

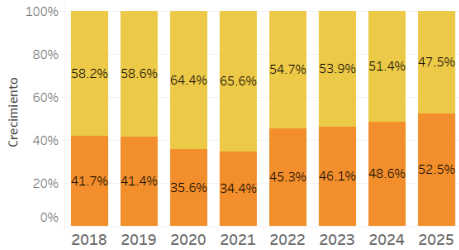


RECOMMENDATION BUY

Date	01/21/23
Current Price	\$1,098.09
Target Price	\$1,236.88
Upside	12.64%
Industry Sector	Commerce
Ticker	MELI
Stock Exchange	New York Stock Exchange

Shares Outstanding	51M
Market Capitalization	55.23B
EPS (2021)	1.67

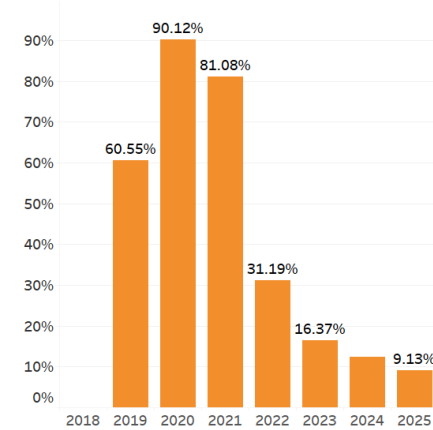
Figure 1: Company growth estimates



Estimates begin in 2022
Source: Company data, team analysis

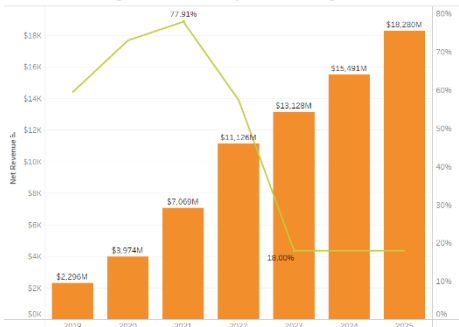
Sector
Comercio
Fintech

Figure 2: Commerce growth estimates



Estimated values start in 2022
Source: Company Data, team analysis

Figure 3: Sustainability of Net Income growth



Estimated values start in 2022
Source: Company data, team analysis

Mercado Libre (MELI) is a company that provides solutions to the commercial and financial sectors through its different platforms. Mercado Libre operates in 18 countries in Latin America. With a history of expansion and leadership in the region, the team believes that Mercado Libre's true value lies north of its current price.

Investment Summary

We have a Buy rating on Mercado Libre with a one-year price target of \$1,236.88, implying an upside of 12.64%. The target price is based on a Discounted Cash Flow (DCF) methodology. Currently, the company has clear dominance in the regional market, exponential growth in net revenues over the past five years, a history of expansion into various services in high-growth markets, and a strong resilience that has allowed the company to continue to grow despite current macroeconomic events. These are some of the key indicators that serve as the basis for projecting favorable growth for the company.

Growth expectations for the commerce and fintech sector

Mercado Libre is regionally recognized as a commerce platform that has expanded to other markets over the years; this sector is the company's original industry and also its largest contributor in terms of revenues. However, this perception may change in the medium term due to growth projections for each sector.

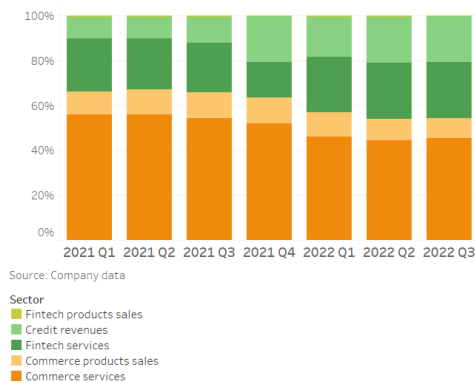
In annual terms, the growth of the Fintech sector's contribution to the company's total revenues is decreasing until 2021 (Figure 1), but in 2022 this trend changes upwards in each of the quarters of the year, reaching an average of 45% of the contribution, so it is expected that the year will end with a relevant increase. Similarly, the growth of the sector's revenue contribution is expected to continue in the medium term, so that by 2024, the fintech sector will account for more than 50% of the company's revenue.

With the growth of the Fintech sector's contribution, the share of the Commerce sector will be consequently reduced, but it is estimated that it will have a moderate growth after the strong increase in 2022 (Figure 2). It should be noted that the projections for 2022 are based on information of the growth presented in the sector during the first three quarters of 2022.

Sustainability of revenue growth

In the last five years, Mercado Libre has grown more than 50% per year, but this difference with the previous period is not sustainable, as its strong escalation was due to the fact that its earnings had a high growth margin, but this has reached a point where is difficult to sustain the growth it has shown. So it is expected that the company's growth will suffer an adjustment by 2023. Nevertheless, it is estimated that its growth will continue in double digits until at least 2025 (Figure 3).

Figure 4: Contribution by segment



Business Description

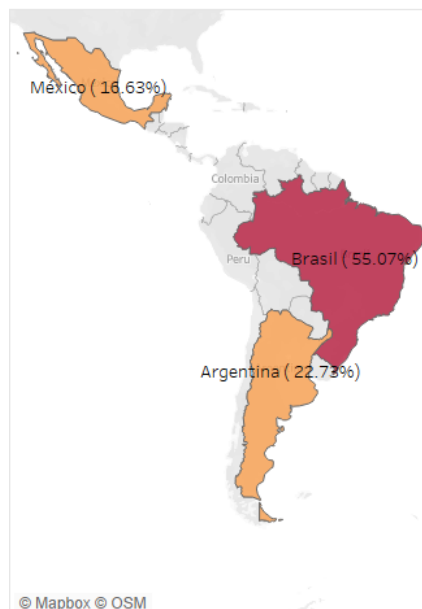
Founded in 1999 and headquartered in Montevideo, Mercado Libre offers an ecosystem of integrated e-commerce and digital payment services, including Mercado Libre Marketplace, Mercado Pago, Mercado Envío, Mercado Libre Ads, Mercado Libre Classifieds and Mercado Shops. Mercado Libre currently has more than 30,000 employees. Its platforms, as of May 2022, presented monthly visit averages of more than 200 million visits, being the leader in ecommerce visits in the region.

Business Segments

Mercado Libre was born as a marketplace focused on the South American region, but since its inception it has expanded by acquiring various platforms in the region along with its services. Currently, Mercado Libre divides its revenues into two sectors: Commerce and Fintech. Historically, the Commerce sector has been the largest source of revenue for the company, but in 2022, the Fintech sector has seen an increase in its contribution, leading it to represent 46% of revenues in the third quarter of the year.

Likewise, the Commerce and Fintech sectors are divided into five products and services: Commerce services, Commerce product sales, Fintech services, Credit revenues, and Fintech product sales (Figure 4). The most lucrative service is commerce services, which will account for more than 50% of net revenues by 2022, with revenues growing by an average of 8.5% each year, or the equivalent of \$75 million. However, fintech-related services will grow by an average of 17% from the beginning of 2021.

Figure 5: Presence in the region



Presence in the Region

Mercadolibre is the leader in visits in Latin America with an average number of monthly visits of more than 200 million, with Amazon in second place. By November 2022 the company has 18 platforms per country, however, three countries account for more than 94% of the company's net revenues, recorded between 2021 and the third quarter of 2022, these are: Brazil, Argentina and Mexico (Figure 5).

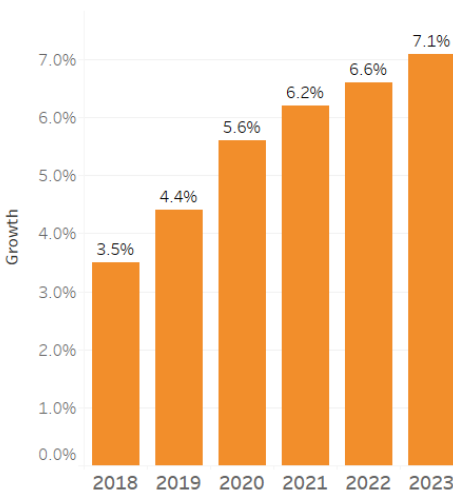
Brazil is a highly relevant market for the company, as it represents more than 50% of the company's net revenues and is the country where the Fintech sector has seen the greatest growth. This sector has grown in the nation to such an extent that the company has launched financial tools exclusively for them.

Likewise, Mercado Crédito has identified the growth potential of the Fintech sector in this country, due to a key indicator, which is the percentage of people who have Mercado Pago as their main personal financial account. In itself, this fact does not generate a profit for the company in monetary terms, however, it represents the company as a financial institution with a strong position in the country and facilitates the consumption of people on its platforms.

Company Strategy

The company's strategy is to add value to the regional market with its online marketplace and electronic payment services by acquiring markets and companies to strengthen its services. Likewise, Mercado Libre chooses to prioritize the quality of the products purchased by its customers, taking care of the brands, it is associated and collaborating with the holders of Intellectual Property Rights (IPR).

Figure 6: E-commerce share of total retail sales in Latin America



Source: E-Marketer and Seeking Alpha

Industry Overview & competitive Positioning

E-commerce growth in Region

In the region, E-commerce reached \$200 billion. It also became one of the fastest-growing market in 2020 for Latin America. According to the Asociación Mexicana de Venta Online (AMVO) in 2020 the e-commerce grew 81% from the previous year (García, 2022).

Also, the -ecommerce share of retail sales is expected to grow from 5.6% in 2020 to 7.1% in 2023 (Figure 6). The above projection is relevant both for the development of the commercial sector in the region and for Mercado Libre's growth expectations, the commercial sector represents more than 50% of the company's revenues.

In addition, it is important to note that the estimates were made during the time of the pandemic, which caused the e-commerce market to grow exponentially. Therefore, it can be inferred that the estimates could be lower than the final data for the following years.

Main industry competitors and their profitability

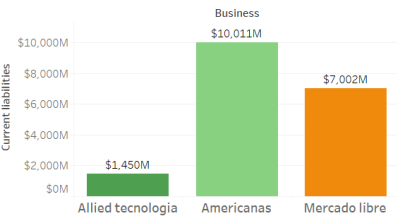
The commercial sector in Latin America is a market that has historically generated a demand that increases every year. However, the search to supply this demand has led to a higher level of competition in the region. Among Mercado Libre's major competitors are companies with both regional and interregional history and origins, including the following:

- Alibaba Group Holding Limited was founded on 1999, in Hangzhou, China by Jack Ma. The company operate wholesale and retail online marketplaces, additionally they offer advertising, electronic payment, cloud-based computing and network services and others.
- Lojas Americanas SA was founded by John Lee, Glen Matson, James Marshall and Batson Borger in 1929 and is headquartered in Rio de Janeiro, Brazil. In addition to the online shopping the company provide financial services.
- Allied Tecnología S.A. was founded in 2001. In addition to the sale of products it provides cellular insurance, carrier plan, handset trade-in, and financial services.

Americanas has the highest amount of current liabilities, where it exceeds Mercado Libre by 30.1%. Of the three companies the one with a relatively low amount is Allied Technologies, at \$1.450 million (Figure 7). As we can see in the chart, Mercado Libre is in an intermediate point, in terms of the amount of financial obligations that must be paid within a year.

Compared to the other companies, MELI has a higher EPS (Earnings per share) during the last year (Figure 8). Between 2020 and 2021, Allied Teconología performed better than MELI in terms of Earning Per Share, despite periods in which MELI was ahead. However, the performance of 2020 has had an increasing trend throughout the year, managing to position itself at the highest point compared to the other competitors in question (2.57). In contrast, since the third period of 2021, Allied Technology has been on a downward trend. Similarly, Americanas has shown a negative performance in this indicator throughout the period.

Figure 7: Current liabilities



Source: Yahoo Finance

Figure 8: Average total debt



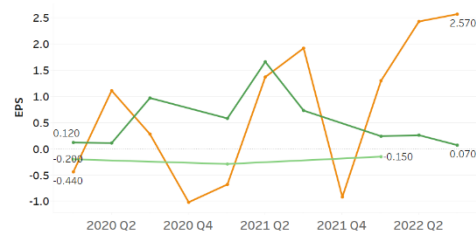
Source: Yahoo Finance

Figure 9: EPS for MELI



Source: Yahoo Finance

Figure 10: EPS for MELI and its competitors



Source: Yahoo Finance

The EPS over time has had fluctuations. However, for the year 2022 it has managed to maintain stability and deliver returns to shareholders, even greater than those seen in previous years. In addition, unlike in previous years, the first quarter showed profits, indicating better profitability for the company (Figure 9). This increasing trend shows that Mercado Libre is more efficient in its operations, where it is able to generate more profits to distribute among shareholders (Figure 10).

On the other hand, Mercado Libre saw the opportunity to absorb another market with great potential in the region, so in 2003 it founded Mercado Pago, with which it sought to meet the needs of consumers in the Fintech sector. Similarly, due to the increasing demand for financial solutions in 2017, Mercado Pago was launched, a new platform designed to address these issues.

As of September 21, Mercado Libre's division for Fintech Solutions, named Mercado Pago and MercadoCredito, are expected to become the biggest source of revenue before 2023. MercadoLibre is shifting to a fintech business approach because of its strong e-commerce presence.

Environmental, Social and Governance

Mercado libre has many initiatives toward the community and the environment. They work around 3 pillars: Reduction, Mitigation and regeneration; Entrepreneurial Development, and Social Empowerment.

Reduction, Mitigation & Regeneration

ENVIRONMENTAL



Entrepreneurial Development

ECONOMIC INCLUSION



Social Empowerment

SOCIOECONOMIC INCLUSION



SUSTAINABILITY BOND DETAILS	
ISSUER	Mercado Libre
ISSUE DATE	January 14, 2021
CURRENCY	USD
TENOR	2021-2026
ISSUED AMOUNT	USD 400 million
NET PROCEEDS	USD 398,712,500
USE OF PROCEEDS	To finance or refinance ongoing or new projects with an economic, social, or environmental impact.
FIXED COUPON RATE	2.375% per annum

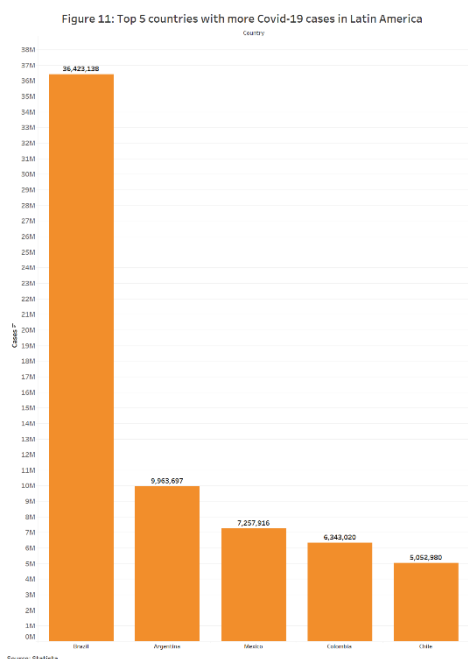
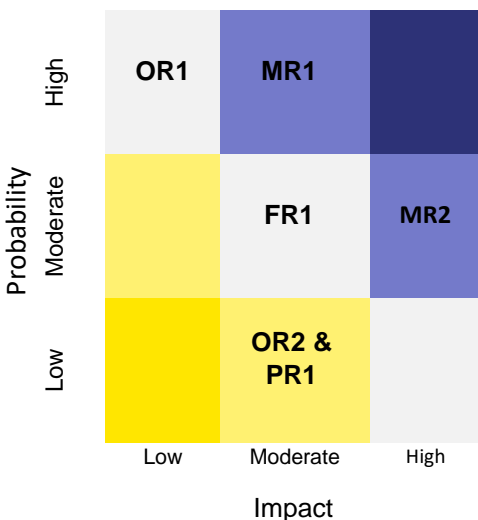
The company increase energy efficiency and consumption of energy from renewable and clean sources, with the goal of migrating 100% of the electricity consumption of their distribution centers.

In support of the logistics required for transition of e-commerce to sustainable mobility, approximately USD 1.32 million were allocated for the operation of more than 115 electric vehicles, which allowed us to deliver more than 1.85 million packages via electric mobility solutions.

Mercado libre is focused on developing the community around fulfillment centers, fostering investment in education, for example providing women opportunities to get involved in computer science and assisting youth through first-job programs.

Sustainability bond

Meli has issued a bond to invest in sustainable and environmental projects of USD 400 million and fixed rate coupon of 2.375%. The company has three priority areas of investment and different projects in those areas: Reduction of environmental footprint, financial inclusion, and social development and empowerment.



This phenomenon will have an impact on the company by reducing customer consumption and causing it to lose value in the exchange rate between currencies. In addition, inflation will affect the profit budgeted for the payment of interest rates of debtors in the Credit Market.

MR2: Recession Risk (MODERATE Probability, HIGH Impact)

A recession is an economic risk that can mitigate the growth expectations of many companies. The World Bank estimates a world GDP growth of 1.7% for 2023, this forecast differs from the one previously made by the same institution that expected a growth of 3.0%.

World Bank: "The sharp slowdown in growth will be widespread: forecasts will be corrected downward for 95% of advanced economies and for almost 70% of emerging markets and developing economies (EMDEs)". The expectation for the countries that represent the largest amount of revenue for Mercado Libre, i.e., Argentina, Brazil and Mexico are: 2.0%, 0.8% and 0.9%, respectively, by 2023 (Figure 14).

FINANCIAL RISKS

FR1: Risk of non-payment (MODERATE Probability, MODERATE Impact)

Customer financing for the acquisition of products in the commercial area has a direct solution provided by Mercado Crédito, a component that was initially created to finance vendors. This business unit's revenues have grown since the beginning of 2021 through its third quarter (Figure 15). The financial report for the third quarter of 2022 shows that it is a profitable business, and customer financing currently represents 75% of the loan portfolio.

The risk of customer default would have a large impact on the company's accounts, as accounts receivable have grown along with credit revenue to a total of US\$4.38 million in Q3 2022. This risk is moderate, considering that current economic factors, such as inflation, persist or increase.

POLITICAL RISK

PR1: Risk of civil conflict (LOW Probability, MODERATE Impact)

On January 8, supporters of the former president of Brazil stormed the Congress, consequently, the current panorama of the country is that of a society that is awaiting the outcome of this conflict. In addition, regarding the international opinion on the recent events, the Vice President of the United States, Kamala Harris, condemned this act as an attack to democracy. The sympathizers who carried out the attack have been labeled as extremists and the current president of Brazil, Luiz Inácio Lula da Silva, pointed out this action as an act of fascism. On the other hand, the Minister of Justice announced that measures have been taken to strengthen the capital.

Financial Analysis

Figure 16: Income statement estimates

Income Statement	2017	2018	2019	2020	2021	2022	2023	2024	2025	Assumptions	
										2022	2023-2025
Revenues	1,216.54	1,439.65	2,296.31	3,973.47	7,069.41	11,125.66	13,128.28	15,491.37	18,279.82	57.4%	18%
Total Revenues	1,216.54	1,439.65	2,296.31	3,973.47	7,069.41	11,125.66	13,128.28	15,491.37	18,279.82		
% Change YoY		18.3%	59.5%	73.0%	77.9%	57.4%	18.0%	18.0%	18.0%		
Cost of Goods Sold	-389.96	-603.21	-1,004.88	-1,938.94	-3,495.28	-4,805.28	-5,670.23	-6,690.87	-7,895.23	-43.2%	
Gross Profit	826.58	836.44	1,291.44	2,034.53	3,574.13	\$ 6,320.38	\$ 7,458.05	\$ 8,800.50	\$ 10,384.59		
% Change YoY		1.2%	54.4%	57.5%	75.7%	76.8%	18.0%	18.0%	18.0%		
% Gross Margins	67.9%	58.1%	56.2%	51.2%	50.6%	56.8%	56.8%	56.8%	56.8%		
Selling General & Admin Expenses	-447.57	-620.22	-1,031.48	-1,229.04	-1,965.37	-\$ 3,441.30	-\$ 4,060.73	-\$ 4,791.66	-\$ 5,654.16	-30.9%	
Provision for Bad Debts											
R&D Expenses	-127.16	-146.27	-223.81	-352.47	-590.33	-\$ 1,058.72	-\$ 1,249.29	-\$ 1,474.17	-\$ 1,739.52	-9.5%	
Other Operating Expenses	-106.98	-139.43	-189.31	-325.32	-569.08	-\$ 955.92	-\$ 1,127.98	-\$ 1,331.02	-\$ 1,570.60	-8.6%	
Total Operating Expenses	-681.71	-905.92	-1,444.60	-1,906.83	-3,124.78	-\$ 5,455.94	-\$ 6,438.01	-\$ 7,596.85	-\$ 8,964.28		
Operating Income	144.87	-69.48	-153.16	127.69	449.35	\$ 864.45	\$ 1,020.05	\$ 1,203.65	\$ 1,420.31		
% Change YoY		-148.0%	120.4%	-183.4%	251.9%	92.4%	18.0%	18.0%	18.0%		

Growth projection without expansion

Mercado Libre has grown in terms of Gross Profit rampantly in the last 4 years, much of this growth is due to performance coming from expansion into other markets along with its strategic alliances. However, expansion plans came to a halt in 2017 with the launch of Mercado Credito.

It is perceived that the current strategy is to consolidate in the different markets all the services it has entered. Likewise, it is expected that this strategy will be maintained in the medium term. This change would mean a decline in the growth of investment, net income and cost of goods sold. Nevertheless, these are expected to continue to grow at a sustainable rate, increasing gross profit and maintaining the annual increase despite market risks.

The original assumptions for the annual increase in net income were 57.4%, this figure was adjusted to estimate a balanced growth with respect to the revenues the company generated in 2022 (Figure 17).

Valuation

Figure 18: Balance Sheet estimates

Balance Sheet	2017	2018	2019	2020	2021	2022	2023	2024	2025	Assumptions
Cash And Equivalents	388.26	440.33	1,384.74	1,856.39	2,584.59					
Short Term Investments	209.43	177.22	1,074.44	604.36	207.33	381.99	382.18	382.36	382.55	18.9%
Trading Asset Securities					0.32					
Total Cash And Short Term Investments	597.69	617.56	2,459.18	2,460.75	2,792.23	5,642.20	6,657.80	7,856.20	9,270.32	50.7%
Accounts Receivable	543.79	390.81	410.44	908.98	1,928.05	2,647.06	3,123.53	3,685.76	4,349.20	23.8%
Other Receivables	56.23	55.91	80.26	84.1	210.83	380.49	448.98	529.80	625.16	3.4%
Notes Receivable	73.41	95.78	182.11	385.04	1,199.06	1,051.81	1,241.13	1,464.54	1,728.15	9.5%
Total Receivables	673.43	542.5	672.8	1,378.11	3,337.94	4,079.35	4,813.64	5,680.09	6,702.51	
Inventory	2.55	4.61	8.63	118.14	253.08	165.97	195.84	231.09	272.69	1.5%
Prepaid Expenses	5.86	27.48	45.31	28.38	40.43	125.72	148.34	175.05	206.55	1.1%
Deferred Tax Assets Current										
Restricted Cash		24.36	66.68	651.83	1,063.38					
Other Current Assets	7.38	294.62	536.25	709.6	687.93	1,602.40	1,890.83	2,231.18	2,632.79	14.4%
Total Current Assets	1,286.92	1,511.12	3,788.86	5,346.81	8,174.98	11,615.64	13,706.45	16,173.62	19,084.87	
Gross Property Plant And Equipment	217.74	297.48	632.71	948.12	1,659.87	2,524.54	2,978.96	3,515.17	4,147.90	22.7%
Accumulated Depreciation	-102.91	-131.86	-188	-253.22	-391.33	-839.18	-990.23	-1,168.48	-1,378.80	-7.5%
Net Property Plant And Equipment	114.84	165.61	444.71	694.9	1,268.54	1,685.36	1,988.73	2,346.70	2,769.11	15.1%
Long-term Investments	34.72	276.14	263.98	166.11	75.54	862.90	1,018.23	1,201.51	1,417.78	7.8%
Goodwill	92.28	88.88	87.61	85.21	148.24	485.43	572.81	675.91	797.58	4.4%
Other Intangibles	23.17	18.58	14.28	14.16	23.62	100.30	118.35	139.66	164.79	0.9%
Loans Receivable Long-Term			6.44	16.62	61.01	34.75	41.01	48.39	57.10	0.3%
Deferred Tax Assets Long-Term	57.32	141.44	117.58	134.92	181.27	570.00	672.60	793.67	936.53	5.1%
Other Long-Term Assets	63.93	37.74	58.24	67.62	167.96	322.43	380.47	448.95	529.77	2.9%
Total Assets	1,673.19	2,239.52	4,781.69	6,526.33	10,101.16	15,676.82	18,498.64	21,828.40	25,757.51	
Accounts Payable	199.5	243.31	331.14	765.73	1,324.38	1,907.50	2,250.85	2,656.00	3,134.08	17.1%
Accrued Expenses	85.47	79.62	139.2	238.27	356.81	660.02	778.82	919.00	1,084.43	5.9%
Short-term Borrowings			66.81	509.01	1,179.09	720.91	850.67	1,003.79	1,184.47	6.5%
Current Portion of Long-Term Debt	56.33	131.49	117.32	31.99	95.62	467.96	552.19	651.58	768.87	4.2%
Current Portion of Capital Lease Obligations		1.46	25.27	62.64	103.05	94.26	111.22	131.24	154.87	0.8%
Current Income Taxes Payable	32.15	31.06	60.25	215.92	291.46	377.85	445.86	526.11	620.81	3.4%
Unearned Revenue Current		5.92	16.59	32.52	34.03	54.15	63.89	75.40	88.97	0.5%
Deferred Tax Liability Current										
Other Current Liabilities	594.59	673.37	995.74	1,779.80	2,452.27	4,861.73	5,736.84	6,769.48	7,987.98	43.7%
Total Current Liabilities	968.03	1,166.22	1,752.32	3,635.88	5,836.70	9,144.36	10,790.35	12,732.61	15,024.48	Suppliers
Long-Term Debt	312.09	596.57	623.99	844.62	2,197.62	3,262.24	3,849.44	4,542.34	5,359.97	29.3%

Financial valuation is an essential process for understanding the true value of a company or project. One of the most common techniques used in valuation is discounted cash flow (DCF). DCF focuses on estimating the present value of future cash flows generated by a company or project, by applying a discount rate that reflects the risk associated with those cash flows. This technique is based on the premise that a dollar today is more valuable than a dollar in the future due to the money's ability to generate interest. In this section, the process carried out to determine the intrinsic value and future growth potential of the company or project in question will be explained in detail.

The valuation of Mercadolibre was carried out using data from 2017 to determine its potential growth. Financial statements were projected until 2025.

Firstly, the projection of its sales was estimated, for which two growth percentages were applied: one of 57.4% for the short term (2022) and another of 18% for the long term (2023-2025). The percentage for the short term was obtained through logarithms, since this tool allows comparing growth in percentage terms, which is essential for projecting future growth of sales. In addition, logarithms allow analyzing the compound growth of sales. The long-term growth percentage was estimated with a conservative criterion, since it was the lowest growth since 2017.

The next step in the valuation of Mercadolibre was to estimate the growth of the other sections of the financial statements. To achieve this, a methodological approach was used that consisted of calculating the margin that each section represented in relation to income between the years 2017 and 2021. This margin was obtained by dividing the value of each section by the total income of the corresponding period, using the average for those years. Once the margin was obtained, the growth of each of them was projected using the income growth percentage obtained previously. In this way, the growth of costs, expenses, net profits, among others, could be estimated. This allowed obtaining a complete projection of Mercadolibre's financial statements until the year 2025. Additionally, a detailed analysis of the results obtained was carried out, to evaluate the feasibility and reliability of the projection made. (Figure 18)

The last step is to make calculations to estimate cash flow and obtain its present value (Figure 19). To do this, we bring in the financial statement data obtained in the previous steps, such as revenue and COGS to determine EBITDA. Then, we subtract the amortization, which was estimated based on the percentage of net fixed assets, to obtain EBIT. Next, we apply the 44.6% represented as taxes, which were estimated based on the average paid since 2017. With the data obtained from (Figure 20), we obtain the values for Investment in fixed assets (8) and the change in working capital (9).

Figure 19. FCF calculations

	2021	Forecasts			
	0	1	2	3	4
1. Revenues	7,069.41	11,125.66	13,128.28	15,491.37	18,279.82
2. COGS	-3,495.28	-4,805.28	-5,670.23	-6,690.87	-7,895.23
3. EBITDA (1-2)	3,574.13	6,320.38	7,458.05	8,800.50	10,384.59
4. Amortization	198.32	218.94	298.48	634.03	949.36
5. EBT (3-4)	3,375.81	6,101.44	7,159.57	8,166.47	9,435.23
6. Taxes	1,506.96	2,723.68	3,196.03	3,645.51	4,211.89
7. After-tax profit (5-6)	1,868.85	3,377.76	3,963.54	4,520.96	5,223.34
8. Investment in fixed assets		864.67	454.42	536.21	632.73
9. Working capital investment		133.00	444.83	524.90	619.38
10. Free cash flow (7+4-8-9)	2,067.17	2,599.03	3,362.77	4,093.88	4,920.59

Figure 20. Fixed assets and working capital estimates

Fixed assets and working capital					
(+)Gross fixed assets	1,659.87	2,524.54	2,978.96	3,515.17	4,147.90
(-) Accumulated amortization	-391.33	-839.18	-990.23	-1,168.48	-1,378.80
(=)Net fixed assets	1,268.54	1,685.36	1,988.73	2,346.70	2,769.10
Working Capital	2,338.28	2,471.28	2,916.11	3,441.01	4,060.39

It is necessary to bring the estimated cash flows to present value in order to determine a target price. To do this, we used a WACC of 10.42% and applied the Present Value formula. First, we calculated the cash flows from year 1 to 3, which gave us a total of 6,958.33. Then, we estimated the cash flows from year 4 onwards, assuming that the company will not cease operations in that period. We estimated an average growth rate of 5.0% for these future cash flows. Adding these cash flows to the ones from the first three years, and subtracting the current

debt, we obtained the estimated value of the company. However, we must divide this value by the total shares outstanding. This gave us a value of \$ \$1,236.88 (Figure 21) per share, which represents a potential growth of 12.64% based on the current market price of \$1,098.09.

Figure 21. Present values and estimated price of the company

VA FCF (from 1-3)	8,152.64
VA Value on the horizon	67,433.36
VA of the company	61,596.66
Estimated Price	\$ 1,236.88

WACC Calculation

For this calculation, we use data from Brazil, as we consider it the most representative country for the company. A country risk of 2.59% is presented, taxes of 34% for the size and income of the Mercado Libre, and finally the levered and unlevered beta of the industry. On the financial information side of the company, the interest rate on debt and the capital structure are calculated.

Considering the cost and the percentage of equity and debt participation, the WACC is 10.42% (figure 22). This result is used to discount future cash flows. In addition, the cost of capital is determined, and as a shareholder, one must set a rate of return higher than the WACC in order to create value.

Figure 22. Selected WACC Calculation

Cost of equity	US\$	Cost of debt	US\$	Weighted Average Cost of Capital (WACC)	US\$
Risk free rate	13.6%	Debt interest rate	3.1%	Cost of Equity	43.1%
ReLevered Beta	4.60	Tax rate	34.0%	% Equity	15.2%
Equity Risk Premium	5.9%			Cost of Debt	2.0%
Country Risk Premium	2.6%			% Debt	84.8%
Size Premium	-0.4%			WACC in US\$	8.3%
Cost of equity in US\$	43.1%	Cost of debt net of tax in US\$	2.0%	Projected Devaluation	2.0%
Projected Devaluation	2.0%	Projected Devaluation	2.0%	WACC in local currency	10.4%
Cost of equity in local currency	46.0%	Cost of debt in local currency	4.1%		
Selected Cost of equity	43.11%	Selected Cost of debt	2.02%	Selected WACC	10.42%

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