MERCADOLIBRE 4Q17 EARNINGS CONFERENCE CALL SCRIPT

Date: February 22nd, 2018

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended December 31st, 2017. I am Federico Sandler, Head of Investor Relations for MercadoLibre. Our senior manager presenting today is Pedro Arnt, Chief Financial Officer. This conference call is also being broadcasted over the Internet and is available through the investor relations section of our website.

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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 fourth quarter 2017 earnings press release available on our investor relations website.

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Now let me turn the call over to Pedro.

Part II: Overview & Financial Results – Pedro Arnt

Thanks Federico, hello everyone and welcome to our fourth quarter conference call for 2017.

Let me kick us off today with a general comment regarding the state of the internet, and digital businesses throughout Latin America: we believe that we continue to be in the early phases of the change in consumer behavior towards online offerings that drive the growth of our company. And the pace of this change is encouraging. Some of the main structural factors that underpin ecommerce and fintech in Latin America continue to take shape through the growth of the installed base of smartphones, increasing consumer familiarity and affinity with buying and transacting online, greater number of broadband users, rising demand for online financial services, and growing interest on behalf of traditional retailers and brands to find technology partners to support them in developing their growth strategies. All of these aforementioned structural factors, we believe, are the catalysts that will continue to fuel the growth of Mercado Libre for many years to come.

As a consequence of these macro factors, combined with our own improved consumer offering, we've been able to close one of the strongest quarters in our history, on the tail end of one of the strongest years our business has had. We are excited to see how the company continues to benefit from these strong secular tailwinds while we continue to outperform and grow aggressively, and we are even more excited about the prospects for our company as we move into 2018 and beyond.

Let's now take a look at how we closed this record 2017 with an outstanding fourth quarter that carries us into 2018 with great momentum. Let me just remind you, that greater detail on this can be found in the accompanying presentation to these prepared remarks.

The following key performance indicators represent quarterly results versus the same period last year:

- Units sold grew 57.5%, reaching 81.2 million.
- Gross Merchandise Volume rose 132% on an FX neutral basis, reaching $3.6 billion dollars. Excluding our Venezuelan operation GMV accelerated on an FX neutral basis to 66.5% year on year reaching $3.2 billion dollars.
- Total payment volume grew 94.5% on an FX neutral basis, reaching $4.3 billion dollars. And excluding total payment volume in Venezuela on an FX neutral basis grew 85.2% year on year reaching $4.3 billion dollars.
- While total payment transactions in number grew 72.2% to 73.2 million payments processed.
- And registered users were up 36.2% year on year after we added 10.7 million new users during the fourth quarter of 2017.

As units sold, GMV, and TPV metrics indicate, both our Marketplace and Payments businesses had a stellar quarter, and we are pleased to see this strength is evenly spread across multiple geographies. Our Brazilian and Mexican businesses performed well, while Argentina, Colombia, and Chile also delivered encouraging results.

This aforementioned strength across multiple geographies has also translated in solid top line results. Excluding our Venezuelan operations, top line accelerated for the second consecutive quarter to 75.3% year on year. Revenues in USD grew at a healthy 70.5% year on year.

The results we delivered during the fourth quarter are a consequence of our customer-centric approach, anchored around our free shipping and loyalty programs. And as a result, we have increased our investments in branding and customer acquisition as we've seen positive effects of increased marketing spend on acquiring customers and engagement from existing ones, improvements which, as I have just outlined, also had an immediate impact on our revenue growth.

Before I delve into greater detail in the quarter, I'd like to take a moment to quickly go over a few annual highlights for 2017, that accentuate how the market potential I just talked about has impacted our business positively allowing us to deliver a historic annual result:

During 2017:

- We crossed the $1 billion dollar mark for the first time, delivering record net revenues of $1.4 billion, a growth rate of 65.6% versus 2016.
- Units sold accelerated for the third year in a row to 49.1% year over year, reaching 270.1 million items sold for the year.
- Gross Merchandise Volume rose 87.8% year on year on an FX neutral basis, reaching $11.7 billion dollars. Excluding Venezuela, that same metric accelerated to 45.9% year on year, reaching $10.6 billion dollars.
- Total payment volume grew 77.1% on an FX neutral basis, reaching $13.7 billion dollars. Excluding Venezuelan TPV growth on an FX neutral basis of payment volume was 77.8% year on year, and reached $13.5 billion dollars.
- While total payment volume in transaction numbers grew at 66.8% year on year and reached 231.4 million payments processed throughout the year.
- Finally, registered users grew by 21.7% as we reached 211.9 million registered users, after adding 37.7 million incremental users during the year.

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Now, let's take a look at the key initiatives and quarterly results by business unit starting with the marketplace.

We are encouraged by how strong execution continues to be on that front. Case in point, our focus marketplaces in Mexico and Brazil were the highpoints for the quarter, delivering exceptional results in key metrics such as units sold, GMV growth, depth of selection, user engagement, and revenues while also meaningfully growing the penetration of the value added services we offer our users. Additionally, we are also pleased to report that several of the product enhancements that have allowed us to gain significant traction in Mexico and Brazil are beginning to deliver positive results in Colombia and Chile, where we are seeing the fastest pace of growth in over five years in terms of units sold and GMV.

Let me get more specific in these issues. Mexican units sold grew triple digits for the second consecutive quarter to 126% year on year growth up from 46.9% a year ago. In Brazil, units sold also delivered strong results growing year on year to 68.2%. That's the seventh consecutive quarter of unit volume growth above 50% and also the fastest pace of growth in over five years in Brazil.

GMV has was also very strong during the quarter, and reflect the same trends that we have just outlined in items sold growth. On an FX neutral basis, Brazilian GMV accelerated for the third consecutive quarter to 71.3% YoY. Mexican GMV growth was another high point, not only accelerating for the ninth consecutive quarter on an FX neutral basis to 90.6%, but also delivering the fastest pace of growth in over five years. In line with that, Colombia and Chile are also delivering multi-year high GMV growth rates on an FX neutral basis, accelerating to 32.6% and 50.9% year on year respectively.

Moving on, our business vibrancy metrics continue to demonstrate healthy growth rates across most geographies as well. Specifically, on a consolidated basis unique buyers for the quarter grew over 20% for the eighth quarter in a row and almost twelve percentage points higher than a year ago. In this respect, I'd like to take a moment to highlight Brazil and Mexico, as each grew unique buyers to multi-year highs of 40.8% year on year and 70.7% year on year respectively.

As a consequence of this, we have been able to drive greater user engagement as well during the year. For 2017, items bought per buyer in Brazil has grown almost 25% versus 2016, while during the same period in Mexico units purchased per buyer has grown by almost 60 percent.

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On the supply side, we continued to make strides onboarding more inventory as our SKU assortment continues to deepen. Live listings being offered on Mercado Libre's marketplaces accelerated for the second consecutive quarter to 56% growth year on year during the fourth quarter of 2017 reaching 114.1 million live listings.

Seller vibrancy and engagement was another highpoint of the quarter in both Brazil and Mexico. Unique sellers accelerated for the third consecutive quarter to 34.2% in Brazil year on year while Mexico accelerated for the fourth consecutive quarter to 28.9% year on year. Additionally, during 2017, items sold per seller in Brazil grew 25% versus 2016, while during the same period in Mexico units sold per seller has grown an outstanding 66%.

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Let's take a second to give you an update on the momentum we are generating on mobile, another key avenue for growth and investment for us as we transition from a desktop centric to a multi-device ecosystem. The important metric here is that exiting the quarter for the first time ever, gross merchandise volume for mobile devices exceeded 50%, reaching 53% of total GMV.

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When looking at monetization levels on our marketplace, results are also very reassuring. On an FX neutral basis, marketplace revenues in Mexico, Brazil, Argentina, and Colombia, as well as Uruguay are all growing above 50% year on year. Mexico is worth highlighting here, as its FX neutral revenue growth rate was the highest in over five years during this quarter reaching an outstanding 124.5% YoY, while Brazil accelerated for the fourth consecutive quarter to an equally solid 79.9% year on year.

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Throughout the year we continued to move forward on our efforts in carrying out critical technical and operational capabilities around the development and management of warehousing and transportation networks in Brazil and Mexico, added additional carriers across multiple geographies, and grew our free shipping initiatives in most of our main markets. All of these significantly contributing to the positive results I've have just outlined.

If we look on a by country basis, during the fourth quarter in Mexico adoption of MercadoEnvios reached 75% of units sold versus 50% during the same period in 2016. It is important to note that shipped volume in Mexico has been outstanding as well, as it has grown items shipped by over 200% year on year every quarter since the first quarter of 2017.

Brazil also had highlights on the logistics front. Items shipped through Mercado Envios grew over 70% year on year for the second consecutive quarter reaching 35.8 million items. Envios penetration gains in Colombia and Chile have also been worth noting as they have gained 21 percentage points and 36 percentage points reaching 60% of all sales and 47% respectively. Additionally, on the free shipping front, and confirming how high demand elasticity seems to be to the product, we are pleased to report that exiting the quarter, over 70% of our gross merchandise volume that is shipped is through Mercado Envios is already being done so free to the buyer.

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Let me now move on to our payments business, Mercado Pago. Let me start by saying that we are satisfied with the results that we've delivered during the last quarter. We´re operating at a time when change is sweeping through the financial services industry in the region, driven by a rise of mobile technologies and the acceleration of money becoming increasingly digital; and we continue to make significant progress towards our vision of building out a next generation digital financial platform to service our consumers.

Starting with our on platform payments business on Mercado Libre's marketplace, on a consolidated basis and excluding Venezuela, penetration of Mercado Pago rose four percentage points versus the fourth quarter of last year, reaching 89% of total gross merchandise volume. These solid penetration gains were driven in part by our decision to make adoption of Mercado Pago mandatory for 100% of listings in Mexico, and all new items listings in Chile. On a country by country basis, Mexico led, with 98% penetration versus 86% during the same period last year, while we also delivered strong penetration gains in Colombia, Chile, and Uruguay. Case in point, Colombia increased 22 percentage points versus last year to 82%, Chile grew 34 percentage points to 75%, while Uruguay grew 24 percentage points reaching 41% of gross merchandise volume paid through the Mercado Pago platform during the fourth quarter.

Complementing these solid penetration gains, on platform Total Payment Volume on an FX neutral basis grew in excess of 50% year on year for the seventh consecutive quarter to $3.2 billion dollars, while total payment transactions reached an all-time high of 50.1 million payments processed. Let me remind you that is the 14th consecutive quarter of growth in excess of 50% for the aforementioned metric.

During the quarter off Mercado Libre payment performance, was also positive, as our merchant services business once again grew faster than the overall growth of ecommerce. Great execution of commercial initiatives, automated onboarding of merchants, strong seasonal campaigns such as Black Friday and Cyber Monday, and outstanding results in our mPoS and mobile wallet initiatives resulted in off platform Total Payment Volume growth on an FX neutral basis of 127.9% year on year. That is the third consecutive quarter of triple digit acceleration in that metric.

It is also worth noting the solid execution in Brazil, delivering off platform total payment growth on an FX neutral basis of 163.4% year on year, while Argentina, Mexico, and Chile have grown off platform TPV at or above 60% year on year for in excess of ten quarters also on an FX neutral basis.

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In terms of off-line mobile payments solutions, sales and adoption of our mobile point-of-sale devices continue to gather steam both in both Argentina and Brazil. When compared to the fourth quarter of 2016 we have multiplied the number of mobile PoS devices sold in Brazil by nearly 13 times, while in Argentina we have grown sales of those devices by a factor of 20.

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Before I move on, I'd like to take a moment to talk about our momentum in the merchant credit initiative, Mercado Credito, which complements our digital payments platform. Credit is a flywheel for Mercado Libre, which benefits not only our consumers but also our merchants. Mercado Credito is helping us to grow payment volume, drive a positive network effect for our businesses, and is also allowing us to deepen further our relationships with our merchants while helping them grow their businesses. As such, we are observing merchant sales increase after receiving these working capital loans that we extend, while we also observe reduced merchant churn and higher satisfaction rates. In line with that, we're pleased to report that during the quarter we sustained our traction in originating merchant loans in Brazil, Argentina, and Mexico while still maintaining low rates of bad debt.

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That wraps up our remarks on operations for the quarter. We have accomplished a lot during 2017, and are confident that 2018 will be a year where we can further consolidate our value proposition and further demonstrate that Mercado Libre can continue to be a leader in a region rapidly moving towards online commerce and digital payments.

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Before I walk you through our financial results in detail, I'd like to first note that these have been impacted by our recent decision to deconsolidate our Venezuelan operations. We have determined that we no longer have full accounting control of our subsidiaries in that country as a result of Venezuela's recent selective default determination, of increasingly restrictive exchange controls, sanctions on government officials, and other operating restrictions that have hindered materially our ability to make key financial decisions for that market.

As a result, we have deconsolidated our Venezuelan subsidiaries effective December 1st, 2017, and recorded a loss of $85.8 million dollars pertaining to investments in Venezuela, including net assets, intercompany balances, and intangible assets.

This deconsolidation implies that beginning December 1st, 2017 Mercado Libre no longer includes the results of its Venezuelan subsidiaries in its consolidated financial statements.

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With that important clarification, let’s now take a look at how the operational highlights I have just walked you have flown into our financials for the fourth quarter of 2017:

During the quarter, delivered record net revenues of $ 437.0 million dollars, growing 70.5% year on year.

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By segment, marketplace revenues, driven by the business factors we described earlier, accelerated to 116.1% on an FX neutral basis. Excluding Venezuela, but also on an FX neutral basis, marketplace revenues grew almost 16 percentage points above the same period last year accelerating to 76.1% year on year growth. Marketplace revenues in USD came in at a solid 71.2% year on year.

Non-Marketplace revenues also experienced solid growth rates during the quarter. On an FX neutral basis non-marketplace revenues accelerated to 76.4% year over year. Excluding Venezuela and also on an FX neutral basis non-marketplace revenues grew an equally solid 74.4% year on year. Non-marketplace revenues in dollars came in at 69.5% year on year growth.

Some of the main contributors the growth in the non-marketplace segment were:

- Financing fees, which accelerated for the second consecutive quarter to 75,9% year on year growth driven for the most part by lowering financial costs in Brazil that have improved the spreads on our loans. Adoption of our credit product in Brazil resulted in FX neutral revenue growth of 110,5% year on year for that business line.
- MercadoPago payment processing revenues accelerated to 103.2% year on year on an FX neutral basis, driven by solid gains in payment volume outside the marketplace through strong mobile and seasonal initiatives combined with gains in merchant onboarding. Brazil led the way again when it comes to off platform payments with an outstanding performance, as it delivered the 11th consecutive quarter of revenue growth for that business line above 90% when measured on an FX neutral basis.
- Advertising revenues accelerated to 66.8% year on year on also an FX neutral basis, driven by our Product Ads solution, as new placements and search queries coverage resulted in increased unique impressions. Display advertising also contributed to the strong results doubling USD revenues through successful trade marketing and programmatic initiatives.
- And finally, on the non-marketplace businesses Mercado Credito grew revenues triple digits year on year both in USD and on an FX neutral basis as we continue to grow out our merchant portfolio of loans by over 10x versus last year, and also offer cash advances to a greater number of merchants on our platforms.

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Moving down our P&L, gross profit grew 25% to $203.4 million dollars. Which lead to a gross margin of 46.5% of revenues versus 63.5% a year ago.

The main drivers of gross margin compression during the fourth quarter can be mainly attributed to investments in our free shipping and loyalty programs in Brazil and Mexico, which accounted for a reduction of 1,810 bps of gross margin year on year. Additionally higher COGS related to the sales of our Mobile POS payment devices and warehousing costs mainly in Brazil contributed an additional 230 bps of margin compression when compared to the same period of 2016.

These effects were offset to some extent by 190 bps of sales tax leverage. And furthermore, collection fees contributed 130 bps of improved margin due to lower costs of processing credit cards in Argentina. Combined, these effects it resulted in a gross margin compression of 1,590 bps versus the same period for last year.

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Further down, operating expenses totaled $268.0 million dollars, up 173.3% from last year's fourth quarter.

The break down of OPEX lines is as follows:

- Sales & Marketing grew 141.9% year on year to $117.4 million dollars, or 26,9% of revenues. These resulted in 793 bps of margin contraction. Higher offline and online marketing investments mainly in Brazil, Mexico, and Argentina contributed 956 bps of this compression. Additionally, increases in our bad debt contributed to an additional 58 bps which were partially offset by approximately 220 bps of scale in public relations, buyer protection program, and salaries & wages.
- Product development expenses grew 30.1% to $34.2 million dollars, representing 7.8% of revenues in the fourth quarter versus 10.2% a year ago. 107 bps of scale were driven by salaries & wages, notwithstanding having grown our IT headcount by almost 200 employees during the quarter. The rest of the year on year accretion, 136 bps, mainly reflect maintenance costs and office expenses growing less than revenues within our product development organization.
- As reported G&A was up 31.7% year over year to $30.6 million, representing 7.0% of revenues. The 207 bps of scale in G&A are largely driven salaries & wages.
- And as previously mentioned, as a consequence of the deconsolidation of our Venezuelan subsidiaries we recorded an $85.8 million deconsolidation charge during the quarter.

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As a result, operating income for the quarter was negative $64.6 million dollars. If we exclude the deconsolidation charges from Venezuela and operational results from that market for the entire quarter, operating income would have been $12.7 million, or 3% of revenues, versus 7.1% in third quarter of 2017.

Beneath operating income, we benefited from $8.9 million dollars of interest income, down 13% due to lower interest rates in Brazil and Argentina. Lower float in the latter country also contributed to the year on year contraction.

We had $6.8 million dollars in financial expenses mostly corresponding to the interest accrual on the convertible bond we issued in June of 2014.

For forex, we saw a $2.2 million dollar loss versus a $0.5 million dollar loss in the fourth quarter of last year. This foreign exchange losses are explained, for the most part, due to the Brazilian Reais and Mexican Peso depreciation over our net liability position in USD. This was partially offset by a forex gain due to the Argentine Peso depreciation over our net monetary asset position in USD.

Income tax expense was $3 million dollars during the quarter versus $16.3 million, mainly as a result of lower pre-tax income, taking into account that the loss on deconsolidation of Venezuela is non-deductible for tax purposes.

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As a result of all this, we delivered a net loss of $67.7 million dollars for the fourth quarter, resulting in basic net loss per common share of $1.53. However, excluding Venezuela, the business delivered net income of $8.8 million dollars, a 2.0% net income margin and an earnings per share of $20 cents. If we only exclude the deconsolidation charges, net income would have been 25.3 million dollars, a margin of 5.6% and earnings per share of $57 cents. All this compares to $51.3 million dollars and a 20.4% margin on earnings of $1.16 cents a year ago.

Purchases of property and equipment, intangible assets, advances for fixed assets and payments for businesses acquired, net of cash acquired totaled $31.3 million dollars during the quarter. Cash, short-term investments and long-term investments at the end of the quarter totaled $632.4 million dollars.

We declared a quarterly dividend of 6.6 million dollars or 15 cents per share payable on January 12, 2018 to shareholders of record as of the close of business on December 31st 2017.

One important announcement regarding dividends. After reviewing our capital allocation process the Board of Directors has concluded that we have multiple investment opportunities that can generate greater return to shareholders through investing capital into our businesses over a dividend policy. Consequently, the decision has been made to suspend the payment of dividend to shareholders as of the first quarter of 2018, as it will free up capital for investments in multiple projects in our different platforms.

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Before I end the call, I would like to take a moment to thank all of Mercado Libre’s customers and employees for having made 2017 one of our best years ever. We have made significant advances executing against our strategy, enhancing even further our capabilities in payments and ecommerce. We look forward to continuing to lay the groundwork for long-term sustainable growth in our businesses and updating you on those improvements.

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With that, we’ll now take your questions. Thank you very much.