MELI Q4'12 Earnings Conference Script

Date: February 25, 2013

MERCADOLIBRE 4Q12 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 December 31st, 2012. My name is Alex de Aboitiz and I am the head of Investor Relations for Mercadolibre. Our senior manager presenting today is Pedro Arnt, Chief Financial Officer. Additionally, Marcos Galperin, Chief Executive Officer, 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. [PAUSE]

Now, let me turn the call over to Pedro.

Part II: Overview & Financial Results – Pedro Arnt

Thanks Alex, and good afternoon to everyone.

Today we will be reviewing what has been another successful year in MercadoLibre's evolution. We feel that over the past 12 months we have continued to take important steps in improving what has become the leading e-commerce ecosystem in Latin America. Our combination of marketplaces, payments, classifieds and advertising solutions, alongside a growing number of services tied to each of these, now offers a more comprehensive set of e-commerce tools for online buyers and sellers throughout the region than ever before.

[PAUSE]

Let me start out the recap of our results by providing you with an overview of key business metrics for the year, and a recap of our main initiatives and progress towards our strategic objectives.

Summing up our year-on-year performance in 2012:

- Items sold on our marketplace grew 28%, to 67.4 million
- Gross Merchandise Volume grew 29% in constant currencies, to $5.7 billion
- Transactions through MercadoPago, our payments service grew 64%, to 23.5 million
- Total Payment Volume grew 56% in constant currencies, to $1.8 billion

Revenues grew 39% in constant currencies, to $373.6 million

And Net Income grew 44% in constant currencies, to $101.3 million…

... surpassing $100 million in annual Net Income for the first time, a noteworthy accomplishment. It is interesting to note that 5 years ago, the year of our IPO, our top-line was only $85 million, showing the potential for rapid growth that we believe will continue to be a key trend of our business, as e-commerce in Latin America grows.

More importantly, at MercadoLibre we remain convinced that innovating on behalf of our customers is what allows internet companies to thrive. This conviction explains our constant focus on improving user experience while adding new formats, features and services to our business portfolio. Consequently, our strategic goals and plan continue to be structured around leveraging innovative technology to facilitate more, and more efficient, transactions for our users.

At the beginning of 2012 we laid out a series of initiatives that we believed had the potential to positively impact the user experience on our ecosystem and thus drive long term growth. These were: continued payments expansion (both on and off platform), mobile commerce, an open platform approach, vertically expanding into more categories, offering shipping and fulfillment services, and upgrading our Customer Experience operations. Let me now review the advances on each of these:

[PAUSE]

- Let’s start with MercadoPago, our payments solution. On-platform MercadoPago has gained penetration of our marketplace consistently, gaining almost 200 basis points by the end of the year, measured versus the same quarter last year. Much of this penetration growth occurs organically, as buyers make the natural transition to paying online, simplifying their shopping experience. Additionally, value added offerings we have structured such as financing options and our buyer protection program create additional incentives for transactions to settle through MercadoPago.

Simultaneously, we continue to proactively yet cautiously channel a growing number of transactions through our payments solution by making MercadoPago settlement obligatory for certain buyers and sellers, based on reputation, and on certain product categories where mandatory usage of MercadoPago is most beneficial. As we continue to improve and streamline this obligatory payment process, with simplified options and highlighted benefits, we expect to become more aggressive in expanding MercadoPago penetration.

[PAUSE]

Off-platform MercadoPago was the another very important driver of our growth in payments during 2012. Our client acquisition efforts continue to complement the very healthy growth of existing accounts, allowing off-platform processing to post triple digit growth for the year, as we saw significant adoption of MercadoPago among certain vertical online retail categories. [PAUSE]

- Moving on to our mobile initiative, which was introduced in the fourth quarter of 2011, it is encouraging to report that by the end of 2012 it already contributes with almost 10% of our daily traffic and nearly than much GMV. This is definitely an exciting trend, and one we will continue to support through product initiatives, such as the recent integration of both our payments and shipping solutions into our mobile checkout. [PAUSE]

- Another strategic objective we remain firmly committed to is our open platform initiative. You may recall that early in the fourth quarter we publicly launched our marketplace API and hosted our first ever MercadoLibre Developer Conference. A growing number of developers and potential partners are working with our APIs to develop tools and integrations for third parties wishing to transact on our marketplaces. We look forward to seeing many of these go live during the course of the next few quarters. [PAUSE]

- Moving on to our work with vertical product categories, there have also been important inroads made throughout the year. We have substantially upgraded our real estate categories through a complete re-design of the user experience, improved commercial coverage of realtors and developers, and technology integrations that allow us to integrate listings from other real estate websites. As a result, listings and traffic in the category have shown solid growth. Additionally, we continue to advance on the other vertical category we identified as key for the year, apparel. The advances there have been: increased supply throughout the category, new features that make it easier for sellers to handle inventory, and improved search that has made it easier for shoppers to find what they want. These initiatives have helped us grow our non-consumer electronics product mix considerably in 2012. As e-commerce penetrates traditional retail across all product categories, we will continue to offer more vertical formats to match this growing demand.

[PAUSE]

- MercadoEnvíos, our integrated shipping solution, is a promising new strategic driver for our business. While its penetration of our volume is still small, we are seeing rapid growth in its seller base and in the transaction volumes being serviced.. As results prove positive, we are widening the base of sellers onboard in Brazil, and are also laying the groundwork to launch our shipping platform in other markets.

- Finally, Customer Experience is the final strategic initiative we outlined. By year-end, we completed a successful migration of our CRM tools to Salesforce.com, and opened new customer experience centers in Uruguay and Venezuela. This is resulting in improved customer satisfaction, retention rates, and a Net Promoter Score that grew year-on-year in both Brazil and Spanish-speaking countries. We are pleased with our success, which validates the need to keep up our efforts and investments in Customer Service in order to continue seeing returns by way of user satisfaction and engagement.

[LONG PAUSE]

Looking forward, we expect 2013 to be a year of continued execution on the vision laid out and deployed in 2012, understanding that we have identified the correct set of ongoing initiatives that will take our business to the next level, and now need to consistently execute behind them. Therefore, we expect 2013 to be a year where we focus on:

- Growth in payments and shipping, eventually including fulfillment initiatives, that allows us to eliminate friction points while ensuring the best possible shopping experience and level of service on our platform. Hand in hand with and excellent customer experience team, assisting through multiple channels at each stage of a transaction, these initiatives will continue to add growing value through our platform.

- Our mobile and verticals offerings allow us to adapt to the changing demands of consumers shopping from new devices, and for a wider array of products. We want to stay at the forefront of these trends that increase our ubiquity in the e-commerce space.

- Finally, our work on open technology will allow third parties, retailers and developers alike, to take advantage of our platform to grow, and in some cases build their businesses, thus enabling MercadoLibre to position itself as an operating system of sorts for our region's e-commerce.

[PAUSE]

As you can see, these are all transformative processes aimed at meeting the full potential of what is already the largest and most complete e-commerce hub in our region. We look forward to keeping you updated as we make this happen.

[LONG PAUSE]

With that, let's now focus on our most recent quarter, starting with a detailed overview of our key operational metrics. Growth rates are year-on-year unless specified otherwise, and I will include constant currency growths when applicable, to give a better idea of how our business is growing without foreign exchange headwinds. [PAUSE]

In the fourth quarter of 2012:

- 4.3 million new users registered on our site, growing our base of confirmed registered users 24% year on year.
- Successful items grew 19%, reaching 19.0 million.
- Number of payment transactions grew 43%, to 6.7 million.
- Gross Merchandise Volume was $1.6 billion, growing 14% in USD and 21% in local currencies.
- And Total payment volume reached $525 million, growing 30% in USD and 47% in local currencies.

[PAUSE]

This positive performance flowed through to our P&L. Also in the fourth quarter of 2012:

- Net revenues were $103.8 million, growing 20% in USD and 31% in local currencies.
- Gross profit margin was 73.6%.
- Income from operations was $39.1 million, with an operating income margin of 37.7%. Year-on-year, operating income grew 35% in USD and 50% in local currencies.

- Net Income before Income/Asset Tax Expense was $42.2 million, growing 37% in USD and 50% in local currencies.

- Net income was $30.2 million, a 40% year-on-year growth in USD, and 48% in local currencies. This resulted in EPS of 69 cents for the quarter.

[LONG PAUSE]

Addressing our top-line first, solid growth in each of our revenue streams came despite the toughest comparisons of the year. Our improved platform was newly launched at this time last year, gaining the most traction during the fourth quarter of 2011, particularly in Brazil. The result is an expected deceleration in our successful items this quarter, mitigated by a sequential lift in average selling prices as consumers raised their spending in the holiday season, resulting in a slight acceleration in local currency GMVe.

Core marketplace revenues grew practically at the rate of our GMVe, since there was no significant impact from pricing or mix shift.

[PAUSE]

Revenues outside of our core marketplace represented 30% in the fourth quarter of 2012, up from 27% in the same period last year.

Total payments revenues grew 51% in local currencies, year on year in the fourth quarter. This results from off-platform processing fees that kept outpacing the rest of our ecosystem on volume strength, and continued growth of installment purchases through MercadoPago.

Classifieds & Advertising both performed strongly throughout the year, and continued to do so in the last 3 months of 2012, growing at a rate of 46% in constant currencies in the fourth quarter. This combined growth is led by a strong Classifieds listings momentum, upgrades and better monetization that one year ago.

[PAUSE]

Here is the breakdown of our top-line growth broken down for our largest countries. In the fourth quarter consolidated net revenues in local currencies grew 19% for Brazil, 62% for Argentina, 19% for Mexico, and 43% for Venezuela.

Wrapping up our top-line, even after factoring in our step function in volume at the end of last year which had its largest impact on Brazil, our total revenues in constant currencies grew at an above market rate of 31%.

[LONG PAUSE]

Let's move on to the rest of our P&L:

Gross profit grew 16% in the fourth quarter, to $76.4 million. Gross profit margin was 73.6% of revenues, versus 76.0% in the fourth quarter of 2011, and 73.6% also in the third quarter of 2012. Gross margin contraction versus last year results from our faster growth in payments, which is a lower gross margin business. COGS from payments grew at the rate of total payment volume, representing approximately 270 bps in margin contraction, while incremental expenses primarily related to our investments in hosting and customer service represented 67 bps in margin contraction. These effects were partially offset by efficiencies in sales related taxes, generating 92 bps in margin improvement.

Operating expenses for the period totaled $37.2 million, only 1% higher than in the fourth quarter of 2011. Operating expenses as a percent of revenues were 35.9% in the fourth quarter, versus 42.5% for the same period last year, as our business showed impressive scale which I will now break down by line item:

[PAUSE]

Sales & marketing, our largest line item expense, decreased 1% to $19.2 million, dropping to 18.5% of revenues, vs. 22.4% for the same period last year, as we continue to improve our bad debt ratio in addition to posting improved returns on our marketing spend.

Bad debt fell from 7.1% of revenues in the fourth quarter of 2011 to 4.0% of revenues in the fourth quarter of 2012, a 311 bps improvement resulting from increased efficiency in our collections efforts, and also including a non-recurring $900 thousand recovery that aided margins by 87 bps.

Online and offline marketing decreased 8% year-on-year as we optimized our mix of traffic sources, scaling a combined 158 bps on both of these concepts.

On one additional note: We are pleased to report that our work around scoring and remedies led to the lowest rate of chargebacks over total payment volume in the year, an issue we have highlighted as an unexpected operational challenge during past quarters. In the fourth quarter, this expense line scaled versus last year despite being a function of payments, which grow faster than our average revenues.

[PAUSE]

Product Development expenses also fell 1% to $6.7 million, representing 6.4% of revenues in the fourth quarter versus 7.8% in the same period last year. Scale was driven by a $644 thousand accrual related to our long term retention program in the fourth quarter of 2011, and greater capitalization of salaries versus the prior year fourth quarter.

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G&A grew 7% year-over-year to $11.4 million in the fourth quarter, contributing additional natural scale to our business, going from 12.3% of revenues in the fourth quarter of 2011, to 10.9% of revenues in the current quarter.

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As a result, operating income for the fourth quarter of 2012 was $39.1 million. Operating income margin for the quarter was 37.7% vs. 33.5% in the fourth quarter of 2011.

Below Operating Income, we benefited from $2.9 million of interest income, $100 thousand short of last year due to lower interest rates, while forex was positive $488 thousand, surpassing $272 thousand in the fourth quarter of 2011.

With this, we arrive at a pre-tax income of $42.2 million, 37% higher than in the same quarter of last year in USD and 50% higher in local currencies.

In the fourth quarter income tax expense was $12 million, resulting in a blended tax rate of 28.4% versus 29.9% in the fourth quarter of 2011 and 27.5% in the third quarter of 2012. The year on year improvement in our blended tax rate resulted from Argentina's higher share of revenues in the current quarter versus the same period a year ago. Let me remind you that we continued to be the beneficiaries of a tax advantage in that country throughout 2012.

[PAUSE]

Net income for the three months ended December 31, 2012 was $30.2 million, 40% higher than last year's $21.6 million. Net income in local currencies grew an impressive 48% year-on-year in the fourth quarter.

[PAUSE]

Net income margin was 29.2% in the fourth quarter versus 25.0% for the same quarter of 2011, resulting in a basic net income per common share of 69 cents.

[PAUSE]

Property & equipment and intangible asset purchases for the quarter totaled $5.1 million, and consequently, for the period ended December 31, 2012, net cash provided by operating activities less purchases of property, equipment and intangible assets, totaled $51.1 million, versus $25.1 million last year.

Cash, short-term investments and long-term investments at the end of the quarter totaled $281 million.

[LONG PAUSE]

Wrapping up my review, our financial performance was robust in the fourth quarter, ending the year on a note of strong earnings, and with a very solid balance sheet. As noted, we recorded our first ever quarter of over $100M in revenues, and our first year of over $100M in Net Income.

As we enter 2013, we believe we are in an optimal position to keep pursuing the growth initiatives discussed today, and to continue investing in this virtuous cycle that brings value to our users and investors, and keeps us at the forefront of our region's e-commerce. We look forward to the work and to the opportunities we have ahead of us this year, and also to keeping you informed along the way.

With that, we will now take your questions.