remained solid with over 900 thousand devices sold during the quarter. In addition, we are encouraged by the launch of our new Plus device, which is geared towards catering larger merchants, and will allow us to continue driving higher average revenue per user in this business line.

Our online payments merchant services solutions grew 81.7% YoY on a FX Neutral basis. The greatest deceleration of this business was in Mexico which grew at 62.4% YoY on a FX neutral basis. This was partially offset by the growth in the Other countries segment with 109.5% YoY growth also on a FX neutral basis. The deceleration in Mexico can mostly be explained by higher exposure to cross-border businesses, specifically our merchants in China, that began to see the impact of Covid-19 early on in the quarter.

During the first quarter, Mercado Pago's mobile wallet delivered $1.3 billion dollars in payment volume on a consolidated basis, growing 299% YoY on a FX neutral basis. The slowdown in in-store QR payments and wallet transportation payments were due to seasonality plus, obviously, the total or partial lockdowns that occurred by mid March, as well as a rationalization in marketing expenditures on our part. Monetization of QR payments in Brazil, where we started to charge 100 bps merchant discount rate earlier in the year also slowed down growth, but more importantly lent increasing proof of concept to the QR network, as we took this important step towards building a sustainable business model.

Unique wallet payers reached a milestone, as during the quarter we surpassed the 8 million mark, growing over 155.1% year on year on a consolidated basis. Mexico led growth with 252.8% growth, and surpassed the million mark in payers for a quarter for the first time.

We are also pleased to announce that during the quarter we launched Mercado Fondo in Mexico in partnership with Grupo Bursatil Mexicano, who has more than 35 years of experience in the Mexican financial sector. The gradual roll out of Asset Management in Mexico began in mid-January and was finished by February 28. The first month of operations was in line with the results in Argentina and Brazil in terms of user acquisition over a similar period of time since launch, capturing 5% of users with balances being transferred to asset management products.

Mercado Credito's total outstanding credit portfolio reached USD $ 177.6 million during the first quarter, decreasing by 16.5% QoQ as a result of the devaluation of the region's currencies. In local currency, Argentina's portfolio grew by 15.4%, was flat in Brazil, and grew in Mexico by 13.1%.

By the end of the quarter, the NPL ratios had not shown a deterioration due to the COVID-19 crisis. Nonetheless, to manage our exposure to merchant and consumer credits amidst a global pandemic, we slowed credit originations to both merchants and consumers significantly. As a consequence, as well as the devaluation impact of the country's currencies, we shrunk our merchant credit portfolio by 21.1%, our consumer credits portfolio by 5.2% and Mpos credit portfolio 20.4% QoQ in USD. These defensive measures led to non-performing loans that were 30 days past due that represented 10.8% of total loans during the first quarter of 2020.

We also recorded an $8.7 million dollar increase in bad debt provisions versus Q4. This increase is explained, for the most part, due to a change in US GAAP accounting norms effective January 1st, where we adopted the model of current expected credit losses to account for our allowances for loan losses. Previously to the change, we accounted for loan losses using an incurred loss model where we accounted for loan losses as we incurred them. Going forward, we will book loan loss provisions at the moment the credit is originated based on actuarial calculations, and subsequently adjust those provisions as credits are repaid.

With that, let me now move on to financials for the quarter.

Consolidated Net revenues for the first quarter were $652.1 million dollars, a YoY increase of 37.6% in USD and 70.5% on an FX neutral basis, as we continue to optimize shipping subsidies and costs that minimize contra revenues from free shipping programs. Commerce now represents 58.4% of our total net revenues compared to 41.6% for Fintech.

Gross profit was $312.8 million with a margin of 48.0%, compared to 50.0% in the first quarter of 2019. This 205 bps margin compression was driven for the most part by warehousing costs from our fulfillment operations partially offset by collection fee improvements and salary and wages leverage in our customer services operations. On a sequential basis, the 224 bps margin improvement are mostly explained by declining mPOS sales cost. In the slides accompanying this presentation, we've included, as every quarter, a detailed breakdown of these, as well as the OPEX margin evolution that I'll cover quickly now.

Operating expenses were $342.5 million, an increase of 51.0% YoY in USD. As a percentage of revenues, operating expenses were 52.5%, compared to 47.9% during the first quarter of 2019. These 251 bps of margin compression are attributable primarily to increases in Salesforce related costs, the bad debt provisions I just covered, and increased marketing spend. Sequentially, there was $34.7 million QoQ improvement in operating leverage was mostly driven by a decrease of $60.2 million in marketing expenditure, partially offset by the same bad debt charges.

Loss from operations was $29.7 million, compared to a loss of $68.9 million during the prior quarter. As a percentage of revenues, the loss from operations reached 4.6% improving by 567 bps sequentially.

Moving down the P&L, the company incurred $23.6 million in financial expenses this quarter, mainly attributable to secured financial loans and interest expenses related to our payments business in Argentina. Interest income was $36.8 million dollars, a 50.5% increase YoY, as a result of equity offering during March 2019, which generated more invested volume and interest gain, and a higher and also a higher float in Argentina.

In delivering these results, we've sought to maintain a sustainable balance between growth and investments, which for the quarter led to a net loss of $21.1 million dollars.

As I wrap up the prepared remarks, I don't want to lose sight of the extraordinary time we are living in. We thank everyone in our communities who are doing everything they can to get us through: whether it is by staying home to remain safe, or by making it to work to keep our health systems and economies running. We remain committed to doing our part, by empowering our merchants to continue operating, by securing deliveries of goods needed by households and by supporting the normal operation of payments and financial value chains. Mercado Libre will emerge from this situation stronger and with an even greater sense of purpose. We trust the dedication and commitment being demonstrated by our entire organization will allow us to continue executing our strategy with no significant interruptions, and in doing so play our part in contributing to making things less difficult during these trying times.

We look forward as always to keeping you updated on our progress next quarter, and we'd like to take your questions now…