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MERCADO LIBRE

2Q23 Preview: The market's Tango

LatAmTech

Main takeaways for e-commerce:

(i) Share gain should continue to drive GMV growth; **(ii)** We believe GMV in Argentina will still be driven by inflation; **(iii)** Growth trend should continue in Mexico; **(iv)** We project Take-rate to increase by +160bps in 2Q23; **(v)** We see room for further Take-rate increases in 2H23; **(vi)** These commissioning hikes should not impact GMV progression; **(vii)** We expect a 30% y/y acceleration in e-commerce revenue.

Main takeaways for Fintech:

(i) TPV should be driven by merchants' up-market movement; **(ii)** TPV Digital Account in growth trend; **(iii)** TPV Acquiring driven by new tenant mix; **(iv)** Take-rate (exc. Credit) should remain more competitive in the short term; **(v)** Portfolio growing similar to what we saw in 1Q23; **(vi)** Credit card operation should continue to accelerate gradually; **(vii)** We expect the NPL cooling process to continue; **(viii)** Fintech Take-Rate (inc. Credit) should retract y/y; **(ix)** Fintech Take-Rate (inc. Credit) should retract y/y; **(x)** Revenue growth pace impacted by slowdown in credit operation.

Main takeaways for the Consolidated Result:

(i) Expect another solid Revenue growth (+27.6% y/y Genial Est); **(ii)** Higher logistics costs in COGS; **(iii)** Still, we expect a slight gross margin expansion (+66bps y/y Genial Est.); **(iv)** Continued efficiency gains in G&A expenses; **(v)** Increased sales and marketing expenses; **(vi)** Investments and hiring should still impact R&D; **(vii)** PDA should decelerate vs. portfolio (-369bps Genial Est.); **(viii)** Higher dilution of SG&A expenses should create profitability gain; **(ix)** Net profit growing 90% y/y Genial Est; **(x)** We made **adjustments to our model**, with emphasis on pricing a more **bearish dynamic regarding Argentina**. We came up with a **12M Target Price cut for US$1,520** vs. US$1,680 previously, yet with an **attractive upside** of **+22.50%**.

Mercado Libre will release its 2Q23 results on August 2nd, after the Nasdaq-US stock market closes. In this report we list the points that should be highlighted in this quarter and **our expectations for the 2Q23 earnings**, and a resume of what we changed in our model, **basically related to Argentina**, that **end up resulting in a lower Target Price** (more of that in "Our Take" section).

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Company

MELI US Equity
Buy

Price: US$ 1.211 (26-July-2023)
Target Price 12M: US$ 1.520 (Nasdaq)

MELI34 BZ Equity
Target Price 12M: R$ 60 (B3)

2Q23 Preview

E-commerce

Share gain should continue to drive GMV growth. According to Neotrust data, the Brazilian e-commerce market shrank ~13.7% y/y in 2Q23. While the segment in Brazil still suffers from a unfavorable scenario for consumption, we believe Mercado Libre should continue to stand out from its domestic peers. We estimate Brazil GMV growth, in local currency, of +22.3% y/y (+0.7% q/q), totaling R$22.8bn Genial Est. As a standout in the 3P category, we believe Mercado Libre should continue to benefit throughout this year from the share gain opportunities created by the Americanas Event, boosting local GMV. Conversely, we believe that part of this share was already captured throughout 1Q23, given the migration of buyers into Mercado Libre's marketplace. As we believe the flow gain has already reached its plateau, as 1Q23 results came up very strong even in the face of unfavorable seasonality, our view is that growth going forward, regarding this matter, will be more one-off.

We believe that GMV in Argentina will still be driven by inflation. The 12M cumulative inflation rate in Argentina has remained in the triple digits since February this year, reaching 115.6% in June. The persistent inflationary crisis has been eroding the purchasing power of the population, so we believe that Argentina should not be a major contributor in terms of sales volume. We expect GMV growth in local currency of +102.2% y/y (+27.2% q/q). We believe that this sequential movement is mainly driven by rising inflation, so we do not see concrete possibilities of representative increases in items successfully sold from Argentina. We even project a loss in GMV if we consider the real value, excluding the effect of inflation.

Growth trend should continue in Mexico. We believe that the Company's strong execution capacity will allow it to continue performing positively in Mexico. Accordingly, we expect the trend of more aggressive local GMV growth to continue as Mercado Libre increases its penetration. We estimate an acceleration of GMV in local currency of +29.0% y/y (+6.6% q/q).

Brazil and Mexico will be the most growth-weighted names for total consolidated GMV. We expect Mercado Libre to continue positioning itself as a leader in the main countries of operation, standing out among other retail players. We believe the highlight will again come from the performance of the Brazil and Mexico units, while an inflationary crisis reduces consumer demand in Argentina. We estimate a consolidated GMV of US$10.1bn Genial Est. (+18.3% y/y; +7.2% q/q).

We project a Take-rate increasing by +160bps. Year-on-year, we believe that two main factors should contribute positively Take-Rate’s progression: **(i)** higher penetration of Ads revenue - after an flat 1Q23, we believe that the Ads vertical will again increase its penetration in e-commerce revenue, at a pace similar to that observed over the past year (+10bps y/y per quarter); and **(ii)** revision of the marketplace flat fee in January this year, from R$5 to R$5.50.

Therefore, in the sequential approach, we should see a smaller increase, as the fee revision has already been incorporated in the last quarter. we estimate an E-commerce Take-Rate of 18.0% (+160bps y/y; +20bps q/q).

We see room for further take-rate increases in 2H23. Mercado Libre announced the implementation of a new apartment fee increase and a revision of the freight table as of July/23. We understand that the apartment fee revision is part of an adjustment that has not occurred since 2018, while the freight table revision is part of a pass-through of cost increases. Given these new conditions, we should see further take-rate accelerations from 3Q23 onwards.

These increases in commissioning should not impact GMV progression. We believe that Mercado Libre's superior logistics solutions enable cost reduction for the platform's sellers, so that the Company is able to sustain a premium in Take-rate relative to other marketplaces. This dynamic can be supported by management's statement in our last meeting that sellers were not elastic in relation to the flat fee increase made in January, inducing the new increase in July, to reach a value of R$6.00, as was the initial plan.

We expect an acceleration of ~30% in e-commerce revenue. Following our projections, the increase in GMV combined with the expectation of a higher Take-rate should consolidate an e-commerce net revenue of US$1.8bn Genial Est. (+29.6% y/y; -8.6% q/q).

Table 1. E-commerce Operational Data (2Q23 Genial Est.)

	2Q23E	2Q22A		1Q23A	
[USD m]	**Genial Est.**	**Reported**	**% y/y | bps**	**Reported**	**% q/q | bps**
Total GMV	**10.112**	**8.551**	**18,3%**	**9.434**	**7,2%**
GMV Argentina	2.289	2.245	2,0%	2.190	4,5%
GMV Brasil	4.534	3.726	21,7%	4.340	4,5%
GMV México	2.270	1.641	38,3%	2.107	7,7%
% Commerce Take Rate	**18,0%**	**16,4%**	**+160bps**	**16,4%**	**1,6p.p**
GMV (Local Currency) *					
GMV Argentina	535.715	264.969	102,2%	421.298	27,2%
GMV Brasil	22.852	18.682	22,3%	22.693	0,7%
GMV México	42.337	32.808	29,0%	39.730	6,6%
Commerce Net Revenue	**1.820**	**1.404**	**29,6%**	**1.404**	**29,6%**

* Genial Estimates

Source: Genial Investimentos, Mercado Libre.

Mercado Pago

TPV should be driven by the up-market movement of merchants. We believe that TPV progression should continue to be positively impacted by the shift to a greater focus on SMB merchants, with slightly higher revenues than micro-merchants (Long-tail), which were the axis of growth previously. We project a consolidated TPV of US$41.6bn (+37.8% y/y; +12.5% q/q). In our view, this up-market movement should mainly drive off-platform volumes. We estimate Off-Platform TPV growth of +45.8% y/y, reaching US$30.9bn Genial Est. (+45.8% y/y; +14.2% q/q).

Digital Account TPV on an upward trend. In our view, TPV generated by digital accounts should be driven by 2 main dynamics: **(i)** the implementation of different features in digital accounts, consolidating wallet functionalities and stimulating the volume transacted per user and **(ii)** a base growth of +1mn (Genial Est.), in line with what was reported in the last 12M. Consolidating these effects, we believe Mercado Libre should maintain a strong growth trend in TPV Digital Account. We project this volume at US$14.3bn Genial Est. (+53.2% y/y; +12.7% q/q).

TPV Acquiring driven by new tenant mix. As in 1Q23, the gradual transition towards a market of higher-billing merchants (SMB) should boost the volume transacted by the payment processing operation. Therefore, we estimate a TPV Acquiring of US$27.2bn Genial Est. (+30.8% y/y; +12.3% q/q).

Take-rate (exc. Credit) should remain more competitive in the near term. In our assessment, the up-market movement made in the merchant mix will likely bring the need for the Company to utilize lower rates, in a more aggressive commissioning strategy. The entry point of the SMB category would be enterprises up to R$360k of net revenue per year. For this niche, Mercado Pago will compete more strongly with players specialized in attacking this portion of payment processing chain, such as Stone and PagSeguro. In view of this dynamic, we believe that the Company should end up keeping the Take-rate (exc. credit) at a lower level. In other words, when trying to enter a market with fiercer competition, we believe that, in the short term, Mercado Pago probably is going to operate with lower MDR rates in Brazil, seeking to increase its merchant base.

In the sequential view, we should see a smaller impact of this dynamic on the Take-rate, as the shift in merchant mix had already started in 1Q23. The effect, on the other hand, should be on the growth of TPV Acquiring, also boosting TPV Off-platform.

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

	2Q23E	2Q22A		1Q23A	
[USD m]	Genial Est.	Reported	% y/y | bps	Reported	% q/q | bps
Total TPV	**41.595**	**30.194**	**37,8%**	**36.986**	**12,5%**
TPV Acquiring	27.245	20.830	30,8%	24.259	12,3%
TPV Digital Account	14.349	9.364	53,2%	12.727	12,7%
TPV Off-Platform	30.864	21.175	45,8%	27.037	14,2%
TPV On-Platform	10.731	9.019	19,0%	9.949	7,9%
% Fintech Take Rate	**3,64%**	**3,97%**	**-32bps**	**3,73%**	**-9bps**

Source: Genial Investimentos, Mercado Libre.

Mercado Credito

Scenario is still challenging. With the SELIC rate remaining at 13.75% over the last 12M, we have observed in Brazil, the main operation of Mercado Credito, the population's payment capacity quite pressured. In June, default levels reached 43.78% of the country's adult population. Considering this scenario, we believe that Mercado Libre will continue in 2Q23 with a more conservative credit origination policy, a movement that began in 2H22.

Soure: Mercado Libre, Genial Investimentos

Even if we consider that the SELIC is expected to fall throughout 2H23, investors are divided on whether to cut rates by 25bps or 50bps, so we do not think that the SELIC will cool sufficiently to generate a significant gain in appetite for the credit market, which is likely to remain tight in the short term.

Still, we can assume the worst is over. In our view, the efforts made in terms of improving credit scoring and prioritizing origination to a lower-risk user base have led to a better performance of the new cohorts. Therefore, we believe that Mercado Libre should show a slight acceleration in its credit business, supported by the prospect of more positive signals for 2H23, as the market anticipates a cut in the SELIC rate for 3Q23.

However, it is worth noting that, given the current macroeconomic scenario, we do not expect a significant progression of the portfolio as observed in previous years. We understand that these levels of growth should not occur until there is an improvement in the performance of the higher risk cohorts. Even with good numbers in NPL < 90 days, we still have a warning on NPL > 90, where the more expansionary policy of the portfolio, that used to grow with lower credit score, which occurred between 2H21 and 1H22, may continue to inflict in 2Q23 a less cooled level of PDA (Provisions for Doubtful Accounts), in view of the aging effect of overdue installments with a higher probability of not being paid.

Portfolio growing similar to what we saw in 1Q23. We anticipate only a slight acceleration of the sequential growth level in relation to the levels reported in 2H22 (+3.2% q/q in 3Q22 and +2.4% q/q in 4Q22). We are estimating a pace of originations in line with the last quarter, with a slight boost to the portfolio coming from the expansion of the credit card operation to Mexico. We project a total portfolio of US$3.3bn Genial Est. (+21.4% y/y; +7.0% q/q).

We understand that the focus should remain on origination to lower risk users. Therefore, we expect an acceleration of the Consumer Book and Online Merchant portfolios, which are considered less risky due to the existence of a good level of data on the behavior of the purchasing pattern of these users within the platform. As the Consumer portfolio tends to be more profitable, we estimate a q/q high single digit acceleration of this segment vs. a mid-single digit growth for On-line Merchant. Conversely, we project a slight retraction of the In-store Merchant segment, considered riskier.

Credit card operations should continue to accelerate gradually. At the end of 1Q23, the company started to resume growth in card issuance. We believe that this effect in Brazil, added to the start of operations in Mexico - albeit incipient - should boost the credit card portfolio this quarter. Our projections point to a +8.7% q/q growth of this segment in the portfolio. Still, we believe the company should be cautious in accelerating new credit card issuances to avoid pressure on delinquencies and to maintain a sustainable growth trajectory.

We expect NPLs to continue to cool it off. In 1Q23, NPL > 90 days decelerated for the first time in four consecutive quarters. We assess that the more conservative positioning adopted over the last few quarters, which naturally lowered NPL < 90 through the increased focus on low-risk cohorts, also helped cushion the impacts on NPL > 90, from which we expect to see a further improvement in performance in 2Q23. Still, as we have mentioned throughout the report, this remains an indicator that we look with great attention upon release of the results.

Monthly FIDC monitoring data in Brazil point in the direction of our estimate, also showing improvements in the NPL < 90 performance trend. The percentage of representativeness under the portfolio has gradually settled down, adjusting to a reality of a more troubled scenario for the granting of credit vis-à-vis the client profile that the fintech niche attacks. We see NPL < 90 falling to 9.5% in 1Q23 vs. 10.3% in 4Q22 and 13.1% in 3Q22. We estimate an improvement in the total percentage of the portfolio bad debt, reaching 36.3% Genial Est. vs. 37.8% in 1Q23.

Table 3. Credit Portfolio (2Q23 Genial Est.)

	2Q23E	2Q22A		1Q23A	
[USD m]	Genial Est.	Reported	% y/y | bps	Reported	% q/q | bps
Total Credit Portfolio	**3.262**	**2.687**	**21,4%**	**3.049**	**7,0%**
On-line Merchant	432	414	4,4%	413	4,7%
In-store Merchant	257	276	-6,9%	260	-1,2%
Consumer	1.858	1.472	26,2%	1.713	8,4%
Credit Cards	720	525	37,2%	663	8,7%

Source: Genial Investimentos, Mercado Libre.

Fintech

Fintech Take-Rate (inc. Credit) to retract y/y. On a year-on-year basis, we believe the slower pace of expansion of the credit business compared to last year, coupled with the slight retraction of the Fintech Take-rate ex-credit, should generate a y/y pressure on the vertical's total Take-rate. We project a Fintech Take-Rate of 3.64% Est. Genial (-32bps y/y; -9bps q/q).

Revenue growth pace impacted by credit operation slowdown. Consolidating Mercado Pago + Mercado Credito operations, we project Fintech net revenue at US$1.5bn Genial Est. (+25.3% y/y; +9.9% q/q). Considering the lower expansion of credit operations in recent quarters, the pace of growth should continue on a decelerating path already observed in previous quarters (40% y/y 1Q23 vs. 75% y/y 4Q22).

Still, we do not see this deceleration as negative. We believe that, in order to maintain the growth rate previously reported, a more aggressive acceleration of the loan portfolio would be necessary, which we believe is unsustainable in terms of defaults rates, given the current macroeconomic scenario.

Table 4. Key Operationals (2Q23 Genial Est.)

[USD m]	2Q23E Genial Est.	2Q22A Reported	% y/y | bps	1Q23A Reported	% q/q | bps
Total GMV	**10.112**	**8.551**	**18,3%**	**9.434**	**7,2%**
% Commerce Take Rate	18,0%	16,4%	+160bps	17,8%	+20bps
Commerce Net Revenue	**1.820**	**1.404**	**29,6%**	**1.676**	**8,6%**
Total TPV	**41.595**	**30.194**	**37,8%**	**36.986**	**12,5%**
% Fintech Take Rate	3,64%	3,97%	-32bps	3,73%	-9bps
Fintech Net Revenue	**1.495**	**1.193**	**25,3%**	**1.361**	**9,9%**
Total Net Revenue	**3.315**	**2.597**	**27,6%**	**3.037**	**9,2%**

Source: Genial Investimentos, Mercado Libre.

Consolidated

Expect another solid, double-digit growth revenue. We expect that through a good performance in both the E-commerce and Fintech businesses, Mercado Libre will end up accelerating its revenue in double digits once again, repeating the feat observed in previous quarters. Consolidating the Company's verticals, we project net revenue of US$3.3bn Genial Est. (+27.6% y/y; +9.2% q/q).

Higher logistics costs in COGS. Of the CAPEX planned for the year, the Company should allocate a considerable portion to improve its last mile operation in Brazil and Mexico. Mercado Libre continues to carry out rounds of hiring in the logistics area and investments to increase the operation of its fulfillment centers. As a result, we believe that COGS should be negatively impacted by the progression of logistics costs related to the expansion of the footprint of its fulfillment units throughout this year.

Still, we expect a slight gross margin expansion y/y. In our view, strong revenue growth should dilute the pressure from higher logistics costs on COGS, allowing Mercado Libre to report a gross margin gain y/y. In the sequential view, we estimate a slight negative impact of this dynamic on gross profitability. We project a +66bps y/y increase in margin, assessed by us at 50.1% Genial Est. (+66bps y/y; -47bps q/q).

Continued efficiency gains in G&A expenses. With the increase in sales volume, added to efficiency gains efforts, we should see G&A expenses reducing their representativeness in relation to Mercado Livre's total revenue. We estimate operating leverage gains in the order of +75bps y/y coming from this expense line.

We expect to see an increase in sales and marketing expenses. Given the company's increased efforts in brand promotion, we expect a slight increase in sales and marketing expenses in the y/y view. In our projections, the acceleration of this expense line should have a negative impact on the operational deleveraging process by -116bps y/y.

Investments and hiring should still impact R&D. As Mercado Libre continues to invest in innovations for its different business lines and hires in the product development team, we should see an acceleration in research and development (R&D) expenses. We estimate that the increase in R&D for 2Q23 will generate an expansion in the order of +221bps y/y in relation to the line's representativeness over total revenue.

PDA should decelerate relative to the portfolio. Given the slower pace of originations compared to 2Q22, coupled with higher quality cohorts, we estimate a -369bps reduction in the share of PDA in the portfolio, reaching US$260mn Genial Est. (-14.2% y/y; +3.2% q/q).

Higher dilution of SG&A expenses should create profitability gain. Totaling these effects, we estimate that the acceleration in expenses will be diluted by the increase in revenues. Our projections point to a +187bps y/y increase in EBIT margin, estimated at 11.5% Genial Est. (+187bps y/y; +31bps q/q). As for EBITDA margin, we estimate gains of +172bps y/y, reaching 15.2% Genial Est.

Strong net profit expansion, we expect ~90% y/y. We believe Mercado Libre should deliver again a great performance, both in e-commerce and fintech. The improvement in operating leverage should translate into higher net margin for the quarter, despite the negative effect of FX losses, mainly related to the persistent depreciation of the USD/AR$ exchange rate. Our projections point to a net profit of US$234mn Genial Est. (+89.9% y/y; +16.4% q/q).

Table 5. Income Statement (2Q23 Genial Est.)

	2Q23E	2Q22A		1Q23A	
[USD m]	Genial Est.	Reported	% y/y | bps	Reported	% q/q | bps
Total Net Revenue	**3.315**	**2.597**	**27,6%**	**3.037**	**9,2%**
E-commerce	1.820	1.404	29,6%	1.676	8,6%
Fintech	1.495	1.193	25,3%	1.361	9,9%
(-) COGS	(1.654)	(1.313)	26,0%	(1.501)	10,2%
Gross Profit	1.661	1.284	**29,4%**	1.536	**8,2%**
% Gross Margin	50,1%	49,4%	+66bps	50,6%	-47bps
(-) SG&A	(1.280)	(1.034)	23,8%	(1.196)	7,0%
EBIT	**381**	**250**	**52,4%**	**340**	**12,2%**
% EBIT Margin	11,5%	9,6%	+187bps	11,2%	+31bps
Net Profit	**234**	**123**	**89,9%**	**201**	**16,4%**
% Net Margin	7,0%	4,7%	+231bps	6,6%	+44bps

Source: Genial Investimentos, Mercado Libre.

Our take on Mercado Libre

We expect Mercado Libre to deliver another high-performance result in 2Q23. We believe that the Company's competitive advantages will allow it to continue to stand out from its peers, positioning itself as the market leader in the retail e-commerce segment in the main countries of operation. For the Fintech vertical, we believe the Company will be able to deliver good levels of growth, coupled with a continued gradual improvement in NPL > 90, something we see as important for the resumption of the acceleration of credit operations.

Still, we observe a recent negative market movement, consolidating a -6.3% drop in the share price since late April, when it peaked just before last quarter's result was released. In search of answers in the face of a basically flawless operational delivery, we talked to some institutional investors about the Company. From the dynamics presented by them, we see 2 main core concerns: **(i)** changes in cross border import taxation and **(ii)** exposure to Argentina. Based on internal analysis and conversations with management, while we recognize the risks related to these topics, we believe the market is overestimating the impact of these dynamics.

Regarding point **(i) changes in cross-borders import taxation**, we understand that the operation's market of these foreign platforms is not Mercado Livre's focus. While the Company's average ticket in Brazil is US$27 Genial Est., players like Shopee are targeting around US$5-10. We believe that Mercado Libre should avoid getting involved in this segment, given the high logistical costs linked to the process, creating barriers to the breakeven of these operations - we see the same positioning in other national e-commerce players.

Also, we believe that a large part of Mercado Libre consumers is driven to the platform by convenience. In the last quarter, +77% of deliveries were made within 48 hours. In contrast, according to a survey conducted by Nielsen Ebit, 85% of purchases made on cross-borders platforms take more than 11 days to be delivered and 42% take more than 21 days. Therefore, we believe that the Company's logistics capabilities are another factor that should act as a buttress against the threat of cross-borders.

Additionally, based on recent conversations we had with the Company, we understand that **(ii) exposure to Argentina** is partially diluted over the P&L, aided by a positive effect from FX correlated to Mexican operations, helping diversify this risk. We believe that this dilution, coupled with tax benefits that reduce the effective tax rate in Argentina, lead to a lower impact on the result (and, consequently, on cash flow) than is being priced by some investors with whom we talked.

The Market Tango. Although we believe the market has a more bearish view than necessary on these topics, we understand that both dynamics impact the Company. We have made some changes to our model, such as: **(i)** increasing the USD/AR$ exchange rate to AR$335 at the end of 2023 vs. AR$325 previously; **(ii)** SELIC decrease to 13% at the end of 2023, with cut of 25bps in 3Q23 and 50bps in 4Q23, interfering with discounting receivables revenue in the Brazil operation; **(iii)** slight cut in Argentina's E-commerce Take-rate, due to a potential difficulty to pass on price to 2H23 and 2024; **(iv)** structural reduction of TPV Acquiring and Digital Account from Mercado Pago operations in Argentina until 2032. This reduction was due to the change in assumptions linked to our model to estimate the total TPV in Argentina, which now considers wage adjustments in Argentina 35% below projected inflation until 2025, 15% below until 2028 and 5% below until 2032.

Among the two agendas that most concern institutional investors, **the situation of cross-borders is the one we would classify as having the least material impact for our investment thesis**, even in the face of the new rule announced by the Brazilian government, through MF No. 612, at the end of June. As we quoted above, we understand that a considerable flow of buyers uses the Mercado Libre platform to take advantage of immediacy. They seek fast deliveries and in product categories such as long tail, not discretionary consumption of clothes, for example. We do not rule out the possibility of some level of impact, but we believe that GMV will suffer very marginally, and will basically be diluted by the gain in robustness that the Company brought into the operation after the Americanas event.

As for the situation in Argentina, of the 4 changes in assumptions we made in our model, 3 of them were linked to an even more conservative pricing scenario for the country. As we have commented, the effect on the consolidated also has low material potential, but due to the seriousness of the situation, we believe it was prudent to have been cautious and recalibrated the assumptions to a more bearish scenario, so that we could sensitize how much upside Mercado Livre shares would still generate in the face of a lack of oxygen for operations in its country of origin. The positive point for the thesis is that **geographic diversification does indeed help to ensure an optimal level of profitability** in the P&L, **but the changes we made would certainly generate undesirable reflexes for the valuation**, translating into a **lower Target Price**.

We reinforce that when we started covering the stock, at the end of last year, we listed **Argentina as a major risk to the thesis**, and we tried to highlight that our macro assumptions linked to the country could undergo changes, given the level of complexity in our model and the **lack of visibility of the scenario**, which still seems far from better days.

Given the revisions made, we arrive at a new **12M Target Price** of **US$1,520** vs. US$1,680 previously, for **MELI-Nasdaq**. Even considering the impacts of the dynamics mentioned above, **we still see quite attractive upside of +25.50%** for the shares, so we reiterate our **BUY rating** and **Top Pick position** in the **tech sector**. For **BDRs MELI34 (B3)** we arrived at a **Target Price** of **R$60.00**.

Appendix: Mercado Libre

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

Preview (R$mm)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Income Statement									
Net Operating Revenue	**12.884**	**16.431**	**19.979**	**25.615**	**28.592**	**32.287**	**35.948**	**40.190**	**45.428**
(-) COGS	(5.947)	(7.386)	(8.732)	(10.945)	(12.375)	(14.045)	(15.706)	(17.596)	(19.797)
Gross Profit	**6.937**	**9.046**	**11.247**	**14.670**	**16.218**	**18.243**	**20.242**	**22.594**	**25.631**
(-) Expenditures	(4.971)	(6.122)	(6.865)	(8.412)	(9.429)	(10.669)	(11.817)	(13.148)	(14.777)
EBITDA	**1.966**	**2.924**	**4.382**	**6.258**	**6.789**	**7.574**	**8.426**	**9.446**	**10.854**
D&A	(493)	(648)	(837)	(964)	(968)	(1.141)	(1.320)	(1.502)	(1.696)
EBIT	**1.473**	**2.276**	**3.545**	**5.294**	**5.821**	**6.433**	**7.105**	**7.944**	**9.158**
Financial Results	234	481	644	626	480	809	920	1.647	1.975
EBT	**1.380**	**2.829**	**4.083**	**6.105**	**6.488**	**7.560**	**8.266**	**9.909**	**11.595**
(-) Taxes	(527)	(1.080)	(1.559)	(2.330)	(2.476)	(2.886)	(3.155)	(3.782)	(4.426)
Net Profit	**853**	**1.749**	**2.525**	**3.775**	**4.011**	**4.674**	**5.111**	**6.127**	**7.169**
Rate of Return									
Net Margin (%)	6,62%	10,64%	12,64%	14,74%	14,03%	14,48%	14,22%	15,24%	15,78%

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

Discounted Cash Flow (DCF)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net Revenue	**12.884**	**16.431**	**19.979**	**25.615**	**28.592**	**32.287**	**35.948**	**40.190**	**45.428**
COGS	(10.918)	(13.508)	(15.597)	(19.358)	(21.803)	(24.714)	(27.523)	(30.744)	(34.574)
EBITDA Adj.	**1.966**	**2.924**	**4.382**	**6.258**	**6.789**	**7.574**	**8.426**	**9.446**	**10.854**
(+) Provision Expenses	1.079	1.287	992	871	1.023	1.125	1.210	1.285	1.362
(-) Taxes	(527)	(1.080)	(1.559)	(2.330)	(2.476)	(2.886)	(3.155)	(3.782)	(4.426)
(+/-) Δ WK	170	598	501	1.092	298	467	303	364	513
(-) Capex	(679)	(1.182)	(1.237)	(1.313)	(1.465)	(1.654)	(1.842)	(2.059)	(2.328)
Unlevered FCFF	**2.010**	**2.546**	**3.079**	**4.578**	**4.169**	**4.626**	**4.941**	**5.253**	**5.976**

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	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	**46%**
Neutral	Expected return between +10% and -10% relative to the Company's industry average	**44%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

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