



A case study by Ryan Tanna

Company overview

- / MercadoLibre dominates the Latin American e-commerce market with c.36% market share and 56 million monthly unique visitors, and retains this lead despite recent challenges in Brazil.
- / In late 2017, it decided to push adoption of e-commerce, which trails in Latin America at just 3% of retail sales, over its own profit by offering free shipping across its regions.
- / This new strategy made sense until Brazil threw a wrench into free-shipping economics and MercadoLibre was forced to reposition. MercadoLibre stands by its decision to sacrifice dividends and superior 21% margins in favour of longer-term growth, market share and fintech investment.



**8200+ employees
across the Americas**



HQ in Buenos Aires



**Market Cap: as of
05/10/2018: USD 15bn**



**IPO'd as MELI on the Nasdaq
in Aug 2007 at price of \$18.00
per share (\$788m Mkt Cap)**



**Founded in
August 1999**



235M registered users

Business model



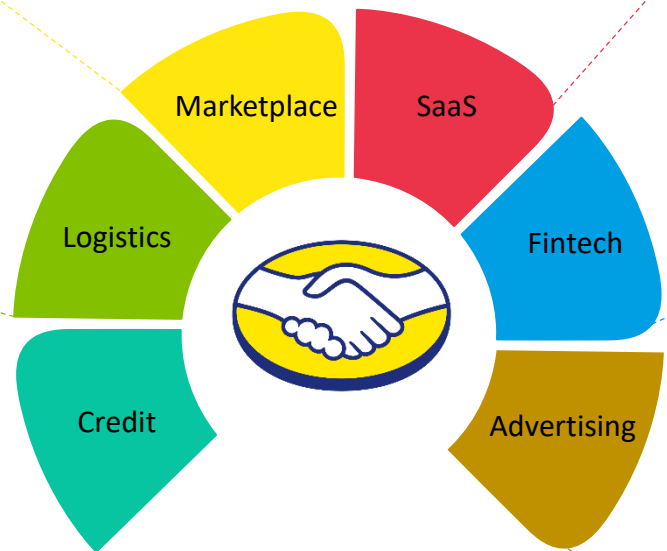
Businesses and individuals are able to list items and conduct sales and purchases online in either a fixed-price or auction format (similar to Ebay).



Facilitates the shipping of goods from sellers to buyers. Includes Drop Shipping, Cross Docking and Fulfilment.



Extends loans to professional merchants and also to consumers.



Allows users to set-up, manage and promote their own online webstores under a subscription based model. MercadoLibre also develops and sells software enterprise solutions to e-commerce business clients in Brazil.



MercadoLibre's integrated online payment platform which facilitates transactions both on and off the MercadoLibre marketplace.



MercadoLibre offers classified advertisements for brand and product promotion for motor vehicles, vessels, aircraft, real estate and services.

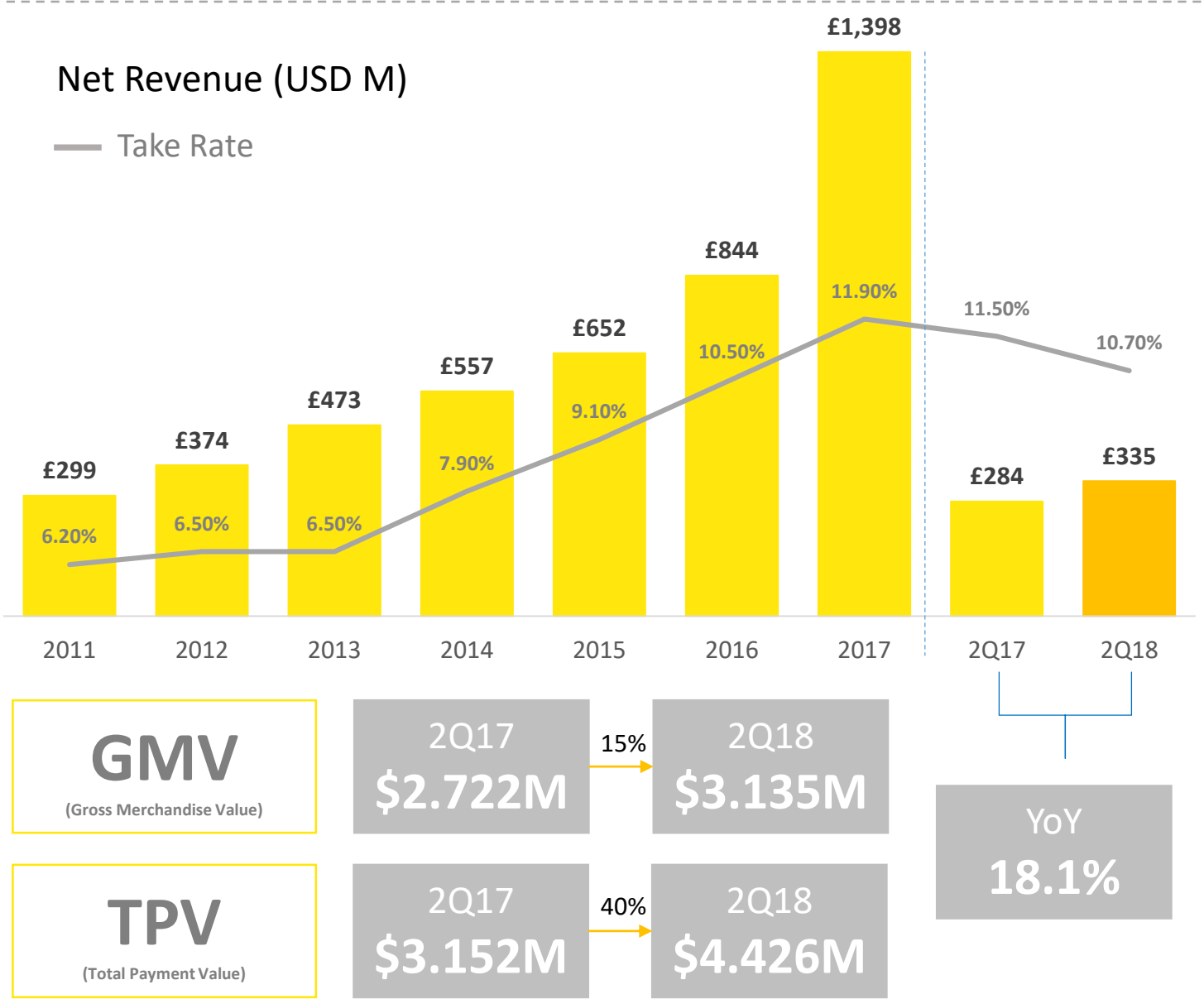
Latin America dominance

MercadoLibre is the leading technology company in developing e-commerce and payments solutions in Latin America.

- / As of June 30, 2018, MercadoLibre, through its wholly-owned subsidiaries, operated online ecommerce platforms in Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, Mexico, Panama, Honduras, Nicaragua, Salvador, Uruguay, Bolivia, Guatemala, Paraguay and Venezuela.
- / Additionally, MercadoLibre operates an online payments solution in Argentina, Brazil, Mexico, Venezuela, Colombia, Chile, Peru and Uruguay.
- / It also offers its shipping solution through MercadoEnvios which is available in Argentina, Brazil, Mexico, Colombia, Chile and Uruguay.
- / The company operates a real estate classified platform that covers some areas of State of Florida, in the United States of America.



Financial performance



(USD M)	3Q17	4Q17	1Q18	2Q18
Gross Profit	176	203	163	160
GPM	58%	57%	51%	48%
EBIT	28	(65)	(29)	(28)
EBITM	9%	(18%)	(29%)	(28%)
Net Profit	28	(68)	(13)	(11)
EPS	0.63	(1.53)	(0.29)	(0.25)

Financial performance review

In 2Q18 the business generated revenues of \$335m (up 18% YoY) but below analyst expectations of £346m and the miss filtered all the way to the bottom line with a loss per share of \$0.25 compared to a loss of \$0.10 expected by analysts. The negative EBITDA of \$17m in 2Q18 was exasperated by higher operational expenses in the period (up 33% YoY), mostly from marketing and sales expenses.

MercadoLibre has had a difficult 2018 for a number of reasons which are outlined below:

- 1

Accounting rule changes by the US Accounting Standards
- 2

Unexpected postal rate hikes in Brazil, coupled with trucker strikes
- 3

Economic climate in Argentina and Venezuela

Ratio analysis	YE 2017	Q2 2018
Gearing	44%	47%
Interest Cover	6.99	N/a
Debt Ratio (Debt/Assets)	0.22	0.32
Debt(LT)/Equity	0.96	2.15
Current Ratio	1.33	1.15
Quick Ratio	1.32	1.13
ROCE	1.95	N/a
Inventory turnover	372	178 (TTM ¹)

¹ Trailing Twelve Months

1

Under U.S. accounting regulations -- specifically ASC 606 -- the company must now subtract shipping subsidies from both its revenue and cost of goods, where previously it was included in both. This gives the appearance of much lower revenue and slower growth rates.

Adjusting for a new accounting standard adopted last quarter, revenue would have been \$97 million higher, producing revenue of \$432 million, up 36% year over year.

2

MercadoLibre has been rolling out free or low-cost shipping in its largest markets as it prepares to do battle with online juggernaut Amazon.com.

While those efforts have resulted in growing market share gains, the plan hit an unexpected snag in Brazil last quarter when fees for local and state deliveries increased by 8%, while those shipped nationally saw charges increase by between 30% and 50%, hitting the company's bottom line.

3

Argentina hiked the base rate interest rate from 45% to 60% (highest official interest rate in the world).

Venezuelan results excluded from consolidated statements due to the deteriorating conditions in the country.

Sustainability of MercadoLibre and the e-commerce business

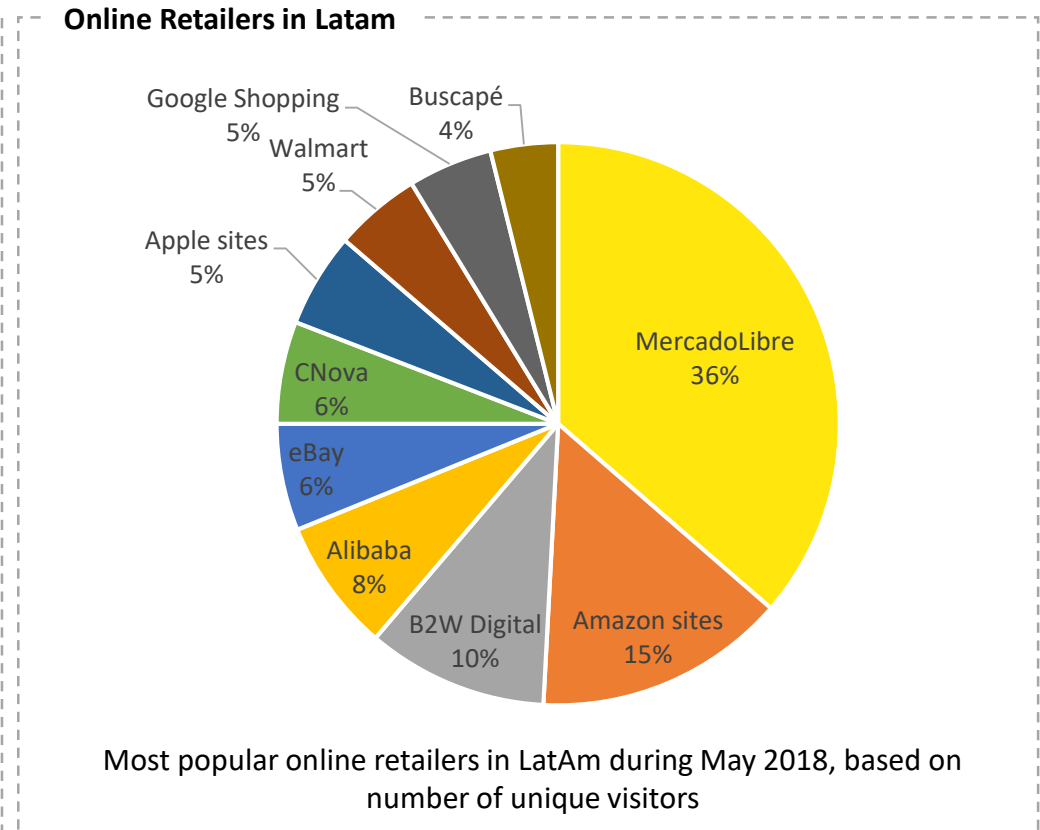
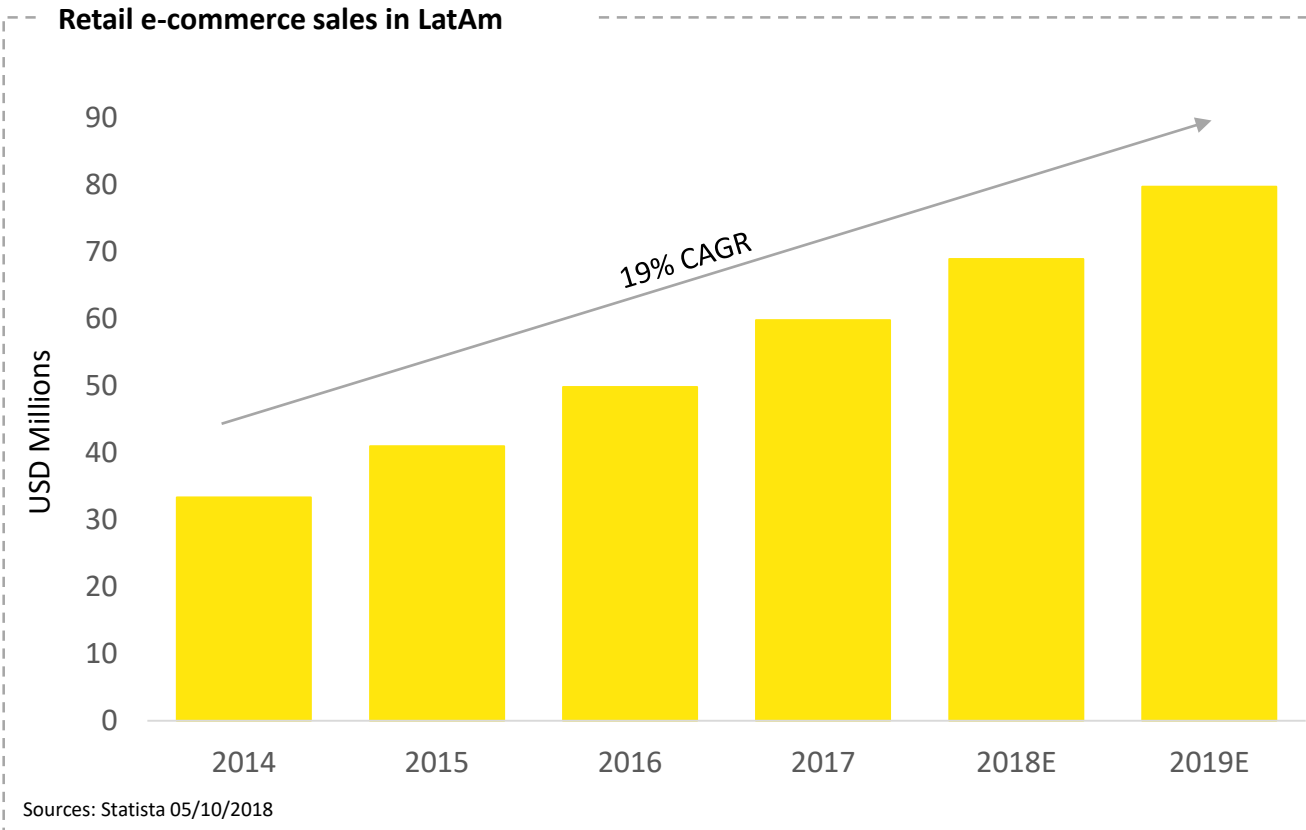
“ A combination of a winner-takes-all ecosystem, accelerating customer acquisition, last-mile costs, and a generally inferior (online) experience, makes pure-play e-commerce untenable. ”

- The Four, Scott Galloway

MercadoLibre is attempting to cement its market dominating position, just as Amazon has done time and time again by offering services that its competitors cannot afford to offer and cannot build the infrastructure for.

Key Risk	Description	Risk
Complex reporting	The company operates in 18 different countries with financial reporting in USD. It is, therefore, vulnerable to foreign currency movements – both upside and downside risk. Three key currencies are BRL, MXN and ARS which are highly volatile	M
Concentration of revenues	More than half of revenues are generated in Brazil which exposes MercadoLibre to consumer demands in the country. Upside and downside risk.	L
Competition from market entrants	There are a number of competitors trying to get a slice of the LatAm e-commerce market including Amazon and Walmart – the latter having recently bought Cornershop in Mexico and Chile for grocery shopping, and the former recently launching food and drink delivery services in Mexico as well as recently (04 Oct) announcing a logistics pilot program with CargoX in Brazil for shipping high value items.	M
General IT risks	As with any online retailer and payment services provider, there are potential security concerns for breach of data protection, fraudulent use of the site and services, and system failures.	L

Trends and opportunities

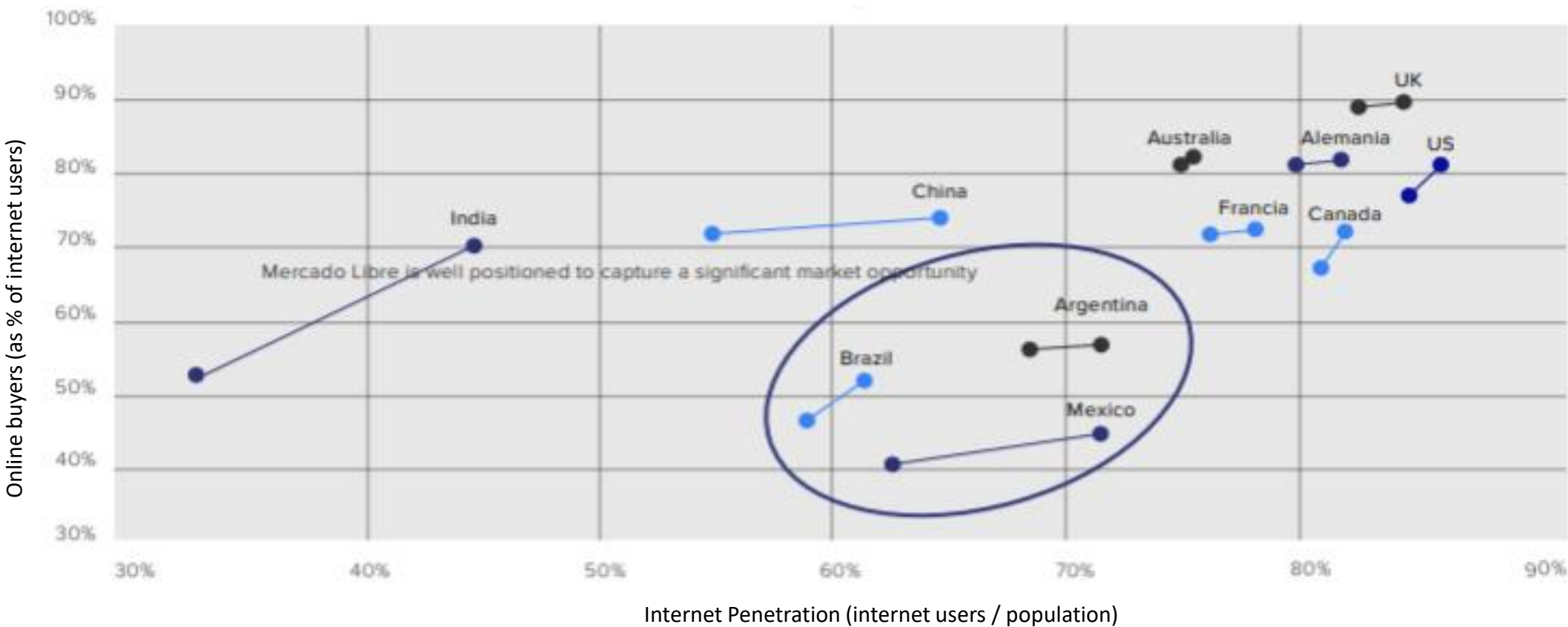


The main structural factors that underpin ecommerce and fintech growth in Latin America continue to take shape through:

- Growth of installed base of smartphones (Gross Merchandise Value for mobile devices was 53% in 2017)
- Increasing consumer familiarity and affinity with buying and transacting online
- Greater number of broadband users
- Rising demand for online financial services
- Growing interest of traditional retailers and brands to find technology partners to support them

Trends and opportunities

Significant growth opportunities for LatAm compared with other geographies. Offers a unique proposition for [xxx] to capture a period of rapid growth in an emerging market with a proven business model.



Leading e-commerce website by unique visitors in LatAm

Argentina

1. MERCADOLIBRE.COM.AR
2. OLX.COM.AR
3. EBAY.COM
4. FRAVEGA.COM
5. GARBARINO.COM

Brazil

1. MERCADOLIVRE.COM.BR
2. AMERICANAS.COM.BR
3. ALIEXPRESS.COM
4. CASABAHIA.COM.BR
5. OLX.COM.BR

México

1. MERCADOLIBRE.COM.MX
2. SEGUNDAMANO.MX
3. WALMART.MX
4. AMAZON.COM.MX
5. EBAY.COM

Chile

1. MERCADOLIBRE.CL
2. FALABELLA.COM
3. YAPO.CL
4. SODIMAC.CL
5. PARIS.CL

Venezuela

1. MERCADOLIBRE.COM.VE
2. OLX.COM.VE
3. AMAZON.COM
4. TUCARRO.COM.VE
5. MERCADOLIBRE.COM

Colombia

1. MERCADOLIBRE.COM.CO
2. OLX.COM.CO
3. ALIEXPRESS.COM.CO
4. FALABELLA.COM.CO
5. TUCARRO.COM.CO

Competition and valuation benchmarking

Comparable Quoted Companies



Mkt Cap (USD\$) ¹	14.99bn	32.29bn	931.30bn	404.72bn	3.81bn	34.88bn
Rev Δ YoY	65.57%	6.55%	30.80%	58.12%	28.84%	40.28%
EPS Δ YoY	(89.97%)	(24.21%)	(7.19%)	62.68%	(7.02%)	94.37%
P/E	-	17.73	194.30	49.73	13.30	464.29
P/E RT*	60.71	12.32	68.44	38.48	54.74	N/a

* Reuters industry benchmark PE = 65

MELI average PE ratio for the last 5 years (removing outliers). MELI is 10 yrs post IPO

EBAY 2 yr average for yr 10 and 11 post IPO (IPO 1998) – eBay has consistently had a lower PE ratio due to slower growth forecasts

AMZN 2 yr average for yr 10 and 11 post IPO (IPO 1997)

BABA average since IPO in 2014

VIP last 5 year average (IPO 2012)

JD does not have enough data to compare reliably

Source: Bloomberg

¹As of 05/10/2018, 1330hrs

Figures for YoY are of total for 2017 vs total for 2016

Concluding remarks

- / **There are some short term risks** facing MercadoLibre operationally, but in the long-term the company looks well positioned given its investment in complimentary services and offerings to differentiate from the competition.
- / **The tightening of US monetary policy** and the subsequent strengthening of the US Dollar, poses a similar short to medium term risk. This may increase the cost of MercadoLibre's US Dollar debt obligations. However, the recent capital flight from emerging markets such as LatAm poses an opportunity for buyers to pick up a bargain while equities are cheaper. According to Mobius Capital Partners, equity valuations in emerging markets are trading at more than a 40% discount to the US market on price/earnings terms.
- / **Overall, my view is that MercadoLibre offers an opportune purchase** for a medium to high risk buyer over a 3-5 year investment horizon where I expect the rapid growth to continue as consumer behaviours continue to shift towards online shopping in LatAm and a defined working middle-class emerges. I find it encouraging that MercadoLibre isn't afraid to try new ventures and offerings (in a similar way Amazon behaves) as it evidences the ambition to grow and an awareness of the demanding expectations in a fast-changing sector.
- / **I expect MercadoLibre to continue to invest** in its payments and shipping business sectors which offer a number of opportunities for growth.






Buy, sell or hold:

	Citi	Goldman Sachs	J.P. Morgan	R Tanna
View	Sell	Neutral	Buy	Buy
Target price	\$190	\$352	\$450	09/10/2018: \$339



Appendix: About Ryan

About Ryan

 Experience	<ul style="list-style-type: none">▪ 4 years of Private Equity and transaction experience▪ Investment team for prominent UK infra fund, M&A advisory at Big4, tech start-up, networking forum founder
 Investment	<ul style="list-style-type: none">▪ Cross-sector experience and passionate about entrepreneurship▪ Closed deals ranging from £5m to over £1bn equity and both majority and minority shareholdings
 Traits	<ul style="list-style-type: none">▪ Commercial, resourceful and diligent▪ High level of integrity
 Education	<ul style="list-style-type: none">▪ Chartered Accountant and member of the Chartered Management Institute▪ Economics degree from the University of Birmingham
 Outside of work	<ul style="list-style-type: none">▪ Officer in the British Army Reserves▪ Keen sportsman (tennis, rugby, cricket, swimming)

Contact



RYANTANNA101@GMAIL.COM



+44 (0) 7799 664351



LINKEDIN.COM/IN/RYANTANNA



@ryantanna5



Disclaimer

In producing this presentation, I have relied upon the information available to me from public sources. Should any of this information be incorrect, I am not responsible for any consequent errors. The report is has been made available to you as an example of my work and should not be shared or released to any third party without my prior written consent. Where investment advice has been provided, the ultimate investment decision lies solely with the investor. For the avoidance of doubt, no part of this report should not be relied upon and all investors and readers should do their own independent research prior to making any financial investment or repeating any information in this report.