MELI Q3’13 Earnings Conference Script

Date: November 5, 2013

MERCADOLIBRE 3Q13 EARNINGS CONFERENCE CALL SCRIPT

Part I: Introduction and Disclaimer – Investor Relations

Hello everyone, and welcome to the MercadoLibre earnings conference call for the quarter ended September 30, 2013. My name is Martin de los Santos and I am the head of Investor Relations for Mercadolibre. Our senior management presenting today is Pedro Arnt, CFO. Additionally, Marcos Galperin, Chief Executive Officer, and Osvaldo Gimenez, Executive Vice President 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 factor 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 2013 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

Good afternoon and thanks for joining us. I would like to start today’s call with a brief update on the major trends we are seeing across the MercadoLibre ecosystem, reviewing some of our KPIs and delving into the most relevant qualitative aspects behind our progress, before jumping into a detailed review of our financial performance.

I am pleased to say that our third quarter of 2013 saw good progress along many different fronts, as each of our ongoing strategic initiatives gain further traction, and as we continue to execute against our plan despite currency devaluations which still present headwinds for our reported financials. As a result, our business delivered strong and accelerating revenue growth of 45% in local currencies, 27% in US dollars, given the aforementioned currency headwinds, and EPS growth of 30% in local currencies, and 12% in US dollars. We saw strength across most geographies, with accelerating revenue growth in local currencies in Brazil, Argentina and Venezuela.

As we indicated last quarter, the company´s results confirm that our ability to consistently deliver solid execution in a market constantly expanding due to the secular shift of commerce towards on-line channels makes for a powerful business combination that continues to override the softer macro cycle in most countries where we operate.

Let me give you some data to illustrate this virtuous business cycle generated by secular tailwinds that we benefit from [PAUSE]: according to ComScore data for the first half of the year, internet unique visitors in Latin America are growing 13% year on year, the fastest consolidated pace of growth out of any continent worldwide. This growth in our addressable user base is compounded by our ability to further penetrate existing internet users, leading to 20% year on year growth in new users on our platforms during the third quarter. Furthermore, as we maintain our pace of innovation and focus on delivering an improving trading experience to our users, we are able to drive incremental results in engagement metrics from our existing users, leading to volume growth that outpaces user growth: [Pause] 25% in units sold, and 32% in payments processed, both year on year. This cycle of increasing user engagement and increasing market penetration, atop increasing market size, leads to incremental brand awareness for MercadoLibre among consumers. As a September 2013 study by Millward Brown quantifies, we not only remain the regional "top of mind" leader for e-commerce in each of the markets where we operate, but have also seen improved brand awareness, as reflected by an unaided recognition level of our brand that surpasses 50% regionally, and peaks at above 80% in a few of our largest markets. [PAUSE] This improved brand awareness allows us to continue capturing new users as they move on-line, and gain share of wallet from existing users, kick starting the cycle I just mentioned all over again. [PAUSE]

Furthermore, we have been able to maintain this strong brand position in Latin America by focusing on the following initiatives:

· Offering the widest possible selection of products and services at the lowest possible prices
· While making our platform compatible with a broad base of devices and form factors as they become relevant [Pause]
· And providing the right set of value-adding functionalities and services, primarily through technology, to guarantee an outstanding UX

Each of our strategic initiatives is about improving on these key aspects. Let me update you on how they advanced in the third quarter:

· First, we continued to diversify product mix on our platform, be it through our work on vertical categories or through our open platform, which in the third quarter enabled new integrations with re-known brands such as DC, Mizuno, Pony, Quicksilver and Diesel in apparel, and Phillips in consumer electronics, to name a few. Combined with the right commercial push, these initiatives are diversifying the basket of what gets bought on our platform. In addition to apparel, [Pause] sports & fitness, baby products, furniture and office equipment all kept gaining share of units sold on a quarter on quarter basis, not to mention year on year.
[PAUSE]
· In terms of capturing share in new devices, our mobile initiatives continued breaking new ground, expanding as a point of entry and as a habitual gateway to our platform. Mobile keeps gaining share of sales ahead of our own expectations, and in September it broke into double digit territory as a percentage of our total gross merchandise volume for the first time. In fact, mobile GMVe has been growing in the triple digits all year, contributing to the vibrancy of our core marketplace.
[PAUSE]
· In the meantime, our key value-adding services kept gaining traction on our platform in the third quarter. Payments continued to outpace marketplace growth, particularly in Brazil, where on-platform total payment volume continued to reach record levels, gaining 4 percentage points of gross merchandise volume penetration QoQ. Argentina also saw good progress, as on-platform penetration rose 3 percentage points, also quarter on quarter.
· As this takes place, our shipping solution, MercadoEnvíos, expands it runway. Operational in Brazil and Argentina, it is growing extremely fast from a small base, claiming share of GMVe on a monthly basis. We started the year with only a handful of transactions, but during September surpassed 4% of units sold in both countries, with Brazil leading the way with more than 5%, being shipped through MercadoEnvios. We look forward to continue to ramp up our shipping initiatives by adding more countries, carriers and logistics related services to the offering.
· Finally, as you may recall, we are complementing all of these initiatives with parallel efforts and investments in our customer service operations. I am pleased to report that the sum of these efforts and functionalities contributed to important sequential and year on year

improvements in our net promoter score, and we believe we will be able to sustain this positive trend going forward.

[Pause]

Having covered these operational highlights, let's now review how our key metrics performed in the third quarter of 2013 versus the same period of 2012:

· New registered users on our platform grew 20%, as I mentioned earlier, with mobile contributing 12% of these in the quarter
· Items sold grew 25%,
· GMVe grew 49% in local currencies
· Total payment transactions grew 32%
· Total payment volume grew 55% in local currencies

[LONG PAUSE]

Let's see how all this flowed through to our financials, beginning with our consolidated financial highlights for the quarter. All growths are year on year unless I specify otherwise.

In the third quarter of 2013:
• Net revenues were $123.1 million, accelerating in local currencies and also in USD despite foreign exchange headwinds. Revenues grew 45% in local currencies and 27% in USD.
• Gross profit margin was 72.3%, 133 bps lower year on year.
• Income from operations was $37.4 million, with an operating income margin of 30.4%. Year on year, operating income grew 11% in USD and 28% in local currencies.
• Net Income before Income/Asset Tax Expense was $41.2 million, growing 15% in USD and 33% in local currencies.
• Net income was $29.1 million, growing 12% year-on-year in USD, and 30% in local currencies. This resulted in EPS of 0.66 cents for the quarter.

[LONG PAUSE]

Our revenue acceleration in the third quarter was driven mainly by the marketplace businesses, with strength across most markets including Brazil where good traction on the supply front brought placement fee revenues acceleration, while favorable listing type mix brought final value fee acceleration despite slightly decelerating GMVe leading to an increase in marketplace take rate.

[PAUSE]

Our non-marketplace revenues also grew well.

• Classifieds and Ad sales posted continued growth in line with previous quarters. The motors classifieds category was the driving force behind non-marketplace revenue growth in Mexico and Venezuela…

while in Brazil and Argentina non/marketplace revenue growth was primarily spurred on by

• Off-platform MercadoPago processing revenues, which remained our fastest growing revenue stream; while financing revenues, despite slowing monetization due to increases in interest rates, continue to grow leading to a record volume of financed transactions during the quarter.

As a result, consolidated non-marketplace revenues grew 21% year on year in USD, and 39% in local currencies.

[PAUSE]

Consequently, Total Revenues accelerated, with good momentum heading into the 4th Q, delivering local currency year on year revenue growth of:

· 28% for Brazil, 66% for Argentina, 19% for Mexico, and [PAUSE] 92% for Venezuela, where currency and inflationary distortions impact growth, but where, nonetheless, we continue to run a profitable and fully self-financing business that presents us with strong earnings potential in the mid to long term, and where units sold grew 26% year on year during the 3rd quarter, underlining the resilience of our business model even in the toughest of macro conditions.

Furthermore, if we consider local currency growth for our consolidated revenues excluding Venezuela, we get a year on year growth rate of 37% in the third quarter, as all our operations are witnessing robust volume growth, starting with Brazil, which posted 29% growth of units sold in the third quarter year on year.

[LONG PAUSE]

Advancing down our P&L:

Gross profit grew 24% in the third quarter, to $88.9 million. Gross profit margin was 72.3% of revenues, versus 73.6% in the third quarter of 2012, and 72.3% also in the second quarter of 2013.

Gross margin compression year over year is primarily a consequence of our previous year third quarter having had a 50 bps non-recurring sales tax credit that generates a tough comparison and an additional 70 bps of margin contraction from our incremental investments in fraud prevention this year. Beyond those two items, higher proportion of payments processing fees as a consequence of growth in MercadoPago have been offset by scale and efficiencies in site operations and customer service.
[PAUSE]

Operating expenses for the period totaled $51.5 million, 36% higher than in the same period of 2012. Operating expenses as a percent of revenues were 41.9% in the third quarter, versus 38.9% in the same quarter last year, and 40.7% in the second quarter of this year.

These expense levels are coming in according to plan as we have been investing more aggressively than in the past in product development, brand spending and in compensation costs to attract and retain talent. We believe that these three areas are critical to our long-term success, and we are comfortable with the margin profile the business continues to deliver, despite the year-on-year deleveraging generated by these line items. [PAUSE] I will now detail the most significant variations in OPEX levels in greater detail.

[PAUSE]

Sales & marketing, which remains our largest line item, grew 30% to $24.2 million, or 19.6% of revenues, vs. 19.1% for the same period last year.

Our TV campaign accounts for 163 bps of additional marketing spend versus last year's third quarter. Salaries and wages account for another 29 bps, while both are largely offset by:

- A 70 bps improvement in our chargebacks line, as we kept reducing our rate of chargebacks over credit card volume.
- An 88 bps improvement in bad debt and trust and safety combined

[PAUSE]

Moving on to Product Development, expenses grew 51% to $12.1 million, representing 9.8% of revenues in the third quarter versus 8.2% in the same period last year, making this the line item where expense growth most markedly outpaced revenue growth year over year. One quick note on this, as a fast growing technology company, if there is one line where we believe short term scale is less relevant, this is it.

[PAUSE]

Finally, G&A grew 35% year-over-year to $15.3 million in the third quarter, or 12.4% of revenues versus 11.6% a year ago, primarily driven by an increase in compensation related costs.

[PAUSE]

As a result, operating income for the third quarter of 2013 was $37.4 million. Operating income margin for the quarter was 30.4% vs. 34.7% in the third quarter of 2012. Below Operating Income, we benefited from $2.8 million of interest income, down 5% year on year as a result of lower interest rates on our investments.

[PAUSE]

We saw a $1.6 million gain in our forex line, as the USD balances held by some of our subsidiaries appreciated QoQ, whereas in the same period last year we saw negative $200 thousand from the inverse effect.

[PAUSE]

As a result, our pre-tax income was $41.2 million, 15% higher than in the third quarter of last year in USD, and 33% higher in local currencies. In the third quarter income tax expense was $12.1 million, resulting in a blended tax rate of 29.3% versus 27.5% in the third quarter of 2012.

[PAUSE]

Net income for the three months ended September 30, 2013 was $29.1 million, 12% higher than last year's $26.1 million. Net income in local currencies was 30% higher than in the same period last year.

[PAUSE]

Net income margin was 23.7% in the third quarter versus 26.8% for the same quarter of 2012, resulting in a basic net income per common share of 0.66 cents.

[PAUSE]

Payments for the acquisition of property, equipment, intangible assets, advances for fixed assets and acquired businesses net of cash acquired for the quarter totaled $38 million, driven by the purchase of commercial real estate in Venezuela as a strategy to protect value in Venezuela from devaluation risks. Consequently, for the period ended September 30, 2013, Free Cash Flow totaled $25.7 million, versus $21.9 million last year, despite the investments made in fixed assets. Cash, short-term investments and long-term investments at the end of the quarter totaled $289.2 million.

[LONG PAUSE]

Concluding this afternoon's review of our business, we are pleased with the operational results that all parts of our ecosystem are showing, all falling in place to deliver solid financial performance. The multiple initiatives we are focused on continue to align themselves nicely behind our ultimate goal of delivering world class trading solutions for our community of users and partners. I look forward to reporting our progress on our next call.

With that, we will now take your questions.