



MELI Q2'10 Earnings Conference Script

Date: August 4, 2009

MERCADOLIBRE 2Q10 EARNINGS CONFERENCE CALL SCRIPT

Part I: Introduction and Disclaimer

Welcome everyone to MercadoLibre's earnings release conference call for the quarter ended June 30, 2010. Company management presenting today are Marcos Galperin, Chief Executive Officer and Hernan Kazah, Chief Financial Officer. 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 during the course of this conference call we will discuss some non-GAAP measures. A reconciliation of those measures to the nearest comparable GAAP measures can be found in our second quarter 2010 earnings press release available on our investor relations website. [PAUSE] In addition, 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-Q, 10-K and other filings with the Securities and Exchange Commission, which are available on our investor relations website. [PAUSE]

Now, let me hand the floor over to Marcos.

Part II: Overview/Summary – Marcos Galperin

Thank you, and welcome, everyone, to today's conference call.

I will start us off today by discussing our second quarter performance, including some insights into market trends, and how they compare to our business' growth. I will also provide additional detail on certain product and service enhancements that we carried out during the quarter as part of our ongoing efforts to continuously improve online buying and

selling experiences. Then I'll hand the call over to Hernan, who will take you through our financial performance in greater detail. After Hernan's comments, we'll open up the call for questions.

Overall, we turned in a solid performance despite Q2 being affected by softer demand as a result of the FIFA World Cup, and no major launches on our platform that could have served as growth catalysts for our business. I will discuss these two items in more detail shortly.[PAUSE]

During Q2 we added 2.5 million new users to our community of buyers and sellers, ending the quarter with 47.4 million total confirmed registered users, representing approximately one quarter of the total internet population in the region.

This also represented a 25% increase in our registered user base over the previous year, outpacing internet audience growth for the region, which Comscore recently estimated at 23%.

Gross merchandise volume for the quarter was \$798 million, a 22% increase year-over-year, and 35% higher than last year when measured in local currencies. Putting this in market context, this is an excellent rate of growth even within Latin America's quickly evolving e-commerce space.

Importantly, many of the underlying drivers behind the positive evolution of e-commerce in the region remain strong, as broadband penetration, PCs per household and mobile penetration are all growing at double-digit rates. As new users come online, they also choose to use MercadoLibre for their online shopping.

Our second quarter results reflect the positive impact these trends are having on our top line. Notably, our core business sustained an excellent rate of expansion and MercadoPago, our payments business grew even faster, maintaining its growth-on-growth dynamic as it continues to penetrate our marketplace business as well as grow off-platform.

To further illustrate all this, let me highlight some of the key operational metrics. In the second quarter, we generated the following year-on-year comparisons:

- 34% growth in items sold
- 91% growth in number of payments made through MercadoPago
- 35% growth in GMV in local currencies; and
- 74% growth in total payments volume in local currencies

Importantly, we were able to post these growth rates despite the negative effect of the soccer World Cup on our second quarter volume. In terms of our business, there were 4 days in June when each of the 3 largest economies in the region saw transaction volumes fall to about half their normal volume, corresponding with the dates in which those

countries played World Cup matches. Note that Argentina and Brazil each experienced this effect 1 day in July too, as both of these countries made it to quarterfinals.

Additionally, in anticipation of the adverse impact on user attention and increased rates for TV advertising during the World Cup, we postponed our off-line cable TV campaign for 2010 until August, whereas our 2009 campaign started to run in May. Last year, we saw measurable increases in initial traffic when this campaign launched.

Despite these factors, we are extremely pleased with our growth momentum for the quarter. Turning to our financial results, Net revenues for the quarter were \$52.5 million, an increase of 28% year-on-year. Income from operations grew 52%, with an operating income margin of 35.8%. Net income reached \$11.7 million, a 75% improvement over last year.

This solid Q2 performance is further proof of MercadoLibre's consistently solid execution in a rapidly growing region, and of its focus on technology and innovation in an industry that does not sit still.

[LONG PAUSE]

Now turning to a review of each business unit:

Looking at our marketplace business, the second quarter marked a healthy continuation of the positive momentum we have been witnessing for several quarters. During Q2 our marketplace reached an all time high of 8.1 million live listings, a growth of 87% year-over-year. This strong supply is matched by what is by far the largest traffic of potential buyers in Latin America, with an impressive level of unique visitors that approximates 30 million.

We believe that there are two critical drivers to the sustained performance of our marketplace on both the demand and supply sides:

- First, the secular internet trends that I mentioned earlier on
- And second, our constant focus on upgrading our platform to offer an ever improving user experience to our community.

Regarding this last point, let me add color on some relevant marketplace platform upgrades. These product initiative highlights, although by themselves not as impactful as some other upgrades we have announced in past quarters, are nonetheless relevant steps in our efforts to deliver an online shopping experience that combines the value, selection and uniqueness of a marketplace with the efficiency, trust and consistency of traditional retail channels. [PAUSE]

Our new pricing system, which does away with insertion fees in favor of a simple tiered structure of final value fees and optional placement fees, is now available in our 6 largest markets, and will continue to be rolled out everywhere during the course of this year. The decision to complete the roll out everywhere was a direct result of sustained marketplace business momentum over the past three quarters under this system while improving value to different seller segments. The fact that we continue to generate strong upfront fees

despite having replaced our previous insertion fees for optional placement fees gives a strong sense of the value our high volume sellers perceive in our premium selling options. In other words, we have moved from a “pay to list” paradigm to one where sellers “pay for placement” without having sacrificed on the top line. High volume sellers have clearly understood that, in a marketplace with the liquidity of ours, paying for placement provides a great ROI, particularly when we are talking about large inventories of quality articles to sell. Simultaneously, by eliminating insertion fees, we have been able to make the marketplace more attractive to low volume sellers and low rotation items as they only pay us if they are successful in selling their items, capturing a higher amount of their for sale inventory. [PAUSE]

In the second quarter we also increased the relevance of buyers’ feedback ratings in our sorting algorithms. In doing so we have effectively raised the bar and driven more volume straight to the merchants who have been showing the strongest track record of customer satisfaction.

Also during the quarter, we began restricting sellers who are not in the highest tiers of feedback ratings from using our Gold and Diamond selling options, which offer the best placement on our site. This restriction further ensures that the most visible supply on the site is also that being offered by the best sellers. Importantly, since our product supply level is tremendously healthy, in large part due to the improvements made around listing formats, we can safely promote excellence at no detriment to choice on the marketplace. Even by restricting the exposure of less exhaustive sellers, buyers are still finding what they are looking for on MercadoLibre.

As we are learning from the comments we have been receiving throughout the quarter, these improved filters are being well received among our top seller base. The sellers who have the highest ratings of buyer satisfaction are finding this dynamic particularly rewarding, as their exposure improves on the platform. It is a self-fulfilling cycle where we create and nurture an important base of professional merchants, small and medium-sized businesses alike, that achieve their critical mass on our site and therefore take an active interest in maintaining their reputations at the highest levels at all times.

I am convinced that initiatives such as these are what keep us ahead of the game in all respects, ensuring that our marketplace adheres to the highest standards of quality at all times, and providing the best level of service within the entire e-commerce space.

Finally, regarding our marketplace business, all of these pricing, feedback and sorting improvements were executed while we continue to thoroughly work on an entirely new site architecture; one that we internally call “Ground Zero,” and which is designed to make our marketplace platform more open, flexible and dynamic. It will allow us to:

- take more advantage of various new form factors such as tablets and phones
- better enable third party developers to use our marketplace as a business platform
- and continue to increase the speed of execution of our product enhancements and geographic roll-outs.

We expect to have made substantial progress in our new marketplace architecture by year end.

[LONG PAUSE]

Moving onto payments, let me start out with a brief re-cap of our key goals for MercadoPago.

As we have stated many times previously, we are very excited with the evolution of MercadoPago. Our growth plans for MercadoPago are aggressive, which we believe is consistent with the size of the opportunity, and the privileged position we occupy in the space. We believe that the payments segment of our business will eventually surpass the marketplace segment, as online payments take off in Latin America creating a vast merchant services market for us to operate in. We also believe our marketplace business provides the best possible runway for a payments business, allowing us to become the largest payment player of our type as we continue to grow the adoption of MercadoPago in our marketplace, a key competitive advantage.

Therefore, we see ourselves successfully pursuing the payments opportunity on those two fronts, growing our penetration within MercadoLibre and in the wider space of e-commerce merchant services.

Turning to our on-platform performance in the quarter, the most recent incentives we put in place to drive adoption of MercadoPago on our marketplace continued to ramp up the growth of MercadoPago in Argentina. The combined pricing mechanism that we have been offering there since late last year has driven penetration from below 5% at the beginning of this initiative to 12% at the end of Q1 to above 15% at the end of Q2. The positive results, led us to pursue a similar initiative for our largest market, Brazil.

On June 26th we raised marketplace fees in Brazil as part of our combined pricing for the launch of our new payments platform, called MP3. We have also worked diligently with sellers to communicate how the new fee structure will work. Remember that up until now Brazil was under our MP2 platform which charged buyers for the usage of MercadoPago. As of the launch of MP3, on July 16th, this cost is incurred by the seller through a single marketplace fee. The new system has been well accepted by sellers. and we expect to see similar improved adoption by buyers throughout Q3, as they can now use MercadoPago without paying any additional fees. In a country where payments penetration, measured as total payment volume over gross merchandise volume, was already in the high twenties, we see a high potential for further usage on the part of buyers from this point on.

The benefits of increased usage of MercadoPago are multiple and include:

- Frictionless and speedy settlement of transactions
- A better and safer buying experience for buyers
- Improved conversion and volumes for our sellers, as well as more efficient operations for them as buying becomes paying

- Clear online records of payments for buyers and sellers, and the possible building of stored balance, facilitating and encouraging future operations through our payments system and/or our marketplace.
- All of this ultimately leads to better overall operational and financial metrics for the company.

In terms of the merchant services franchise, during the second quarter we took a very important step that lays the foundation for the business we are building out: we officially launched our off-platform MercadoPago service in Brazil on April 28th with a press conference. Starting off from a very similar base at the beginning of the quarter, this initial push has already doubled the number of adhered merchants in Brazil compared to those we have in Argentina. Brazil's off-platform TPV, still a marginal proportion of total TPV, grew at approximately 90% quarter on quarter, showing the potential of the Brazilian market.

The off-platform business is also growing through the increased usage of MercadoShops, our comprehensive e-commerce solution for small merchants, that was launched in Argentina during Q1. We look forward to rolling out MercadoShops to Brazil and other markets in the coming quarters, generating further synergies.

Going forward, we expect this nascent merchant services business to take on an ever-increasing importance within our company, as we deploy salespeople, new products, marketing campaigns and partnerships to expand this key strategic initiative. [PAUSE]
[LONG PAUSE]

Before handing things over to Hernan I'd like to provide some additional color to put the size of the e-commerce opportunity and MercadoLibre's potential role into sharper perspective.

We are already the recognized leader in an e-commerce market that is only at the threshold of what it will become. A market which in 2009 was just over \$16 billion, based on the best available estimates, and of which we already represent an important portion, even as we continue to gain market share. This market represents less than 1% of the region's retail sales today. It is an unmistakable trend that more and more of that retail volume will continue to move online as has been the case globally. Payments solutions such as MercadoPago, which are key enablers for this entire market are at an even earlier stage, promising greater upside.

These secular trends should provide sufficient momentum for MercadoLibre to continue growing at a solid pace for many years to come. Everyone at MercadoLibre is working to ensure this happens through the value of the service and user experience we provide our community. I am extremely confident that the progress we are making will solidify us as leaders in this incredibly attractive market.

With that, let me turn the call over to Hernan.

Part III: Financial Results – Hernan Kazah

Thanks Marcos. [PAUSE] Let me go over our financial metrics and the drivers supporting them. After that we will be happy to take your questions.

Q2 was a great quarter for MercadoLibre. Once again our financial results reflect the strong health of all our volume metrics, starting with very strong topline growth in USD despite a foreign exchange headwind versus last year. Strong and expanding margins make this flow directly to our bottom line growth.

Let me briefly review our main financial metrics. Please remember that all growth rates are year-over-year unless specified.

During the second quarter most of our key financial metrics evolved positively.

Specifically [PAUSE]:

- Net revenue grew 28% to \$52.5 million; a 39% growth in constant currency;
- Gross profit margin was healthy at 78.3%;
- Income from operations was \$18.8 million, with an operating income margin of 35.8%, and
- Net income was \$11.7 million, a 22.2% net income margin, versus a net income margin of 16.3% a year earlier, growing 74.8%. [PAUSE]

Revenue growth was driven primarily by two factors: [PAUSE]

- First, a 34% increase in items sold, taking marketplace gross merchandise volume to \$798.1 million. This is a 22% increase in U.S. dollars; and a 35% increase in local currency; Within this total, Brazil, with a 28% growth in successful items, grew local currency GMVe by 13% in the quarter versus USD GMVe growth of 30%, as the local currency prices of import-intensive or competing products were adjusted downward year-over-year even as their US dollar prices increased. This applies to consumer electronics, for example, which are an important part of our GMVe.
- Second, a TPV of \$147.8 million, 86% growth in U.S. Dollars (or 74% in local currency).

Segment revenues broke down as follows: our marketplace revenues grew to \$37.2 million, a 20% increase in U.S. dollars and 37% in local currency. Payments revenues reached \$15.3 million, a 55% growth in US dollars and 42% in local currency. Brazil continues to be the most significant payments business.

Overall, marketplace accounted for 71% of our total revenues and payments for the remaining 29%, representing an impressive increase in share of total revenues for our payments business, relative to the 76/24% breakdown for the second quarter of 2009. This follows directly from the growth in penetration of total payment volume over GMVe in all our countries where the payments business currently operates, enhanced by the pricing initiative in Argentina that Marcos mentioned earlier.

In local currencies, on a country basis, consolidated net revenue growth, including both marketplace and payments businesses, was 26% for Brazil, 62% for Argentina, 19% for Mexico, and 69% for Venezuela. In USD, consolidated net revenues grew 45% for Brazil, 55% for Argentina, 26% for Mexico and -41% for Venezuela. These growth rates reflect how our strong volume growth extends throughout all countries.

On a consolidated basis, take rate rose to 6.58% from 6.27% in Q2 of 2010, as payments continues to gain share of total revenues. [PAUSE] Taken independently, marketplace segment take rate fell to 4.66%, from 4.76% in Q2 of last year, and payments segment take rate fell to 10.37%, from 12.43% a year ago.

The marketplace take rate decline versus last year was driven primarily by lower revenues coming from Classifieds, mostly due to the change in the exchange rate that we report Venezuela's revenues at. Since we have a sizable Classifieds business in Venezuela, particularly after the acquisition of TuCarro, this change had a considerable impact on classifieds revenues. Have in mind that we reported Q2 2010 results at the average parallel exchange rate of 6.35 Bolivares to the US dollar while we reported Q2 2009 at the previous official exchange rate of 2.15. Quarter on quarter marketplace take rate improved from 4.51% to 4.66%. Core marketplace take rate improved year-on-year and remained steady quarter-on-quarter. This positive effect on take rate was mostly due to the favorable impact of pricing adjustments we continue to carry out, primarily, raising maximums on all our placement fees during the quarter.

Payments take rates versus Q2 of 2009 fell from 12.43% to 10.37% mostly as a result of lower financing revenues due to more favorable interest rates compared to those of Q2 2009. Processing fee revenues as a percentage of TPV fell to 5.87% from 6.09% in Q2 2009. Financing revenues as a percentage of TPV fell to 4.50% from 6.34% in Q2 2009. In both of these cases the matching cost lines related to these revenues dropped by similar levels, sustaining MercadoPago margins on both the processing and financing fees. In other words, the declining take rates are a consequence of us passing on cost savings to our users in the form of lower prices.

While on the subject of marketplace and payments revenues, let me further explain how we are performing and reporting the combined pricing strategy between payments and marketplaces that has been in place for more than 2 quarters in Argentina and, as Marcos mentioned, that we have recently launched in Brazil.

As we have stated, the objective of this initiative is to remove price barriers to the adoption of MercadoPago for both buyers and sellers, thus maximizing adoption and penetration of MercadoPago. Additionally, we would like to be able to carry this out in a way that does not negatively affect consolidated revenue growth in our business.

The mechanism that we have devised to accomplish these goals is twofold:

- We will be offering MercadoPago as a payment option on the platform for no added fee. Using MercadoPago to pay for a transaction will have no added cost to either buyers or sellers.

- We will cover the revenue that we are no longer charging through MercadoPago fees by raising MercadoLibre marketplace fees. The amount by which we will raise those fees is determined by how much total payments volume is growing and what its starting penetration over GMV is. The greater the increase in payments volume or the higher its initial penetration, the higher the price increase so as to totally or partially make up for payments fees not being directly charged.

As you are aware, the mechanism I have just described has been in place in Argentina since Q4 of last year. In that market we initially increased the final value commission on premium listings by 50 basis points. More recently, as Argentina's total payment volume penetration of GMV advanced from 12% to 15% during the second quarter, we increased our final-value-fees in those listings by another 100 basis points to cover the processing fees corresponding to this new level of TPV.

In a similar fashion, as of Q3 our Brazilian operation has also bundled payments into its marketplace fees. The initial increase in premium listing final-value-fees in Brazil was of 150 basis points, higher than the initial increase in Argentina, since payments penetration in Brazil starts from a higher base than in Argentina.

In terms of the segment accounting for the time being we will continue to report the payments segment independently from the marketplace segment, despite the combination of the processing fees. The payment segment revenue will be comprised of all consumer financing revenue plus an inter-company revenue allocation whereby a portion of the marketplace fees will be reported as payments revenues to reflect the combined pricing of both services. For Argentina we are allocating 6.0% of total payment volume as payment segment revenues, and in Brazil the accounting will occur using 3.5% of total payments volume.

We are confident that this new pricing scheme will work just as seamlessly in Brazil as it has in Argentina, and we are very eager to see the growth of this business considering the added incentive to buyers who as of now pay no additional cost whatsoever to use MercadoPago. Of course we are aware that there are multiple moving pieces involving user dynamics, which means that an essential part of this process will be to continue monitoring its evolution as it plays out, making sure that we shape the business in accordance with what user behavior prescribes. As MercadoPago keeps growing, we will make sure that our reporting of this segment continues to be an accurate reflection of how the business evolves.[PAUSE]

Returning to our P&L for the second quarter:

Gross profit grew 27% to \$41.1 million, representing 78.3% of revenues versus 79.0% in Q2 of 2009. The slight decrease in margin is due to the fact that our payments business, with a lower gross margin, gained share over the marketplace. [PAUSE]

Operating expenses for the period totaled \$22.3 million, a 12% increase, while decreasing as a percentage of sales to 42.4% from 48.6% in Q2'09.

Specifically:

- Sales & marketing remained the largest line item expense growing 14% for the quarter to \$11.5 million, though as a percentage of revenues Sales & marketing contracted significantly to 21.8%, vs. 24.6% for the same period last year, illustrating the advantages we've been able to derive from optimized investments in traffic.
- Product & technology remains a principal focus for us. Expenses grew 29% to \$4.0 million compared with \$3.1 million for second quarter of 2009, as we continued to build our team in this area that is crucial to our growth.
- G&A rose 2% in Q2 of 2010, showing our continued commitment to cost management and our periodic survey of the most cost-efficient providers available to meet our needs. [PAUSE]
- Resulting operating income for Q2'10 was \$18.8 million, 52% higher than in the same prior year period.

Other relevant items from the quarter were: [PAUSE]

- \$0.9 million of interest income mainly from conservative fixed income investments
- \$3.4 million of interest expense and other financial charges, mainly derived from our discounting of MercadoPago credit card coupons in Brazil; and
- A \$35 thousand FX loss, driven by the effect of currency fluctuations on the cash and investment balances of our subsidiaries held in the US.

Let me take a moment to describe the foreign exchange situation in Venezuela which many of you have been asking about.

On May 14, 2010, pursuant to certain foreign currency exchange control regulations, the Venezuelan Central Bank suspended all trading of foreign currencies through parallel market transactions. Prior to that decision, and up until May 13, 2010, our Venezuelan subsidiaries had been buying US dollars in a freely-traded parallel market and had used the average parallel exchange rate to re-measure our Venezuelan accounts.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010, with the Venezuelan Central Bank as the only institution through which foreign currency-denominated transactions can be brokered. Under the new system, the Foreign Currency Securities Transactions System (SITME), entities domiciled in Venezuela can buy U.S. dollar-denominated securities only through banks authorized by the Venezuelan Central Bank. Additionally, the SITME imposes volume restrictions on an entity's trading activity, limiting such activity to a maximum equivalent of \$50,000 per day, not to exceed \$350,000 in a calendar month. This limitation is noncumulative, meaning that an entity cannot carry over unused volume from one month to the next.

As a consequence starting on June 9, 2010 we have transitioned from the parallel exchange rate to the SITME rate and will continue re-measuring our Venezuelan accounts through this new weighted average implicit exchange rate published by BCV, which is the same rate, roughly 5.3 Bolivares Fuertes to the dollar, at which we could convert our Bolivares Fuertes into US dollars in June and July.

For the period beginning on May 14 2010, and ending on June 9, 2010, during which no open foreign currency markets operated, we applied US GAAP guidelines that clearly state that if exchangeability between two currencies is temporarily lacking at the transaction date or balance sheet date, the first subsequent rate at which exchanges could be made shall be used. Accordingly, the June 9, 2010 exchange rate published by the Venezuelan Central Bank has been used to re-measure transactions during this blackout period.

And now, returning to our P&L:

Pre-tax net income was \$16.3 million, 96% higher than in same quarter of last year. Tax expense was \$4.7 million in Q2 of 2010. This represented a blended tax rate of 28.6% vs. 29.8% in Q1 and 19.8% in Q2 of 2009, as last year we registered some one-time benefits.

Going forward, also bear in mind that we still have some tax credits related to previous acquisitions, particularly in Brazil, that we will try to use in the next few quarters.[PAUSE]

Net income for the three months ended June 30, 2010 was \$11.7 million, reflecting an increase of 75% when compared with \$6.7 million during the same period of 2009, a 22.2% Net Income margin, and resulting in a basic net income per common share of 26 cents. Net income grew 95% vs. Q2 of last year when measured in local currency. [PAUSE]

Net cash provided by operating activities for the 3-month period ended June 30 2010 was \$14.6 million, or 27.9% of net revenues. We continued to generate strong operating cash flows in our marketplace segment. [PAUSE] And we continued to fund working capital requirements in our payments segment by discounting credit card receivables, being cash flow positive in this segment as well.

Capex for the quarter was \$2.5 million. Consequently, for the 3-month period ended June 30, 2010, net cash provided by operating activities less capex, a non-GAAP measure for free cash flow, totaled \$12.1 million.

Cash, short-term investments and long-term investments at the end of the quarter totaled \$109.0 million. [LONG PAUSE]

These results reflect the great momentum our business is gaining, and we eagerly anticipate this to continue through the second half of the year. The tailwinds to our growth are multiple, ranging from the secular trends that accompany internet growth in the region to the excellent health of macroeconomic and retail indicators in particular, spurred by accessible credit and a growing demand for it. All of this, combined with the continuous improvement we plan to incorporate to our technology, favors our marketplace business, while our payments operation supports this underlying growth and builds on top of it as our users begin to see the advantages of paying through our platform. These combined factors

provide MercadoLibre with solid possibilities for growth. Needless to say we are eager to keep managing our business with the prospects of what is to come. With that, let us take your questions. [PAUSE]