# MERCADOLIBRE 4Q14 EARNINGS CONFERENCE CALL SCRIPT

Date: February 25, 2014

## Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended December 31, 2014. 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, Marcos Galperín, Chief Executive Officer, and Osvaldo Giménez, Executive VP of Payments will be available during today's Q&A session. This conference call is also being 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 third 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

Thanks Martin. Good afternoon everyone and welcome to our fourth quarter and fiscal year 2014 earnings call.

As we close out fiscal 2014 and report fourth quarter earnings, I´d like to start by once again outlining the sizeable business opportunity that the digital landscape in Latin America represents for our company. As MELI continues to perform both financially and operationally, meeting or exceeding our key performance indicators, we do so buoyed by the way in which e-commerce continues to develop throughout our region. According to Forrester Research many of the large markets where we operate grew at about 20% this past year, and are forecast to sustain similar levels of growth over the next five years. That level of compounded growth rapidly scales into a sizeable addressable market for e-commerce throughout Latin America in the near future.

Moreover, as shown by those numbers, e-commerce growth remains strong both short and long term, thus generating not only the appropriate tailwinds that explain the results I will walk you through now, but more importantly, sustained new opportunities for us to pursue. Ours is an industry that shows healthy signs and ample room to expand and to have many profitable years ahead. Secular trends such as the adoption of mobile internet, increasing demand for online financial services, growing interest on the part of traditional retailers and brands to find technology partners to aid them in their digital strategies, and increased consumer familiarity and preference for shopping online all advance the cause further and are all promising trends which fuel the growth in the region I am referring to.

And, as an early mover in Latin America, we remain the leading brand and the premiere e-commerce destination within the markets that we serve, positioning us incredibly well to capture significant portions of this multi-pronged opportunity.

As such, we are excited that our company is already benefiting from these secular trends and continues to perform and grow at positive levels, and we are even more excited about the opportunities that lie ahead in 2015 and beyond.

Before going into detail in the quarter, I'd like to quickly mention a few major highlights for 2014 overall that underscore how the market potential I just referenced has translated into strong business results for the company:

- Registered Users surpassed 120 million by end of year 2014
- For the first time, our total units sold in one year crossed the 100 million mark, driving $7B of Gross Merchandise Volume
- Total payment transactions surpassed 46M, leading to Total Payment volume above $3.5 billion, which amounts to half of the gross merchandise volume transacted on our platform
- Items shipped through MercadoEnvios reached 15 million
- All of these effects translated to a top line that for the first time exceeded half a billion dollars, experiencing local currency growth of 81% year over year, or 54% Year over year excluding our Venezuelan operations

This success points to the sustained momentum of our businesses, and to the success we are having in transforming our marketplace to meet the increasing sophistication and needs of our users around liquidity, service, reliability, and mobility.

More specifically, as we have been making advances in enhancing the quality and number of services we offer our growing user base in the areas of payments, shipping, logistics, and advertising, our users are quickly adopting these solutions at an increasing pace, confirming that we are pushing our ecosystem in the right direction.

With that in mind, let's take a look at how we ended 2014 with positive momentum in the fourth quarter that carries us into 2015. These upcoming key performance indicators represent quarterly results versus the same prior year period: [PAUSE]

- Registered users were up 22%, now at 120.9 million, adding 5.7 million new users in the period.
- Successful items grew 27%, reaching 29.0 million items sold
- Gross merchandise volume grew 85% in local currencies, reaching $1.8 billion
- Total payment transactions grew 58% to 14.2 million
- Total payment volume grew 107% in local currencies to $1.1 billion
- Revenue growth, in local currencies, was 109% YoY. Excluding our Venezuelan operations, revenue growth in local currencies came in at 70% YoY. Despite currency devaluations, revenues in USD grew 20% YoY. Excluding our Venezuelan operations, revenues in USD grew 40% YoY.

Such strong growth, despite tough macro conditions in most of the region, reinforces the continued success of our enhanced marketplace model. We are confident that our focus on aggressively promoting transactions that use at least one of our value added services is resonating with our users who think of our ecosystem as a de facto means of participating in e-commerce in a safe and trusted manner. As a consequence of this, we have seen advances in the adoption of enhanced marketplace features in larger markets, with Payments, Shipping, and Financing solutions making significant strides in Brazil, Argentina, and more recently, Mexico.

We have also invested more aggressively in marketing, given our increased confidence in the optimized experience we can offer users and the trends we are seeing in long term customer value. In Q4, we saw the positive effects of increased marketing spend on both customer acquisition and engagement from existing customers, improvements which have had an immediate impact on our top line results.

We also continue to maintain our dedication to product development, since we are a technology company first and foremost. In that spirit, in Q4 we purchased Bvision, a 131-person Argentine software solutions provider, focused on software development services in cloud and mobile as well as business services. This welcome addition grows our development headcount over 25% by adding a talented additional pool of engineers.

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Now, let’s take a look at some of our strategic initiatives and how they have advanced over the quarter:

As I mentioned earlier, our vision of an enhanced marketplace is really coming to fruition, especially in our largest, not to mention most competitive, market, Brazil. Our initiatives around payments, shipping, user experience, and customer experience are all paying off, helping to drive major growth across the platform.

Payments penetration on the MercadoLibre platform continues to see significant growth, with Brazil leading the way with MercadoPago accounting for nearly 80% of all GMV in that market. That’s a 30 percentage point jump year over year and 7 percentage point increase since the third quarter of 2014. Continued growth of payments penetration on our platform is thanks to a number of factors, perhaps none more important than the success of our interest-free financing initiative...

As a reminder, this initiative consists of a new interest-free listing type that we began to offer earlier this year. The response has been overwhelmingly positive from both sellers and buyers, given that Brazilian consumers have become increasingly accustomed to interest-free financing in the world of offline retail. During Q4, this new interest-free listing type represented 18% of listings and 1/3 of all GMV in Brazil, demonstrating its high adoption and conversion rates. We’ve been so pleased with the success of this interest-free financing initiative in Brazil and its ability to drive MercadoPago adoption, that in the last quarter, we launched the same listing type in Mexico.

Also driving MercadoPago adoption in Brazil has been an increase in the number of listings required to use it to make the purchase. In Q3 we required that all items listed above 500 reales be paid for using MercadoPago, and we continued to see the positive effects of this policy during the fourth quarter. This requirement helps guarantee a safe, seamless, and more efficient transaction for buyers and sellers of higher ticket items.

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Another key component of our enhanced marketplace is our shipping solution, MercadoEnvios, which continues to grow at an incredibly fast pace, demonstrating how this service, combined with MercadoPago, helps offer a truly differentiated buying and selling experience in our major markets, especially Brazil. In the fourth quarter, MercadoEnvios accounted for 35% of items sold on our platform in Brazil and 14% in Argentina. We are pleased to report that during the fourth quarter we launched MercadoEnvios in Mexico, and that it is already gaining traction. The success of MercadoEnvios also helps drive MercadoPago penetration on our platform, given that it is only available when the item is paid for through MercadoPago. Therefore, users elect to pay through MercadoPago in order to take advantage of the convenience, transparency, and lower prices offered by MercadoEnvios. With both of these services, we are eliminating friction and improving the user experience for both buyers and sellers.

We also continue to enhance our marketplace by improving vertical experiences for our users across categories like fashion and autoparts, increasing diversification of product mix away from consumer electronics.  Among those vertical experiences are our classifieds pages, which remain an important part of our business and a major driver of traffic to our site.

We are also pleased to report that another important component of the enhanced marketplace we are building, our Official Stores initiative, continues to grow at a fast pace, enhancing the selection of quality products on our platform, as well as the MercadoLibre brand. At the end of the fourth quarter, we had 545 active official stores across seven different countries. While these stores currently account for a small portion of our GMV, their success is proving the value of MercadoLibre as a sales and distribution channel for other large retailers and brands, as we continue to prioritize and support such sellers on our platform.

A final component of the enhanced marketplace is a differentiated customer service experience. With our investments and effort in this area we once again saw NPS rise and our contact rate fall during the fourth quarter, both to record levels.

With payments, shipping, vertical experiences, official stores and best-in-class customer service, our enhanced marketplace combines the user experience of a 3rd party online retailer with the price and selection of a marketplace business. We look forward to continuing to build out our enhanced marketplaces in Brazil, Argentina, and Mexico, while expanding these features to other markets in which we operate.

[Long Pause]

Now let’s take a look at some of our other initiatives beyond the enhanced marketplace:

From a technology standpoint, we continue to see positive momentum as we transition from a desktop-centric to a multi-platform company, with greater emphasis on mobile and tablet usage. These days, fewer than half our users access the site only through desktop. This is a promising trend as conversion is higher for users who access MercadoLibre through more than one platform.  Mobile continues to penetrate our platform and bring new users, but looking at more than just the numbers, we have made significant strides towards being a successful mobile company, equipping all of our development teams with mobile developers during the past quarter.

Included in this focus on mobile is MercadoPago. During the quarter, we took several big steps forward with new initiatives in the mobile payments space, including our MercadoPago digital wallet mobile app, an in-app SDK that allows native apps to charge users through MercadoPago, and a pilot of our Mobile POS solution in Brazil, similar to credit card processing and business solutions available in the U.S.

Innovation from MercadoPago was not limited to mobile, however. During the quarter, we also launched a new white label checkout platform in which MercadoPago is seamlessly integrated with other eCommerce sites. In other words, MercadoPago processes the payment, but the user never realizes it. We also continued to grow our off-platform payments processing business by continuing to onboard large clients, such as Sony Store and Aliexpress in Mexico.

In addition to successfully executing across all of our major strategic initiatives, we drove growth in the fourth quarter through more traditional routes:

- Pricing adjustments in Brazil, Argentina, and Chile led to better monetization as we capture some of the added value we are generating for our sellers.
- We also helped drive Q4 growth through successful execution of Black Friday and Cyber Monday sales, working with large retailers to offer promotions across the site
- Finally, our advertising business experienced high growth thanks to great results from a new ad format we have called Product Ads. These ads are more contextual and have more interesting content for users browsing the site, serving as direct product listings for advertisers that lead to better conversion and therefore better monetization for MercadoLibre.

That wraps up my review of our strategic initiatives. With that, let's take a look at our consolidated financial highlights for the fourth quarter. Let me remind you that our year-over-year results continue to be affected by the devaluations of the Venezuelan currency during Q2´14. Due to this, I will call out all results on an as reported consolidated basis, in local currencies so as to exclude the impact of foreign exchange fluctuations, and also excluding our Venezuelan operations:

- Net revenues were $161.4 million, accelerating to 109% growth in local currencies, with 20% growth in USD.  Excluding Venezuela, Net Revenues grew 70% in local currencies and 40% in USD.
- Income from operations was 45.2 million, down 13% in USD year over year,  but increasing 107% in local currencies, and 4% in local currencies excluding Venezuela.
- Net Income before Income/Asset Tax Expense was $50.0 million, down 10% year over year in USD, but growing 105% in local currencies, and 8% in local currencies excluding Venezuela
- Net income was $34.2 million, falling 16% year over year in USD, growing 76% in local currencies, and falling 7% in local currencies excluding Venezuela, resulting in Earnings Per Share of $0.76

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Taking a look at our top line, total revenues saw year on year acceleration in local currencies while sustaining the growth rates delivered in prior quarters in USD, despite currency headwinds.

Marketplace revenues accelerated to 115% growth year over year in constant dollars due to improved monetization, higher local currency ASPs in some markets, and an acceleration in items sold. Excluding Venezuela, marketplace revenues also accelerated, growing 60% YoY.

Brazil in particular posted strong growth in underlying metrics, accelerating items sold growth to its highest level in the past 2 years: a year on year growth of 33%, versus 29% in the third quarter, driving Brazil marketplace revenue growth of 46% in Brazilian Reais.

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Likewise non-marketplace revenues also experienced some of its strongest growth in the last couple of years, accelerating in both USD and constant currencies for the 3rd consecutive quarter. This growth was driven by a number of factors, including:

- Financing revenues accelerating to local currency growth north of 90% year on year, driven largely by our new interest-free financing listing type in Brazil
- MercadoPago processing revenues, which posted close to 60% YoY growth in local currencies thanks to a greater number of clients onboarded and increased usage of MercadoPago in existing off-platform clients
- Particularly strong growth in Advertising revenues
- Classifieds revenues, which accelerated to 53% YoY growth in local currencies including our recent acquisition of Portal Inmobiliario in Chile and Mexico
- Revenues from MercadoEnvios, our shipping solution

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As a consequence of the strong marketplace and non-marketplace revenue growth I just outlined, total revenues showed the strongest year-over-year constant dollar growth for a quarter in several years. Total revenues grew 109% YoY in constant dollars, and 70% in constant dollars excluding Venezuela. In dollar terms, much of this growth was offset by currency devaluations, with total revenue growth in USD remaining flat at 20% year over year, and accelerating slightly to 40% year over year, excluding Venezuela.

Total Revenue Local currency growth was strong across all our major markets, reaching: 61% for Brazil, 97% for Argentina, 21% for Mexico, and 253% for Venezuela.

[LONG PAUSE]

Before I walk you through the rest of our P&L, I'd like to remind you that FOREX changes drive margin changes. These effects were particularly prominent during the fourth quarter, especially due to the strong devaluation of Venezuela, as well as devaluations across all of the other currencies in which we operate. In fact, EBIT margin would have remained almost the same year over year if measured in constant currencies.

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With that clarification, and moving down our P&L:

Gross profit grew 16% year over year in the fourth quarter, to $113.7 million. Gross profit margin was 70.5% of revenues, versus 73.1% in the fourth quarter of 2013, and 70.7% in the third quarter of 2014.

Lower gross margins year over year were driven primarily by a 194 basis points contraction primarily related to tough comps in sales tax for our Brazilian operations, since last year we were benefitting from changes in tax planning strategies that drove efficiencies in this line item. Additionally, another 162 basis points of gross margin contraction relate to collection fees for MercadoPago, as payment volume continues to show strong growth both on and off our platform. These effects were somewhat offset by 65 basis points of scale in customer support and 20 basis points in site operations.

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Operating expenses grew 48% year over year, reaching $68.5 million, representing 42.4% of revenues, versus 34.4% in the same quarter last year, and 38.8% in the third quarter.

Several effects compounded to drive such a big difference in OPEX margins, including the major devaluation of Venezuela, tough comps from the year before, and an increase in Long term retention plan compensation, due to the recent positive performance of our stock price.

Now, let me break OPEX down for you:

[PAUSE]

Sales & marketing grew 44% year over year to $33.4 million, or 20.7% of revenues, vs. 17.2% for the same period last year, and 19.9% last quarter.

This 349 basis point contraction in margin year over year is due primarily to 389 basis points of marketing expenses as we focus more aggressively on customer acquisition given our increased confidence in life time value of our users and our shifting focus towards lower ROI mobile and special event promotional marketing activities. It's worth noting that in 2014, our marketing costs were especially weighted toward the fourth quarter and distributed less evenly across the entire year than they were in 2013. On a full-year basis, the contraction in these marketing costs was only 102 basis points.

We also experienced an 84 basis point contraction in costs related to our buyer protection program as we offer buyers increased coverage on their purchases as one of our fundamental trust building and seller retention tools.

All of these effects were partially offset primarily by an improvement of 98 basis points in chargebacks, thanks to improved results from our fraud prevention efforts. Furthermore, we experienced a 51 basis point improvement in bad debt expenses, aided by the penetration of payments on our platform.

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Product Development expenses grew 66% year over year to $16.0 million, representing 9.9% of revenue during the fourth quarter versus 7.2% in the same period last year and 9.2% in the third quarter of 2014.

Contraction in product development is largely attributable to a contraction of 173 basis points of margin coming from salaries and wages, as we continue to hire talent for our engineering pool, having organically grown the number of engineers by nearly 60% last year. 75 basis points of that contraction are attributable to our Long Term Retention Plan compensation. In addition to salaries and wages, there were 91 basis points of contraction related to technology consulting and 3rd party technology-related services.

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General & Administrative expenses grew 41% year over year to $19.1 million, representing 11.8% of revenues, versus 10.0% a year ago and 9.7% in the third quarter of 2014.

This growth was almost entirely attributable to salaries and wages, where we had 141 basis points of margin contraction which were due to long-term retention plan increments, as our stock appreciated from approximately $105 to $128 over the accountable period.

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As a result, operating income for the quarter was $45.2 million, or 28.0% of Revenues, versus 38.7% in the fourth quarter of 2013, and 31.9% in the third quarter of 2014.

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Below Operating Income, we saw $4.9 million in financial expenses, a majority of those corresponding to interest accrual on our convertible bond.

Further down, interest income was $4.4 million, up 90% year on year due to higher interest rates on larger invested amounts, which came from proceeds from our convertible bond and our increased stored balance in MercadoPago,

Our forex line is positive $5.3 million due to the appreciation of USD balances held by our subsidiaries, the majority of which took place in Brazil.

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Net income before taxes totaled $50.0M, down 10% year over year and representing 31.0% of revenues, versus 41.5% in Q4 of last year.

Income tax expense was $15.8 million in the fourth quarter, representing a blended tax rate of 31.6%, up from 26.8% in the fourth quarter of 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 in September. I'd like to note that we're booking the quarter as if the software law does not apply to us, though we have presented our applications for similar benefits under the new law. At this moment, we ourselves, as well as the majority of the software industry in Argentina, are in conversations with the government to clarify whether the tax holiday can apply retroactively if and when granted. If that is the case, we will recognize those benefits in future quarters.

The year over year change in the tax rate was also affected by our convertible bond's financial expenses which are only deductible in the U.S., where we do not generate as of today significant revenues, as well as an increase in the Venezuelan tax rate.

[PAUSE]

Net income, after all this, came in at $34.2 million, or 21.2% of revenues, versus 30.3% in the fourth quarter of 2013. This resulted in a basic net income per common share of 76 cents.

Purchases of property and equipment, intangible assets, and payments for businesses acquired, net of cash acquired during the quarter totaled $19.1 million. For the period ended December 31, 2014, Free cash flow, defined as cash from operating activities less payment for the acquisition of property and equipment, intangible assets and acquired businesses net of cash acquired, was

$39.4 million, versus negative $18.7 million in the same period last year. Cash, short-term investments and long-term investments at the end of the quarter totaled $577.2 million.

Wrapping up, we declared our quarterly dividend of $4.5 million, or 10.3 cents per share, payable on April 15, 2015 to shareholders of record as of the close of business on March 31, 2015.

[PAUSE]

That concludes my financial review of the fourth quarter.

Before wrapping up, I'd like to provide a brief update on the current foreign exchange situation in Venezuela:

Earlier this month the Venezuelan government announced the unification of the SICAD 1 and SICAD 2 foreign exchange systems, into SICAD, with an initial public foreign exchange price of 12 Bolivars per U.S. dollar. In addition, on February 10 it created the "Sistema Marginal de Divisas," or SIMADI, a new foreign exchange market, whose rate is published daily by the Venezuelan Central Bank. The first foreign exchange rate was published on February 12 at 170 Bolivars per U.S. dollar. At this moment, we are in the process of evaluating the implications of these new regulations on our results and the financial position of our Venezuelan segment during the first quarter of 2015. In order to assist investors in understanding the impact of a Venezuelan devaluation to these rates, in our 10K, we will include a foreign currency sensitivity analysis that considers an exchange rate of 170 BsF per U.S. dollar for the full year 2014.[PAUSE]

In conclusion, looking back at a successful year, we remain committed to executing on the same strategy that we've laid out over the past few quarters and that we're already seeing play out early in 2015, including a focus on the key elements of our enhanced marketplace: payments, shipping, vertical experiences, official stores, and exceptional customer service. Likewise, we will continue to drive payments and financing outside of our platform, as well as accelerate our transition from desktop to a multi-platform focus.

Looking ahead to 2015 and beyond, there is so much opportunity in Latin American eCommerce that is still untapped. While benefiting from the tailwinds of eCommerce's underlying drivers, we must continue to innovate and execute at a fast pace:

- While maintaining focus on our largest markets, we will also work to launch the full ecosystem of MercadoPago and MercadoEnvios in our other markets.
- We must also take the necessary measures to bring more large retailers and brands onto our platform, providing back end technology and middleware solutions to improve seller integrations and generate greater lock-in of key customers that is necessary to create that critical mass of e-commerce customers that we are looking for
- In that spirit, we must continue to build out MercadoEnvios, using it to pave the way for future solutions in fulfillment
- We must maintain our focus on acquiring and retaining buyers, balancing short-term profitability for long-term investments in brand loyalty, customer retention and market share gains

- We must continue to innovate in the payments space on and especially off our platform, with a special focus on mobile. Given the success of consumer financing to date, we also must seize greater opportunities to generate P&L impact in this space.

And with that, I'd like to end today´s call by stating our confidence that MercadoLibre's strong 2014 results across key financial, performance and operational metrics are a reflection of the resiliency of demand for our enhanced marketplace solutions.  Facilitating e-commerce in 12 Latin American countries; we remain the leading operator in these markets and our core focus in the new year will continue to be guided by the strategic goals we have consistently communicated: driving payment and shipping solutions, increasing adoption of mobile commerce, attracting new brands and vendors, tailoring vertical solutions, placing customer experience at the forefront of it all; all this while generating a developer's ecosystem on top of MELI's open platform. We trust that as we execute on these fronts, our company will be in great shape for many years to come.

We'll now take your questions...