

March 31, 2017

MercadoLibre, Inc.: MELI

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Sector: Information Technology

Industry: Internet Software and Services

Current Price: \$212.30

Target Price: \$257.80

MercadoLibre, Inc. is one of the largest online commerce ecosystems in Latin America. MELI platform is designed to provide users with a complete portfolio of services to facilitate commercial transactions. They are a market leader in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on number of unique visitors and page views. MELI also operate online commerce platforms in the Dominican Republic, Honduras, Nicaragua, Salvador, Panama, Bolivia, Guatemala, Paraguay and Portugal. Through their platform, they provide buyers and sellers with a robust environment that fosters the development of a large e-commerce community in Latin America, a region with a population of over 610 million people and one of the fastest-growing Internet penetration rates in the world. MELI offer technological and commercial solutions that address the distinctive cultural and geographic challenges of operating an online commerce platform in Latin America. Their services consist of six integrated e-commerce services: the MercadoLibre Marketplace, the MercadoLibre Classifieds Service, the Mercado Pago payments solution, the MercadoLibre advertising program, the Mercado Shops online webstores solution and the MercadoEnvios shipping service.

Long

Current Price:	\$212.30
Target Price:	\$257.80
Market Cap:	9.39B
52-week range:	\$115.81-\$218.75
Beta:	2.4
Average Volume:	0.385 million
D/E Ratio:	.05
EBITA Margin:	23.5%
ROIC:	72.0%
ROIC/WACC:	5.35%



Thesis:

MercadoLibre is at the forefront of an early stage e-commerce market that is not developed as Asian and U.S. E-commerce markets. MELI is the leader in E-commerce in Latin America where they provide their services to the whole region. Their developed payment services and logistics service will continue to add to their growing business as they are focused on enhancing the market place and customer experience. MELI continues to grow year over year in user basis, gross merchandise value has continued to grow. Projected growths for E-retail look favorable, expect MELI to capitalize on this on top of MELI expanding there MercadoPago services to all users of their market place but also non marketplace users, which will help the company with continued growth.

Catalysts:

- E-Commerce is at early stages in Latin America, will continue to develop. Accounts for 4.3% global E-commerce sales.
- Growth in E-commerce sales is expected to grow to \$80B by year 2019.
- MercadoLibre has potential to increase user base further as there are around 360 million internet users in Latin American region, MELI has a user base of around 179 million as of 2016.

Business Model:

MELI seek to serve people in Latin America by offering diverse e-commerce services that provide users with online commerce tools that foster entrepreneurship and social mobility, with the goal of creating significant value for stockholders. MELI serves buyers by giving them access to a broad and affordable variety of products and services, a selection that is believed to be larger than otherwise available to them via other online and offline sources serving Latin American markets. MELI believe they serve sellers by giving them access to a larger and more geographically diverse user base at a lower overall cost and investment than offline venues serving the Latin American markets. MELI also provides payment settlement services to facilitate such transactions, and advertising solutions to promote them. More broadly, they strive to make inefficient markets more efficient and in that process generate value for our stockholders. This business model has proven to be fruitful throughout the overview of the business, which has catapulted MELI to grow within their all of their segments of operation. Below is a graph displaying the percentage growth of MELI segments as a percentage of net revenues in comparison to previous year.

A proven business model			
	%NR ¹	FX Neutral Growth YoY	Monetization
Transactional Marketplace	60%	73% (39% w/o Venezuela)	> Transaction Fees
Payments Platform	23%	85% (84% w/o Venezuela)	> Processing Fees > MPOS > Financing Spread > Credit Offering
Classifieds, Ad & Others	17%	107% (97% w/o Venezuela)	> Diversified and fast growing revenue streams

Unpenetrated Market:

MercadoLibre had over 174.2 million registered users as of the end of quarter four in comparison to the previous, while the population in Latin America is estimated at around 627 million people out of these people 360 million are internet users. The e-commerce industry in the region is still less developed than in the U.S., Europe, or Asia, and most Latin American countries are significantly underpenetrated. Over the long term, a rising middle class and a growing e-commerce industry in Latin America should provide MercadoLibre with substantial growth opportunities. Thus by looking at Figure 2, its evident that the countries in which MELI operates (highlighted in yellow) have a small penetrated market as a total of retail, this is to say that E-commerce in these Latin American countries are small in equivalency to other countries that have higher penetration of their e-commerce market within their retail markets. There is however room for E-commerce in Latin America to grow, the CAGR for E-commerce in Latin America is 19%. When looking at Figure 1 we see there is a tremendous growth within the E-commerce markets in all the segments in which MELI operates in. This shows

a significant growth opportunity for MELI as it's the leader in the E-commerce in all these regions, thus it is evident that in terms of earnings potential MELI could grow substantially if it continues to capitalize using its E-commerce segments it provides within its business.

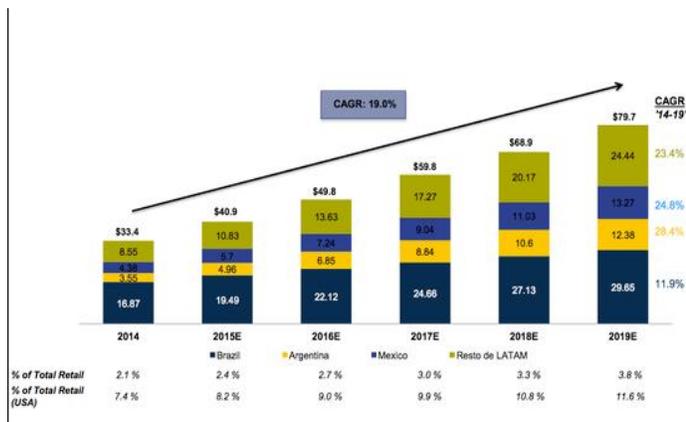


Figure 1

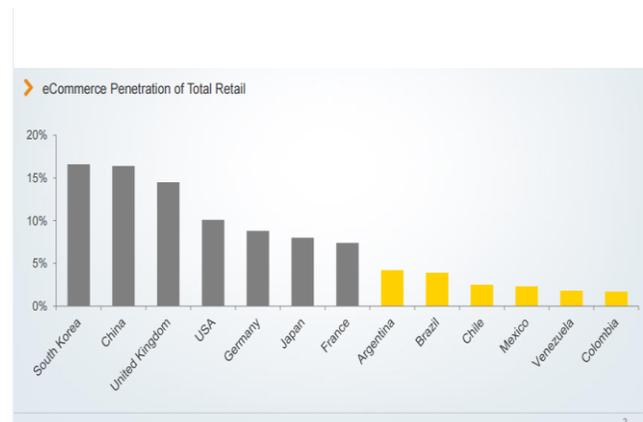


Figure 2

Growing Operational Metrics:

MELI main markets are Brazil, Argentina, Mexico and Venezuela. As of late Latin America economies are going through significant volatility. Brazil has experienced sluggish economic growth and rising inflation levels over the past several years; in Argentina, inflation is up while GDP has contracted; and the situation in Venezuela is horrifying from an economic and political perspective. MELI generates revenues in local currencies, and it reports financial performance in U.S. dollars, thus fluctuating exchange rates can have a considerable impact on MercadoLibre financial figures. It's important to also take into account new economic policies in the U.S. under the Trump administration that would hurt Latin American currencies, this will materially drag on MercadoLibre performance. Thus looking at key operational metrics such as sold items and payment transactions can purpose better outlays of monitoring performance leaving macroeconomic considerations aside, MELI is clearly firing on all cylinders. Items sold on the platform reached 51.6 million units during the fourth quarter of 2016, growing by 40.2% versus the same quarter in the prior year. Items sold in Brazil and Mexico increased to 62% and 47% YoY, both countries reaching multi-year highs. Gross merchandise volume was \$2.2 billion growing 10.8% in U.S. dollars on a YoY basis and 48.3% YoY basis in local currencies. MELI payment business, Mercado Pago is also providing substantial growth. MELI processed 42.5 million transactions in the fourth quarter, growing 67% in comparison to the same quarter in the previous year. The total payment volume was \$2.4 billion a 57.5% increase YoY in U.S. dollars and 84% YoY growth in local currencies. This growth is attributed to the successful commercial efforts in onboarding large clients, increased cross border payments, successful open platform integrations and increasing payment volume from Mobile point of sales solutions in Brazil. Mercado Pago on platform penetration rose to 77.8% in the fourth quarter, penetration beyond Brazil continues to increase as a result of improved transactions quality and reflected in increased frequency on the platform.



Growing revenue and strong profitability:

The positive operational metrics performance has been effectively translated into growing sales and earnings for investors. Net revenues for the year 2016 were \$844.4 million, which is a 29.6% increase in USD YoY, which was due to increases in the number of items sold and gross merchandise volume through MercadoLibre segment and Mercado Pago segments also helped with the increased net revenues with higher total payment transactions as well as total payment volume. MELI is keen on continuing their growth with these segments as they are looking to further implementing their Mercado Pago services beyond marketplace platforms. Thus its expected revenues for MELI will grow \$1.168 billion in 2017 and \$1.487 billion in 2018 as seen in Figure 1. This also adds to MELI compelling future growth, MELI could see further growth as retail E-commerce sales are expected to grow in Latin America as seen in Figure 2. For the fourth quarter net revenues continued to see increase for the third consecutive quarter to \$256 million, up 41.8% in USD and 68% in local currencies. This is well but disclosing a compelling story for investors who are keen on long term growth.

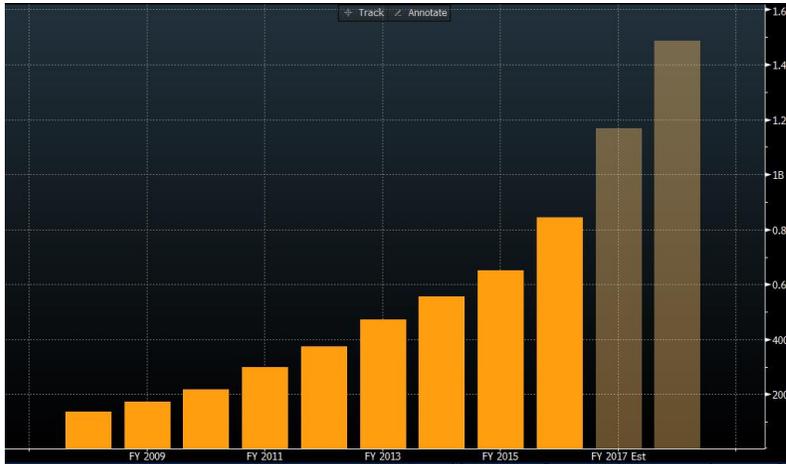


Figure 1

Latin America: retail e-commerce sales 2014-2019
Retail e-commerce sales in Latin America from 2014 to 2019 (in billion U.S. dollars)

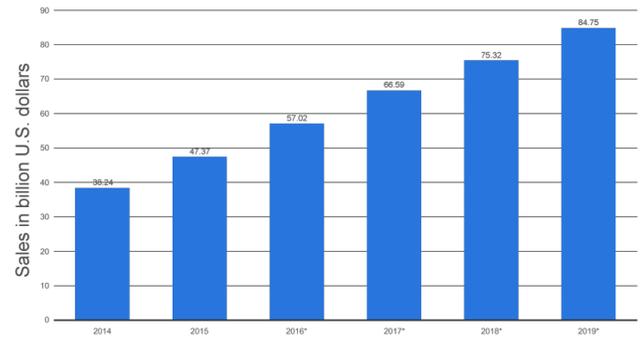


Figure 2

Q4 2016 Net Revenues

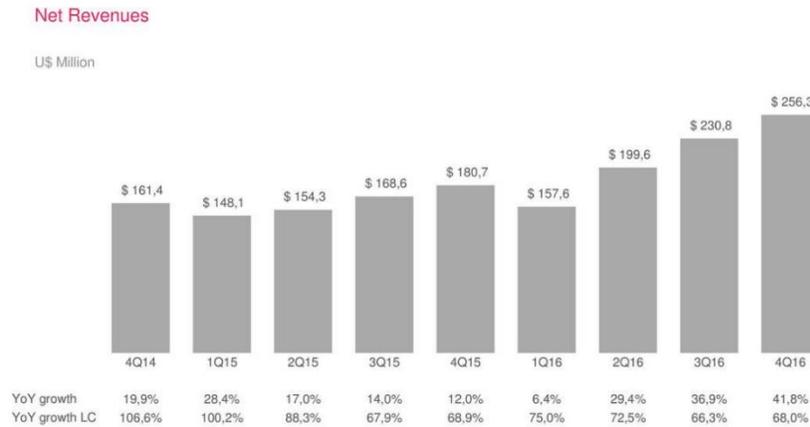


Figure 3

Strong Profitability:

Profit Margins have been enduring some pressure in between quarters. Fourth quarter gross profits decreased from 65.1% in q4 2015 to 63.58% q4 2016, however Gross profit continues to grow in YoY in Q4. EBIT has continued to see growth for q4 YoY, EBIT Margin has seen also an increased growth from q4 2015 as seen in Figure 1. The decrease in gross profit margin has be due to higher sales tax that has increased because of adaptation of financing, credit a shipping services investments in hosting, as well as costs related to the sale of Mobile Point of Sale payment devices. This compression in margins due to the stated factors have still allowed for MELI to have sustained annual profitability, Gross profit for the 2016 was \$536.858 million which is an increase from 2015 which saw MELI gross profits of \$436.79 million. Gross profits are expected to grow up to \$924.57million in 2018 as seen in Figure 2. Gross Profit margin for the year has decreased to 63.58% from 67.01% in 2015 again this is due the investment in key initiatives. However this still shows MELI still retaining 63.58% of revenues as gross profit. EBIT margin for the year 2016 was 21.44% as compared to 21.36% meaning MELI is retaining has done slightly better job at retaining sales in terms of earnings before interest and taxes. EBIT margins are expected to grow to 22.62% by 2018. MELI has also stated its continued investment in key

initiatives that have driven them to success, MELI will continue to investing payment solutions (MercadoPago) both on and offline as well as logistics (MercadoEnvios) for fulfillment and free subsidized shipping, expanding credit offerings and continue to focus on customer service and experience within the market place.

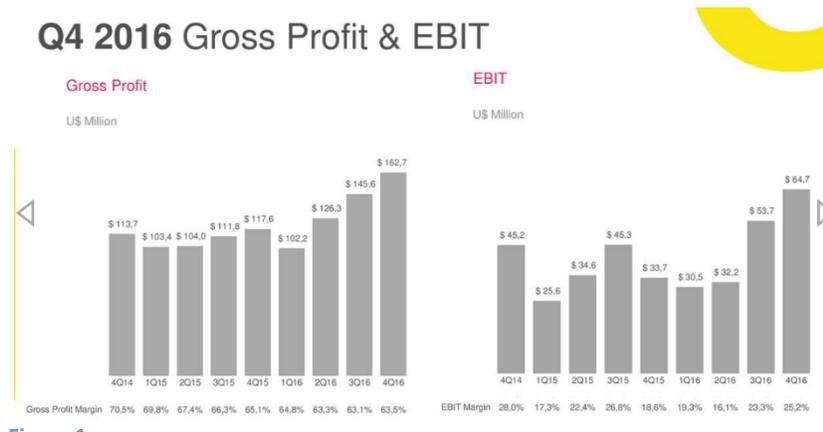


Figure 1

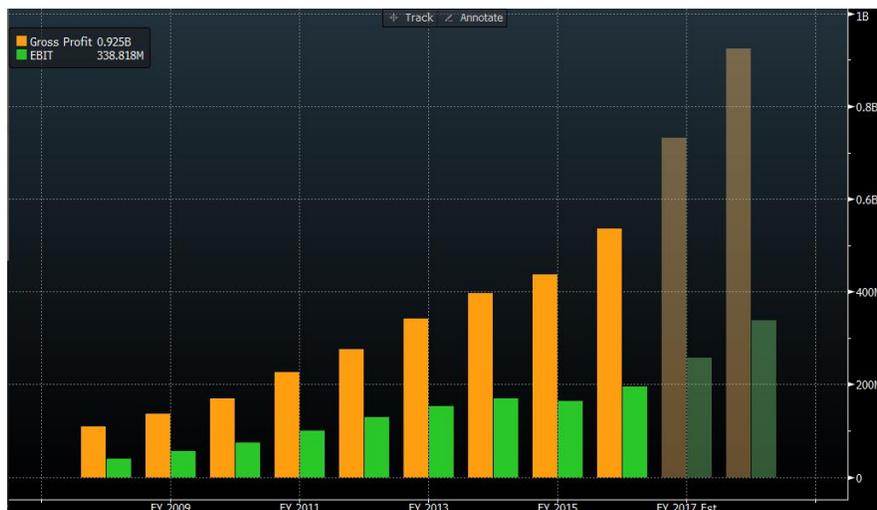


Figure 2

Abundant Growth:

When looking at other successful E-commerce giants in terms of expected revenue and market capitalization, MELI is a small player against Amazon, eBay and Alibaba. The Main idea is clear, MercadoLibre still has substantial growing to do and revalorization before it can even compare to the size of its larger rivals. The table provide below can show investors the outlook MELI could have if they continue revolutionizing E-commerce in a growing Latin American market.

Company	Market Capitalization	2017 Revenue Estimate
MercadoLibre	\$8.4 Billion	\$1.12 Billion
Amazon	\$397.8 Billion	\$165.5 Billion
eBay	\$35.7 Billion	\$9.4 Billion
Alibaba	\$250.74 Billion	\$22.74 Billion

Data sources: FinViz and Yahoo! Finance.

Conclusion:

MercadoLibre is the market leader within an unpenetrated E-commerce market. The rapid continued growth, financial indicators such as sales and profits have shown to be moving in the right direction. Thus for investors who have a long-term approach to growth investing, there is a huge upside potential to be made with an Investment in MercadoLibre, as it's a company that will only continue to grow.

Mercadolibre, Inc. (MELI)

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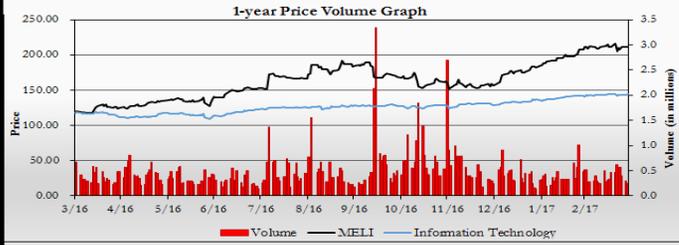
BULLISH

Analysis by
3/31/2017

Current Price: **\$211.63**
Divident Yield: **0.4%**

Intrinsic Value **\$230.87**
Target Price **\$257.28**

Target 1 year Return: 21.93%
Probability of Price Increase: 96.2%

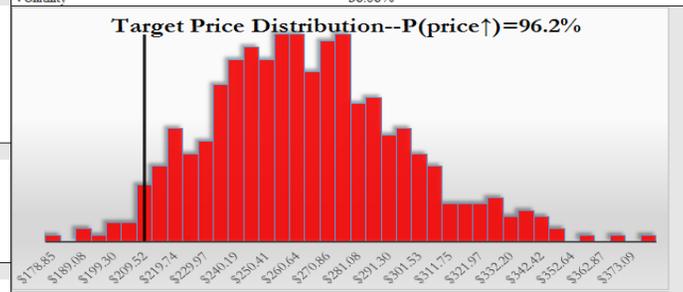


Description	
MercadoLibre, Inc. hosts online commerce platforms in Latin America.	
General Information	
Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	November 3, 2015
Next earnings date	May 4, 2017
Estimated Country Risk Premium	2.87%
Effective Tax rate	11%
Effective Operating Tax rate	14%

Market Data	
Market Capitalization	\$9,386.09
Daily volume (mil)	0.14
Shares outstanding (mil)	44.16
Diluted shares outstanding (mil)	44.16
% shares held by institutions	73%
% shares held by investments Managers	84%
% shares held by hedge funds	6%
% shares held by insiders	0.32%
Short interest	4.38%
Days to cover short interest	4.87
52 week high	\$218.75
52-week low	\$115.81
Levered Beta	2.15
Volatility	36.06%

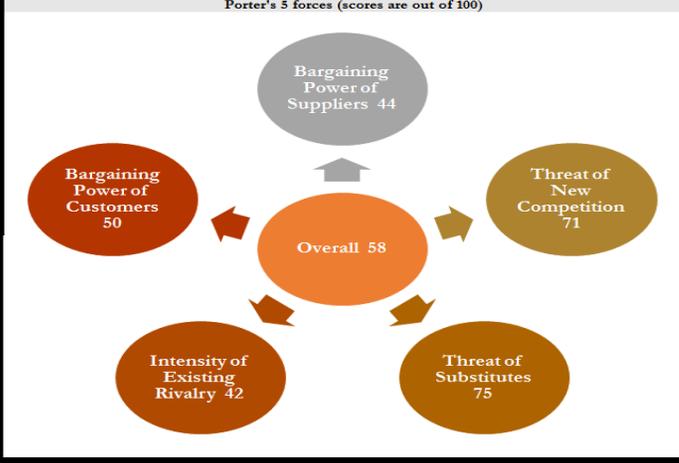
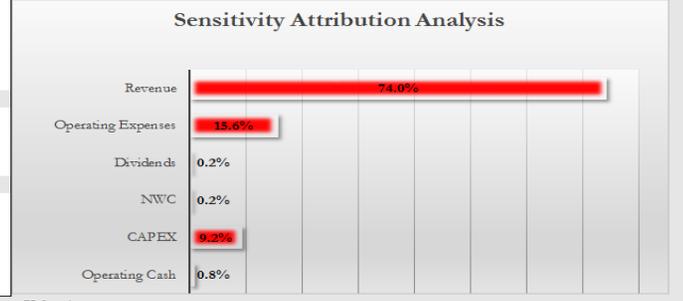
Quarter ending	Revenue	EBITDA
12/31/2015	-2.52%	-12.02%
3/31/2016	-2.77%	-20.82%
6/30/2016	4.53%	12.64%
9/30/2016	0.37%	-8.06%
12/31/2016	-6.24%	1.58%
Mean	-1.33%	-5.33%
Standard error	1.8%	5.8%

Past Earning Surprises		Peers	
Management	Position	Total compensations growth	Total return to shareholders
Galpenn, Marcos	Co-Founder, Chairman, Chief	27.39% per annum over 5y	4.26% per annum over 5y
Amt, Pedro	Chief Financial Officer and	27.09% per annum over 4y	2.83% per annum over 4y
Tolda, Stelvio	Chief Operating Officer and	14.76% per annum over 5y	4.26% per annum over 5y
Rabinovich, Daniel	Chief Technology Officer and	43.44% per annum over 4y	2.83% per annum over 4y
Giménez, Osvaldo	Executive Vice President of	30.82% per annum over 5y	4.26% per annum over 5y
Melamud, Marcelo	Chief Accounting Officer and	N/M	0% per annum over 0y



Profitability	MELI (LTM)	MELI (5 years historical average)	Industry (LTM)
ROIC	53.5%	110.10%	22.99%
NOPAT Margin	31%	40.18%	26.5%
Revenue/Invested Capital	1.75	2.74	0.87
ROE	45.2%	57.15%	24.60%
Adjusted net margin	28%	38.73%	25.0%
Revenue/Adjusted Book Value	1.63	1.48	0.98
Invested Funds	MELI (LTM)	MELI (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	42.6%	42.5%	74%
Estimated Operating Cash/Total Capital	16.0%	17.7%	N/A
Non-cash working Capital/Total Capital	-16.0%	-16.8%	-17%
Invested Capital/Total Capital	57.7%	52.4%	45%
Capital Structure	MELI (LTM)	MELI (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.05	0.03	0.08
Cost of Existing Debt	8.41%	96.61%	3.11%
Estimated Cost of new Borrowing	4.62%	4.80%	3.11%
CGFS Risk Rating	CC	CC	BB
Unlevered Beta (LTM)	2.04	1.76	1.01
WACC	10.01%	9.22%	6.75%

Porter's 5 forces (scores are out of 100)		Valuation	
Overall 58		Revenue growth	NO PAT margin
Bargaining Power of Suppliers 44	Threat of New Competition 71	29.6%	30.6%
Bargaining Power of Customers 50	Threat of Substitutes 75	12/31/2017 18.2%	31.1%
Intensity of Existing Rivalry 42		12/31/2018 21.4%	4.71
		12/31/2019 40.8%	4.03
		12/31/2020 18.8%	4.74
		12/31/2021 21.8%	3.83
		12/31/2022 13.8%	4.20
		12/31/2023 11.9%	3.77
		12/31/2024 10.1%	3.55
		12/31/2025 8.2%	3.36
		12/31/2026 6.1%	3.17
		Continuing Period 4.0%	3.10
			3.01
		Invested Capital	Net Claims
		Base Year \$99.94	\$764.24
		12/31/2017 \$142.81	\$225.83
		12/31/2018 \$313.45	\$252.46
		12/31/2019 \$424.33	\$281.62
		12/31/2020 \$482.32	\$313.87
		12/31/2021 \$660.20	\$347.73
		12/31/2022 \$944.34	\$383.90
		12/31/2023 \$1,203.56	\$421.29
		12/31/2024 \$1,634.74	\$475.00
		12/31/2025 \$2,047.39	\$513.96
		12/31/2026 \$2,556.23	\$553.59
			\$593.64



Period	Revenue growth	NO PAT margin	ROIC/WACC
Base Year	29.6%	30.6%	5.35
12/31/2017	18.2%	31.1%	4.71
12/31/2018	21.4%	31.3%	4.03
12/31/2019	40.8%	33.3%	4.74
12/31/2020	18.8%	30.8%	3.83
12/31/2021	21.8%	34.7%	4.20
12/31/2022	13.8%	34.1%	3.77
12/31/2023	11.9%	34.3%	3.55
12/31/2024	10.1%	34.5%	3.36
12/31/2025	8.2%	34.5%	3.17
12/31/2026	6.1%	35.9%	3.10
Continuing Period	4.0%	37.2%	3.01
Period	Invested Capital	Net Claims	Price per share
Base Year	\$99.94	\$764.24	\$225.83
12/31/2017	\$142.81	\$633.41	\$252.46
12/31/2018	\$313.45	\$400.34	\$281.62
12/31/2019	\$424.33	\$118.89	\$313.87
12/31/2020	\$482.32	-\$194.68	\$347.73
12/31/2021	\$660.20	-\$629.28	\$383.90
12/31/2022	\$944.34	-\$1,113.34	\$421.29
12/31/2023	\$1,203.56	-\$2,302.83	\$475.00
12/31/2024	\$1,634.74	-\$2,832.45	\$513.96
12/31/2025	\$2,047.39	-\$3,372.24	\$553.59
12/31/2026	\$2,556.23	-\$3,973.50	\$593.64
Continuing Period			

Revenue	74.0%
Operating Expenses	15.6%
Dividends	0.2%
NWC	0.2%
CAPEX	9.2%
Operating Cash	0.8%