Equity Research

MERCADO LIBRE

1Q23 Review: A flawless quarter

LatAmTech

Main takeaways for e-commerce:

(i) GMV growth above expected (+4.0% vs. Genial Est.), mainly driven by Brazil; **(ii)** Brazil demonstrated strong growth due to the increase in sales volume (+17% y/y); **(iii)** Mexico maintains strong volume growth (+29% y/y); **(iv)** Argentina's growth driven by inflation (+0,3 p.p. vs. Genial Est.); **(v)** *Take-rate* acceleration above expected; Double-digit revenue growth y/y (+31,1%).

Main takeaways for Fintech:

(i) Total TPV expansion surprises positively(+7,0% vs. Genial Est.); **(ii)** Strong contribution from Off-platform TPV (+56,7% y/y); **(iii)** TPV digital account surprises positively (+16,2% vs. Genial Est.); **(iv)** TPV acquiring driven by Brazil and Mexico; **(v)** *Take-rate* (exc. Credit) decelerates (-11bps q/q; -14bps y/y); **(vi)** The loan portfolio grows above our projections (+4,3% vs. Genial Est.); **(vii)** On-line Merchant and Consumer Book increase pace of growth (+9,2% q/q); **(viii)** Gradual acceleration of credit card issuance (+8,5% q/q vs. 6,8% q/q in 4Q22); **(ix)** Inflection point in the over-90 (-140bps q/q); **(x)** We recognize important signs of improvement, but default should continue to be a point of attention; **(xi)** Fintech Take-Rate (inc. credit) stable (+0,02p.p. t/t; +0,12p.p. a/a); **(xii)** Fintech revenue grows at slower pace from credit slowdown, as expected (+1,5% q/q; +40,3% y/y).

Main takeaways for the Consolidated Result:

(i) Solid growth in consolidated net revenue (+40,3% y/y; +1,5% q/q); **(ii)** COGS has efficiency gain in the year-on-year comparison; **(iii)** Gross margin gain of +284bps y/y; **(iv)** Higher than expected G&A efficiency gain (-48bps vs. Genial Est.); **(v)** Slight increase in sales and marketing expenses, in line with expectations; **(vi)** R&D expenses impacted by higher headcount; **(vii)** PDA remains a point of concern (+24bps t/t; -229bps a/a); **(viii)** SG&A expenses grow less than revenues, creating margin gains; **(ix)** Operating margin above our expectations (11,2% vs. 9,3% Genial Est.); **(x)** Profit grows +209.2% y/y (+32,1% Genial Est.).

Mercado Libre, Inc. released its 1Q23 results yesterday, May 3rd,. Overall, the result came in **above our expectations, demonstrating once more the Company's great execution capabilities.** Mercado Libre performed above its peers in the e-commerce vertical and was able to manage well the credit default situation on the Fintech vertical. We give more details on **our optimistic view** regarding the investment thesis in our earnings preview.

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Company

MELI US Equity
Buy

Price: US$ 1.280 (3-May-2023)
Target Price 12M: US$ 1.680 (Nasdaq)

MELI34 BZ Equity
Target Price 12M: R$ 70 (B3)

1Q23 Review

E-commerce

GMV growth above expected, mainly driven by Brazil. Mercado Libre performed well in the e-commerce vertical, reaching a GMV of US$9.4bn (+4.0% vs. Genial Est.). Despite a sequential slowdown of -1.9% q/q, due to quarter seasonality, the Company demonstrated significant growth of +23.1% y/y. We note that even though deceleration between 4Qs and 1Q is frequent, peers usually decelerate in the mid double-digit range, which makes Mercado Libre's performance noteworthy.

As the main driver of growth and the only market that grew q/q, Brazil represented 56.1% of GMV growth in the y/y analysis. Even in an adverse scenario the company continues to deliver results, evidencing its execution capacity.

Brazil demonstrated strong growth due to the increase in sales volume. The e-commerce operation in Brazil was the main highlight among the geographies where Mercado Libre operates, standing above our expectations (+6.1% vs.) The company reported a GMV growth of 1.1% q/q and 29.0% y/y in its Brazil operations, mainly driven by the increase in items sold (+17% y/y), taking advantage of Lojas Americanas' current momentum and increasing its market-share.

Mexico maintains strong volume growth. The e-commerce segment continues to show strong results, with a GMV of US$2.2bn (-5.0% q/q; +41.0% y/y), (+5.0% vs. Genial Est.). This expansion is also related to the increase in items sold in the quarter (+29% y/y). In addition, the company continued to increase its local presence, improving brand awareness metrics, and increasing its market-share.

Argentina's growth driven by inflation. According to our expectations, Argentina presented the weakest performance among Mercado Libre's operating locations, highly impacted by the country's macroeconomic situation. GMV posted a -5.2% q/q and +4.9 y/y increase, coming in above our expectations (+4.9% vs. Genial Est.). In local currency, the main growth driver was the country's inflation, with a small increase in the number of items sold (+3% y/y).

***Take-rate* acceleration above expected**. The *take-rate* reached 17.8% (1.1 p.p. q/q; 0.5 p.p. y/y), above Genial Est. As mentioned in the Previous Results, we expected two factors to contribute to the metric's expansion: (i) higher penetration of Ads revenue and (ii) revision of marketplace fees. Our forecast came true, but we underestimated the growth of fees and Ads penetration.

Table 1. E-commerce Operational Data (1Q23 vs. Genial Est.)

	1Q23A	1Q23E		1Q22A		4Q22A	
[USD m]	**Reported**	**Genial Est.**	**% C/E**	**Reported**	**% y/y**	**Reported**	**% q/q**
Total GMV	**9.434**	**9.075**	**4,0%**	**7.665**	**23,1%**	**9.615**	**-1,9%**
GMV Argentina	2.192	2.090	4,9%	1.906	15,0%	2.312	-5,2%
GMV Brasil	4.422	4.168	6,1%	3.428	29,0%	4.374	1,1%
GMV México	2.169	2.065	5,0%	1.538	41,0%	2.282	-5,0%
Take Rate Commerce	**17,8%**	**17,5%**	**0,3p.p**	**16,7%**	**1,1p.p**	**17,3%**	**0,5p.p**
E-commerce Net Revenue	**1.676**	**1.588**	**5,5%**	**1.278**	**31,1%**	**1.661**	**0,9%**

Soure: Mercado Libre, Genial Investimentos

Mercado Pago

Total TPV expansion surprises positively. Transacted volume in the quarter came in +7.0% above our projections, with a total TPV of $37b (+2.9% q/q; +46.1% y/y) vs. $35b Genial Est. A very strong delivery from the Company, pulled by acceleration in Off-platform TPV, with upmarket movement to SMB in acquiring.

Strong contribution from Off-platform TPV. In line with our expectations, the biggest contribution to total TPV acceleration came from off-platform volume, which posted FX-neutral growth of +120.8% y/y (56.7% y/y in dollar terms). Off-platform TPV totaled US$27b (+8.4% vs. Genial Est.), driven by higher growth rates than in 4Q22 in Argentina, Brazil, and Mexico. On-platform TPV came in at US$9.9b (+3.4% vs. Genial Est.).

TPV digital account surprises positively. As we commented in our preview, the increase of features in the wallet should raise the average spend per user, creating paths for a growth in TPV generated by digital accounts. Additionally, transacted volume was driven by a +20% y/y growth in the number of wallet payers. As a result, TPV acquiring exceeded our expectations by +16.2%, reaching the figure of US$12.7b (+10.7% q/q; +60% y/y).

In our view, Argentina contributed strongly to the TPV digital account growth, with triple-digit y/y growth in QR Code payments in the country. In Brazil and Mexico, TPV growth generated by digital accounts was double-digit.

TPV acquiring driven by Brazil and Mexico. Acquiring TPV totaled $24b (-0.8% q/t; +39.7% y/y), slightly exceeding our expectations (+2.8% vs. Genial Est.). In Brazil, the up-market movement towards merchants benefited the acquiring TPV.

As we commented in our preview, Mercado Libre has been building a new merchant mix, gradually shifting from a focus on micro-merchants (Long-tail), to small enterprises (SMB -Small and Medium Business), contributing to a 26% y/y increase in TPV per point of sale.

In Mexico, as the Company consolidates its position as one of the main players in the digitalization of the country's banking process, we saw a triple-digit acceleration in TPV acquiring, contributing to the quarter's result.

***Take-rate* (exc. Credit) decelerates**. Excluding the credit operation, we see the *take-rate* reducing -11bps q/q and -14bps y/y. In our view, this was due to the up-market movement in the merchant mix. As Mercado Pago starts to operate with bigger merchants, competition becomes fiercer. In a first moment, this should lead the Company to operate with more competitive MDRs, reducing commissions.

Table 2. TPV Data (1Q23 vs. Genial Est.)

	1Q23A	1Q23E		1Q22A		4Q22A	
[USD m]	**Reported**	**Genial Est.**	**% C/E**	**Reported**	**% y/y**	**Reported**	**% q/q**
Total TPV	**36.986**	**34.555**	**7,0%**	**25.319**	**46,1%**	**35.951**	**2,9%**
TPV Acquiring	24.259	23.602	2,8%	17.366	39,7%	24.458	-0,8%
TPV Digital Account	12.727	10.953	16,2%	7.953	60,0%	11.493	10,7%

Soure: Mercado Libre, Genial Investimentos

Mercado Credito

The loan portfolio grows above our projections. Last quarter, the loan portfolio came in +4.3% above our estimates, totaling US$3b (+7.4% q/q; +26.3% y/y) vs. US$2.9b Genial Est. Our projection was for a +2.9% q/q growth, but Mercado Libre presented a growth rate 1.4x higher than we expected for the loan portfolio. Based on conversations with management and facing a challenging macroeconomic environment for credit concession, we expected a slightly slower pace of sequential portfolio growth, as observed in recent quarters (+3.2% q/q 3Q22 and +2.4% q/q 4Q22).

On-line Merchant and Consumer Book increase pace of growth. The On-line Merchant portfolio showed sequential acceleration for the first time in 12M, reaching US$413m, exceeding our estimates by +6.7%. The Consumer Book portfolio, which had been showing lighter growth in recent quarters (+2.7% q/q 3Q22 and +3.7% q/q 4Q22), accelerated by +9.2% q/q. As we commented in our preview, Mercado Libre should focus on generating credit for lower risk users (the portfolio segments mentioned above), since there is a good level of data on the behavior of these users within the platform. Even so, we believed that, given the high interest rates in the three main countries of operation, we would still see lower growth levels this quarter.

Gradual acceleration of credit card issuance. At the end of the quarter, the Company gradually started to resume growth in the concession of credit. Thus, we observed an acceleration in the sequential growth of the credit card portfolio, at +8.5% q/q vs. 6.8% q/q in 4Q22. In our view, despite contributing positively to the growth of fintech, Mercado Libre should be cautious in accelerating its portfolio so as not to face higher levels of default and to maintain sustainable growth.

Inflection point in the over-90. The percentage of the portfolio that has been in default status for over 90 days past due showed a deceleration for the first time in four consecutive quarters, reaching 28.2% (-140bps y/y). With a more conservative positioning and a greater focus on low-risk cohorts, we expected a slowdown in the growth of this indicator. However, the efforts made by the Company were able to reverse its upward trajectory. We see this as very positive, especially in a quarter that is seasonally negative for default levels.

We recognize important signs of improvement, but default should continue to be a point of attention. Moreover, faced with an extremely challenging macroeconomic scenario for credit concession, we believe that Mercado Libre should remain cautious and try to not generate additional pressure on default levels, while reversing the downward trajectory of the over-90 indicator.

Table 3. Credit Portfolio (1Q23 vs. Genial Est.)

	1Q23A	1Q23E		1Q22A		4Q22A	
[USD m]	Reported	Genial Est.	% C/E	Reported	% y/y	Reported	% q/q
Total Credit Portfolio	**3.049**	**2.922**	**4,3%**	**2.415**	**26,3%**	**2.840**	**7,4%**
On-line Merchant	413	387	6,7%	426	-3,1%	394	4,8%
In-store Merchant	260	259	0,4%	251	3,6%	267	-2,6%
Consumer	1.713	1.620	5,7%	1.270	34,9%	1.568	9,2%
Credit Cards	663	640	3,7%	468	41,7%	611	8,5%

Soure: Mercado Libre, Genial Investimentos

Table 4. Key Operationals (1Q23 vs. Genial Est.)

	1Q23A	1Q23E		1Q22A		4Q22A	
[USD m]	**Reported**	**Genial Est.**	**% C/E**	**Reported**	**% y/y**	**Reported**	**% q/q**
Total GMV	**9.434**	**9.075**	**4,0%**	**7.665**	**23,1%**	**9.615**	**-1,9%**
% Commerce Take Rate	17,8%	17,5%	0,3p.p	16,7%	1,1p.p	17,3%	0,5p.p
E-commerce Net Revenue	**1.676**	**1.588**	**5,5%**	**1.278**	**31,1%**	**1.661**	**0,9%**
Total TPV	**36.986**	**34.555**	**7,0%**	**25.319**	**46,1%**	**35.951**	**2,9%**
TPV on-platform	9.950	9.623	3,4%	8.067	23,3%	10.102	-1,5%
TPV off-platform	27.037	24.932	8,4%	17.252	56,7%	25.849	4,6%
% Fintech Take Rate	3,7%	3,9%	-0,22p.p	3,8%	-0,12p.p	3,7%	-0,02p.p
Fintech Net Revenue	**1.361**	**1.327**	**2,6%**	**970**	**40,3%**	**1.341**	**1,5%**
Total Net Revenue	**3.037**	**2.915**	**4,2%**	**2.248**	**35,1%**	**3.002**	**1,2%**

Soure: Mercado Libre, Genial Investimentos

Fintech

Fintech Take-Rate (inc. credit) stable. As we commented in our preview, the expansion of the portfolio, even though small next to the growth we observed until 2Q22, almost totally offset the slight retraction in the Fintech Take-rate ex-loan. Fintech Take-rate inc. credit came in at 3.7%, showing a relatively apartment number (+0.02p.p. q/q; +0.12p.p. y/y).

Fintech revenue grows at slower pace from credit slowdown, as expected. Combining the dynamics of Mercado Pago + Mercado Credito, Fintech net revenue was $1.36b (+1.5% q/q; +40.3% y/y), in line with what we projected. We believed that the pace of growth would be lower than in recent quarters (75% y/y in 4Q22 and 97% y/y in 3Q22), due to a slowdown in the credit business in relation to the expressive expansion seen last year.

One side effect of a slower growth for Mercado Credito is a slight reduction in the Fintech Take-rate (exc. credit), what contributes to a milder growth compared to previous periods. We do not necessarily see this dynamic as negative, since the credit supply is in fact more restricted, and as fintechs attack a market that is naturally riskier than that of large banks, the smoothing movement is part of the eventualities encountered in the credit cycle.

Consolidated

Solid growth in consolidated net revenue. Mercado Libre reported yet another quarter of expressive growth. In the e-commerce vertical, we observed an increase of +31.1% y/y in revenue, evidencing the Company's execution capacity, which continues to excel against its peers. In the Fintech vertical, the Company reported a +40.3% y/y increase in revenue, showing good growth even in the face of a slowdown in credit operations.

Consolidating verticals, Mercado Libre reported net revenues of US$3.0b (+40.3% y/y; +1.5% q/q), managing to show, albeit slightly, a sequential acceleration, even in the face of negative seasonality typical of 1Qs and a greater caution regarding originations in the credit business.

COGS has efficiency gain in the year-on-year comparison. Mercado Libre reported COGS of US$1.5b (+27.7% y/y; -2.8% q/q), fully in line with our estimates. We then saw a decline in the representativeness of COGS to revenue (-284bps y/y). In our view, this efficiency gain came due to two main dynamics:

> **(i) Logistics cost reduction**. With a higher penetration of the own network, there is an increase in the efficiency of shipments, with an increase in shipping and fullfilment revenues, leading to a reduction in net logistics costs.
>
> **(ii) Better 1P margin mix**, coupled with lower format penetration in revenue. As we commented in our preview, our expectation was that the Company would use the Americanas Event opportunities to improve negotiating terms with suppliers, focusing on raising profitability in this sales category.

Gross margin gain of +284bps y/y. With increased efficiency in COGS, Mercado Libre reported a gross margin lift of +284bps y/y and +200bps q/q to deliver 50.6% (+150bps vs. Genial Est.)

Higher than expected G&A efficiency gain. With continued efforts by Mercado Libre to reduce these costs, we observed an efficiency gain in relation to general and administrative expenses. G&A expenses as a percentage of revenues fell -115bps y/y (-48bps vs. Genial Est.), showing efficiency gains beyond what we had projected.

Slight increase in sales and marketing expenses, in line with expectations. Mercado Libre participated in some campaigns with the intention of increasing efforts to promote the brand, as we explained in our previous earnings preview report. One example was the sponsorship in the Big Brother Brazil television program and the thematic painting of Gol's fleet of airplanes, leased by the company. In light of these efforts, we saw a +34bps y/y increase in the representativity of these expenses over revenues, in line with our expectations of a +29bps y/y increase.

R&D expenses impacted by higher headcount. In line with our expectations, we see R&D expenses gaining representativeness over revenues as the Company continues to invest in innovation and new hires in product and development-related areas. The line saw an increase of +214bps y/y in terms of revenue representativity (-54bps vs. Genial Est.). We expect this expense line to continue expanding throughout the year, given the contraction plan that was recently announced, as commented in our earnings preview report.

PDA remains a point of concern. Provisions for doubtful Accounts (PDA) totaled 8.3% of the loan portfolio (+24bps y/y; -229bps y/y), reaching -US$252mn (-1.6% vs. Genial Est.). On a y/y basis, provision expenses reduced their weight in the portfolio by -229bps y/y, in view of a slower pace of originations compared to 1Q22, coupled with higher quality cohorts. On the other hand, facing a slight acceleration in card issuance which normally occurs in 4Qs, and generates as a side effect a more aggressive trend in delinquencies in 1Qs, we observed a 24bps q/q increase in the provision in relation to the portfolio, as expected.

SG&A expenses grow less than revenues, creating margin gains. Mercado Libre reported operating expenses of $1.2b (+3.2% vs. Genial Est.), up 28% y/y, accelerating less than net revenue (35.1% y/y), demonstrating the ability to expand margin.

Operating margin above our expectations. Thus, Mercado Libre delivered an operating performance above our expectations, with EBIT margin coming in at 11.2% (+501bps y/y) vs. 9.3% Genial Est., driven also by gross margin gain in the quarter. On the sequential view, we see a slight reduction in EBIT margin by the negative seasonal effect of Q1, which was already expected.

Profit grows +209.2% y/y. Mercado Libre posted a net profit delivery of US$201m (+32.1% Genial Est.). With a solid operating performance, the Company reported spectacular net income growth, coming in at +209.2% y/y. Not only did the y/y basis come in with strong expansion, but the Company managed to accomplish the deed of growing +24.1% q/q, even though seasonal circumstances for both e-commerce and the credit business would put up roadblocks that could put the brakes on increased performance in the bottom line.

On the e-commerce side, after the year-end festivities and Black Friday that boost sales in 4Qs, 1Qs usually present retractions. On the credit side, seasonality affects the increase in defaults, as explained above, making it difficult to accelerate net interest income (NII). Thus, it would be normal for Mercado Libre to present a slower growth, but once again we saw the Company overcome its own adversities and deliver a double-digit sequential growth, a great achievement.

We believe in continued efficiency in G&A expenses. Our analysis is that with the increase in sales volume, and with the efforts for efficiency gains, General and Administrative expenses will continue to reduce their representativeness in relation to total revenues of Mercado Libre, so that we estimate -66bps y/y in the representativeness of this expense line against revenues.

However, we expect to see a slight increase in sales and marketing expenses. As for sales and marketing expenses in 1Q23, we estimate a slight increase due to the Company's greater efforts in brand promotion. This year Mercado Libre acted as one of the master quota sponsors on Big Brother Brazil 2023, after the exit of Americanas, and carried out several campaigns to highlight the synergies between its verticals (Mundo Amarelo and Mundo Azul), such as advertisements in social networks and paid ads on youtube, as well as highlighting the Gol leased fleet with painting in the advertising theme. We estimate a +29bps y/y increase in the representativeness of this line against revenue.

Investments and hiring still impact R&D. We should still see research and development (R&D) expenses accelerate as Mercado Libre continues to invest in innovations for its different lines of business. We believe that these expenses will also be impacted by a higher *headcount* of the product and development team.

In the hiring plan for 2023, the Company announced it intends to hire 1,700 employees for the IT and Products area, so we should see a bigger weight for this line during this year. We estimate that R&D expenses will increase its representativity of revenues by +116bps y/y.

Defaults will continue to be a point of attention. On an annual basis, we estimate that provision expenses will reduce their representativity in the portfolio by -179bps y/y due to a slower pace of originations compared to 1Q22, coupled with higher quality *cohorts.*

On the other hand, we believe that the Company understands that it may still face higher default levels as a consequence of the strong loan portfolio growth until 2Q22, while 1Qs tend to be seasonally more aggressive in defaults, so we estimate a sequential increase. We project PDD to total US$256mn Genial Est. (+0.56% y/y; +12.3% q/q), representing 8.8% of the total portfolio (-179bps y/y; +73bps q/q).

We believe that SG&A expenses will rise less than revenue, gaining margin. Adding up these effects, we estimate operating expenses (SG&A) to come in at $1.16bn Genial Est. (+24.1% y/y; +4.6% q/q), showing an increase of smaller magnitude than the acceleration in consolidated net revenue.

As such, we expect to see a solid operating performance, driven by a gain in gross margin. We also estimate a +323bps y/y expansion in EBITDA margin, at 13.1% (+3.23p.p y/y; +2.32p.p q/q). As for the EBIT margin, we estimate a +312bps y/y increase, reaching 9.3%.

Currency losses should still impact the bottom line. We believe Mercado Libre will deliver a good operating performance, both in e-commerce and *Fintech*. Nevertheless, we believe the strong +323bps y/y expansion in operating margin will be slightly compensated by foreign exchange losses, mainly due to the economic scenario in Argentina, so as not to translate the full effect of the operating margin gain on the Company's net margin.

Table 5. Income Statement (1Q23 Genial Est.)

	1Q23A	1Q23E		1Q22A		4Q22A	
[USD m]	**Reported**	**Genial Est.**	**% C/E**	**Reported**	**% y/y**	**Reported**	**% q/q**
Total Net Revenue	**3.037**	**2.915**	**4,2%**	**2.248**	**35,1%**	**3.002**	**1,2%**
E-commerce	1.676	1.588	5,5%	1.278	31,1%	1.661	0,9%
Fintech	1361	1.327	2,6%	970	40,3%	1.341	1,5%
(-) COGS	(1.501)	(1.484)	1,1%	(1.175)	27,7%	(1.544)	-2,8%
Gross Profit	**1.536**	**1.431**	**7,4%**	**1.073**	**43,2%**	**1.458**	**5,3%**
% Gross Margin	50,6%	49,1%	1,49p.p	47,7%	2,84p.p	48,6%	2,01p.p
(-) SG&A	(1.196)	(1.159)	3,2%	(934)	28,1%	(1.109)	7,8%
EBIT	**340**	**271**	**25,4%**	**139**	**144,6%**	**463**	**-26,6%**
% EBIT Margin	11,2%	9,3%	1,89p.p	6,2%	5,01p.p	15,4%	-4,23p.p
Net Profit	**201**	**152**	**32,1%**	**65**	**209,2%**	**162**	**24,1%**
% Net Margin	6,6%	5,2%	1,4p.p	2,9%	3,73p.p	5,4%	1,22p.p

Soure: Mercado Libre, Genial Investimentos

Our take on Mercado Libre

Mercado Libre presented results above our expectations, once again proving the Company's execution capability by reporting strong results both in e-commerce and fintech, even in a more challenging macroeconomic scenario, both for consumption and credit concession.

We believe that Mercado Libre should continue to outperform its competitors throughout 2023. With an execution capacity above the market average, we believe the company will continue to position itself as a leader in the e-commerce retail segment in the main countries where it operates (Argentina, Brazil, and Mexico). In Brazil, the company's operational and financial strength should continue to drive share gains in light of the opportunities created by the Americanas event.

Looking at Fintech, we believe that Mercado Libre should continue to be attentive to default rates, opting for a more assertive policy in terms of granting credit, improving the score system by focusing on segments of the credit portfolio that have a higher volume of information from potential customers. If on the one hand we see originations being hit, as they started to be lower than in 2H22, on the other hand we see the emergence of higher credit quality, leading to a gradual improvement in NPL > 90 days, crucial to the continued perception that institutional investors have about the assertiveness of the Company's digital banking business.

We believe that, with an improvement in macroeconomic indicators, Mercado Libre will gradually resume the acceleration of its credit operation, boosting Fintech's growth starting in 2H23.

A flawless quarter. As we commented in our previous report, taking the main competitors together in each of the Company's isolated businesses (e-commerce, acquiring and credit), we did not see any of the peers performing to the point of causing an appreciation of their share prices. On the contrary, while many competitors suffered double-digit drops, the only significant rise in 6 months was that of Mercado Libre with a robust +37%.

Facing a quarter in which the company exceeded our already optimistic estimates in all P&L lines, from revenue to net income, we believe it is basically unanimous that Mercado Libre has already become a case of successful investments. The Company eventually delivering robust growth is not what surprises us, what makes us so excited about the investment thesis is consistency, i.e., delivering this robust growth quarter after quarter, even when seasonality plays against it. We saw in Mercado Libre's 1Q23 a very good quarter.

Even with stretched multiples, with an **EV/EBIT** of **52x**, the company consistently delivers results above its peers, which seems to justify paying a premium on its shares, so we do not consider the stock as expensive.

We maintain our **BUY** recommendation, with a **12M Target Price** of **US$1,680**, implying an **upside of +31.25%** for **MELI (Nasdaq)** and reaching a **12M Target Price** of **R$70** in our **MELI-34 BDRs (B3)** recommendation, offering a very attractive **upside of +27.27%.**

Appendix: Mercado Libre

Figure 1. Mercado Libre – Income Statment in US$ Millions (Genial Est. 2023-2028)

Preview (R$mm) Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Operating Revenue	**12.775**	**17.040**	**20.686**	**27.206**	**30.218**	**34.271**
(-) COGS	(5.932)	(7.415)	(8.731)	(11.017)	(12.432)	(14.126)
Gross Profit	**6.843**	**9.625**	**11.955**	**16.189**	**17.786**	**20.145**
(-) Expenditures	(5.106)	(6.438)	(7.217)	(9.066)	(10.125)	(11.463)
EBITDA	**1.737**	**3.188**	**4.738**	**7.123**	**7.661**	**8.682**
D&A	(488)	(690)	(881)	(1.019)	(1.024)	(1.211)
EBIT	**1.248**	**2.498**	**3.856**	**6.104**	**6.638**	**7.471**
Financial Results	6	79	140	242	256	539
EBT	**963**	**2.651**	**3.901**	**6.567**	**7.108**	**8.421**
(-) Taxes	(348)	(959)	(1.412)	(2.376)	(2.572)	(3.047)
Net Profit	**614**	**1.692**	**2.490**	**4.191**	**4.536**	**5.374**
Rate of Return						
Net Margin (%)	4,81%	9,93%	12,04%	15,40%	15,01%	15,68%

Figure 2. Mercado Libre – Cash Flow in US$ Million (Genial Est. 2023-2028)

Discounted Cash Flow (DCF)	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**12.775**	**17.040**	**20.686**	**27.206**	**30.218**	**34.271**
COGS & SG&A	(11.038)	(13.853)	(15.948)	(20.083)	(22.557)	(25.589)
EBITDA Adj.	**1.737**	**3.188**	**4.738**	**7.123**	**7.661**	**8.682**
(+) Provision Expenses	1.232	1.363	1.084	998	1.172	1.289
(-) Taxes	(348)	(959)	(1.412)	(2.376)	(2.572)	(3.047)
(+/-) Δ WK	127	239	299	521	268	330
(-) Capex	(1.006)	(1.225)	(1.286)	(1.394)	(1.548)	(1.756)
Unlevered FCFF	**1.741**	**2.606**	**3.423**	**4.872**	**4.981**	**5.498**

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Buy	Expected total return 10% above the company's sector average	**54%**
Neutral	Expected total return between +10% and -10% the company's sector average	**33%**
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