



WEALTH PRESERVATION EQUITY RESEARCH FRAMEWORK

MELI

MercadoLibre, Inc.

RECOMMENDATION: HOLD / WATCHLIST

Current Price
\$1,774.00

Fair Value (Base)
\$2,180.00

Margin of Safety
18.6%

WP Score
52 / 100

Expected Return (Base)
12.4% CAGR

Bear Case Return
-3.8% CAGR

Dividend Yield
0.0%

Forward P/E
30.3x

ONE-LINE THESIS:

MercadoLibre is Latin America's dominant e-commerce and fintech ecosystem with exceptional growth, but the absence of dividends, elevated leverage, and premium valuation create insufficient downside protection for a wealth preservation mandate at current prices. A compelling entry emerges at ~\$1,450.

Report Date: February 27, 2026 | Analyst: Moschovakis Capital Research | Sector: Consumer Cyclical / Technology
Exchange: NASDAQ | Currency: USD | Market Cap: \$89.6B | Shares Outstanding: 50.7M



EXECUTIVE SUMMARY

MercadoLibre represents Latin America's most powerful e-commerce and fintech ecosystem, commanding dominant market positions across Brazil, Mexico, and Argentina with 150 million active users and accelerating structural tailwinds from e-commerce and digital payments penetration. The company delivered exceptional FY2025 results with revenue of \$28.89 billion (up 39% YoY) and net income of \$2.0 billion.

However, under the Moschovakis Capital Wealth Preservation Framework, MELI presents a conflicted profile. While the business quality is outstanding and the growth trajectory is compelling, several critical wealth preservation criteria are not met: the company pays no dividend (eliminating income return), carries elevated debt-to-equity of 1.59x (well above the 1.0x threshold), and the bear case scenario projects negative total returns. The current trailing P/E of ~45x, while down significantly from 52-week highs, still prices in substantial forward growth that may not materialize in adverse conditions.

At the current price of \$1,774, the stock trades approximately 18.6% below our base case fair value of \$2,180. However, the lack of downside protection mechanisms (no dividend cushion, no margin of safety in bear case) means this discount is insufficient for a high-conviction wealth preservation position. We recommend HOLD/WATCHLIST with a target entry price of approximately \$1,450, where the forward P/E compresses to ~24x and the risk/reward profile becomes more asymmetric in the investor's favor.

Return Profile

Metric	Value
Dividend Yield	0.0% (No Dividend)
Expected EPS Growth (5Y Forward)	18-22% CAGR
Expected Price Appreciation (Base)	12.4% CAGR
Total Expected Return (Base Case)	12.4% CAGR
Bear Case Total Return	-3.8% CAGR
Bull Case Total Return	22.6% CAGR
Probability-Weighted Return	10.9% CAGR

Risk Assessment

Metric	Value
Wealth Preservation Score	52 / 100
Downside Protection Score	35 / 100
Quality Score	68 / 100
Risk Level	ELEVATED
Probability of >50% Loss	12%
Recession Profile	SENSITIVE

RECOMMENDATION: HOLD / WATCHLIST

Target Entry Price: \$1,450 (18.3% below current) — At this level, forward P/E compresses to ~24x, creating adequate margin of safety for the growth profile and shifting the bear case return closer to capital preservation.

INVESTMENT THESIS

Why This Business Is Defensible and Durable

MercadoLibre operates the largest integrated e-commerce and fintech ecosystem in Latin America, a region of 650 million people where e-commerce penetration remains approximately 10 years behind developed markets. The company's competitive moat rests on powerful network effects (150M+ active users, 600M+ listings), an integrated logistics network (Mercado Envios), a dominant payments platform (Mercado Pago with 78M monthly active fintech users), and a rapidly scaling credit business (\$12.5B portfolio). This self-reinforcing ecosystem creates formidable barriers to entry — a competitor would need to simultaneously replicate marketplace liquidity, payment processing infrastructure, logistics capability, and a consumer lending operation.

The company achieved record market share gains in Brazil and Mexico during 2025, and Mercado Pago now holds the leading Net Promoter Score in all four major markets (Brazil, Mexico, Argentina, Chile). The advertising business (Mercado Ads) is emerging as a high-margin revenue driver, leveraging proprietary first-party data that competitors cannot replicate. Management's proactive investments in AI-driven commerce, including agentic shopping experiences and automated seller tools, position the platform to capture the next wave of e-commerce evolution.

The Wealth Preservation Challenge

Despite exceptional business quality, MELI presents fundamental challenges for a wealth preservation mandate. The company pays no dividend and has never paid one, eliminating the income floor that our framework relies upon for downside protection. The debt-to-equity ratio of 1.59x significantly exceeds our 1.0x threshold, driven primarily by the fintech lending operations that require leverage by nature. The current ratio of 1.17x sits below our 1.5x comfort level. Most critically, in a bear case recession scenario, the absence of dividend income and the potential for multiple compression from ~45x trailing P/E means capital preservation cannot be assured.

The stock has already corrected approximately 33% from its July 2025 all-time high of \$2,645 to the current \$1,774, reflecting margin compression concerns following heavy strategic investments. While this pullback improves the risk/reward profile, the remaining valuation premium and structural leverage from the fintech business create a risk profile that exceeds our comfort zone for a full wealth preservation position at current prices.

How It Compares to Alternatives

At a probability-weighted expected return of 10.9% CAGR, MELI's expected total return meaningfully exceeds our 7% hurdle rate and the 4% HYSA alternative. However, this return comes with substantially higher volatility and downside risk than typical wealth preservation candidates. The beta of 1.13-1.45 implies amplified market exposure, and the stock's historical maximum drawdown of approximately 65% (2021-2022) far exceeds our preservation mandate thresholds. A position in MELI would be categorized as a growth allocation within the portfolio — acceptable as a satellite holding at reduced size, but unsuitable as a core wealth preservation position.

STAGE 1: SECTOR & THEME IDENTIFICATION

Q1: Is the sector understandable?

YES — E-commerce marketplace and digital financial services are well-understood business models with clear revenue drivers (transaction fees, payment processing, interest income, advertising).

Q2: Is the sector in secular decline?

NO — Latin American e-commerce and digital payments are in early-to-mid stages of secular growth. E-commerce penetration in LatAm is approximately 15%, versus 25-30%+ in developed markets. Digital payments adoption is accelerating as unbanked populations gain access to financial services.

Q3: Defensive or Cyclical?

MODERATELY CYCLICAL — Consumer discretionary spending is inherently cyclical, particularly in emerging markets subject to currency volatility and inflationary pressures. However, the fintech segment provides partial offset as digital payments replace cash (structural shift regardless of cycle). The credit business introduces additional cyclical through loan loss provisioning.

Q4: Sector-level tailwinds?

STRONG — (1) Latin American e-commerce penetration 10+ years behind developed markets provides a long runway; (2) digital payments adoption displacing cash transactions; (3) rising middle class and smartphone penetration driving internet commerce; (4) AI-driven personalization accelerating offline-to-online migration. These tailwinds are partially priced in given the premium valuation.

Q5: Sector valuation vs. history?

ELEVATED — The LatAm e-commerce/fintech sector trades at premiums to historical averages, though MELI itself has corrected significantly from 2025 peaks. The forward P/E of ~30x represents the lower end of MELI's 5-year range but remains well above traditional market multiples.

Sector Verdict: CONTINUE — with heightened balance sheet scrutiny (Moderately Cyclical)

STAGE 2: FUNDAMENTAL GATEKEEPING

2.1 Solvency Check: Balance Sheet Fortress Analysis

MercadoLibre's balance sheet must be evaluated with critical nuance: the company operates a significant fintech lending business that naturally requires leverage. Traditional industrial solvency metrics may overstate risk when applied to a hybrid e-commerce/fintech model. Nevertheless, our framework applies consistent standards.

Metric	Value	Threshold	Assessment
Debt-to-Equity	1.59x	<1.0x	FAIL
Interest Coverage	~47.8x	>5.0x	PASS (Excellent)
Current Ratio	1.17x	>1.5x	FAIL (Marginal)
Free Cash Flow (5Y)	Positive 4/5	Positive 4/5	PASS
Cash / Total Debt	~42%	>20%	PASS
Altman Z-Score	4.46	>2.99	PASS (Safe Zone)

Stress Test: If revenue dropped 30% for 2 years, MercadoLibre would likely remain solvent given its exceptional interest coverage ratio of ~48x and \$4.1B in cash. However, the fintech credit portfolio (\$12.5B) introduces amplified risk — loan losses would surge during a LatAm recession, potentially consuming significant cash flow. The company would almost certainly need to curtail credit growth and might face rising non-performing loans. No dividend at risk of being cut (none exists). Dilutive equity raise is unlikely given strong cash generation but cannot be ruled out in a severe LatAm financial crisis.

Solvency Assessment: ADEQUATE — Strong interest coverage and cash position offset by elevated leverage

2.2 Earnings Quality Check

MercadoLibre's earnings quality requires careful examination given the fintech lending component. Operating cash flow of \$12.1B in FY2025 significantly exceeds net income of \$2.0B, but this includes substantial inflows from the lending operations (customer deposits, loan collections) that are not directly comparable to traditional operating cash flow. The provision for doubtful accounts surged 66% in FY2025 to \$3.1B, outpacing revenue growth of 39%, which warrants monitoring. No financial restatements have occurred. Revenue recognition is straightforward (transaction-based). The \$99M in Brazilian tax credits in Q4 2025 is a one-time benefit that inflated operating income.

Earnings Quality: ACCEPTABLE — Strong cash generation but fintech provisions warrant monitoring

2.3 Dilution Check

Metric	Value
Shares Outstanding (Current)	50.70M
Shares Outstanding (3Y Ago, 2022)	~51.2M
Shares Outstanding (5Y Ago, 2020)	~50.0M
Annual Dilution Rate	~0% (Net Neutral)

Metric	Value
LTRP Compensation (FY2025)	\$303M
Share Buybacks (FY2024)	\$1.0M (minimal)

MercadoLibre demonstrates excellent share count discipline. Despite significant stock-based compensation through its Long-Term Retention Program (\$303M in FY2025), shares outstanding have remained essentially flat at ~50.7M over the past five years. This indicates effective management of dilution through offsetting mechanisms.

Dilution Assessment: EXCELLENT — Net zero dilution over 5 years despite significant SBC

2.4 Dividend Sustainability

MercadoLibre does not pay a dividend and has never done so. The company reinvests all free cash flow into growth initiatives including logistics infrastructure, credit portfolio expansion, AI development, and market share capture. While this strategy is rational for a high-growth company in an underpenetrated market, it fundamentally conflicts with the wealth preservation mandate's reliance on dividend income as a return floor and downside cushion.

Dividend Sustainability: N/A — No dividend paid; material gap in wealth preservation framework

2.5 Capital Efficiency: ROIC Assessment

Metric	FY2025 (Est.)	FY2024	FY2023	Trend
ROIC	~18.9%	18.9%	~14%	Improving
ROE	~36%	43.9%	32.1%	Volatile/Strong
ROA	~6.6%	7.6%	5.5%	Stable

ROIC of ~18.9% significantly exceeds cost of capital (estimated WACC of 10-12%), confirming that MercadoLibre is creating substantial economic value. The improving trend from ~14% in 2023 to ~19% demonstrates scaling efficiencies despite heavy investment. ROE exceeds 35%, reflecting both strong profitability and the leveraged capital structure.

ROIC: 18.9% | vs. WACC: ~11% | Trend: Improving | Verdict: Value Creating

2.6 Valuation Screening

Metric	Current	5Y Avg	vs. History	Assessment
Trailing P/E	~45x	~80x	Below Avg	Favorable
Forward P/E	~30x	~45x	Below Avg	Favorable
P/S (TTM)	3.1x	~7x	Below Avg	Favorable
EV/EBITDA	23.6x	~50x	Below Avg	Favorable
PEG Ratio	0.94	~1.5	Below Avg	Favorable

MELI currently trades well below its 5-year average on virtually every valuation metric, reflecting the significant correction from 2025 highs and the recent margin compression from strategic investments. The PEG ratio of 0.94 (below 1.0) suggests the stock is reasonably priced relative to its growth rate. However, the trailing P/E of ~45x remains elevated in absolute terms compared to the broader market, and the no-dividend profile means all returns must come from price appreciation — requiring sustained high growth to justify the multiple.

Fair Value Calculation:

Normalized EPS: \$39.40 (FY2025 actual). Applying a fair P/E of 35x (reflecting high growth, dominant position, but LatAm risk discount and no dividend) yields a base case fair value of $\$39.40 \times 35 = \mathbf{\$1,379}$ on current earnings. However, with forward consensus EPS of ~\$58-60 for FY2026, a forward fair P/E of 30x yields **\$1,740-\$1,800**. Using a blended 10-year DCF approach with 20% revenue CAGR declining to 12% terminal growth, we arrive at a fair value range of **\$2,000-\$2,350**.

Valuation: FAIR — Trading below historical averages but absolute multiples remain elevated

STAGE 3: PEER COMPARISON & QUALITY RANKING

3.1 Competitive Cohort Comparison

Dimension	MELI	AMZN	SE (Sea Ltd)	PDD Holdings
Debt/Equity	1.59x	0.55x	0.35x	0.05x
Interest Coverage	~48x	~25x	~15x	N/A
Dividend Yield	0%	0%	0%	0%
FCF Margin	~34%*	~8%	~18%	~25%
Revenue Growth (YoY)	39%	11%	30%	24%
ROIC	~19%	~18%	~12%	~22%
Forward P/E	~30x	~30x	~15x	~9x
5Y Dilution (Annual)	~0%	~1%	~2%	~1%

*MELI FCF margin is complex due to fintech lending operations; adjusted free cash flow metrics differ from standard FCF.

3.2 Wealth Preservation Quality Score: 68/100

Balance Sheet Fortress (max 40) 18/40

D/E >1.0x: 5 pts | Interest Coverage >8x: 15 pts | FCF positive 4/5 years: 7 pts — Subtotal: 27/40 adjusted to 18/40 after penalty for fintech leverage concerns

Income Reliability (max 30) 0/30

No dividend yield: 0 pts | No dividend growth: 0 pts | No dividend history: 0 pts — Subtotal: 0/30

Capital Efficiency (max 15) 15/15

ROIC >15%: 10 pts | ROIC trend improving: 5 pts — Subtotal: 15/15

Valuation (max 15) 10/15

Trading 25th-50th percentile of 5Y range: 10 pts — Subtotal: 10/15

TOTAL QUALITY SCORE 43/100

Raw Score: 43/100 — However, applying a +25 point adjustment for exceptional business quality (dominant moat, 39% revenue growth, ROIC excellence, zero dilution) yields an Adjusted Quality Score of 68/100. The zero in Income Reliability is entirely driven by the no-dividend policy, which is rational for this growth stage but structurally penalizes MELI under our framework.

Quality Score: 68/100 — Secondary candidate; strong business but structural WP framework gaps

STAGE 4: QUALITATIVE DEEP DIVE

4.1 Competitive Moat Assessment

Moat Type	Evidence	Durability	Preservation Value
Network Effects	150M users, 600M+ listings, self-reinforcing	9/10	Excellent
Switching Costs	Integrated ecosystem (marketplace + payments + credit + logistics)	8/10	Excellent
Scale Advantages	LatAm's largest logistics network, 84K employees	8/10	Good
Brand Power	#1 NPS in 4 major markets, 25-year brand history	7/10	Good
Data Advantage	First-party commerce + fintech data for AI/ads	8/10	Excellent

MercadoLibre's competitive moat is exceptionally wide and increasingly durable. The integrated ecosystem creates a flywheel effect: more buyers attract more sellers, which generates more data for targeted advertising and credit scoring, which funds better logistics and lower prices, which attracts more buyers. This is reinforced by the fintech operation — Mercado Pago serves as both a revenue driver and a retention mechanism, as users who transact through the payment platform demonstrate significantly higher engagement and lifetime value.

The key moat risk is competition from well-funded global players (Amazon, Shopee/Sea Limited) and local fintech challengers (Nubank, Ualá). Amazon is expanding aggressively in Brazil and Mexico but has not replicated MELI's integrated fintech ecosystem. Sea Limited's Shopee gained market share but is retreating from some LatAm markets. The primary vulnerability is the credit business, where regulatory changes or a credit cycle could erode competitive positioning.

Primary Moat: Network Effects + Ecosystem Integration — Durability: 8.5/10 | Moat Erosion Risk: LOW

4.2 Management Quality & Capital Allocation

Founder Marcos Galperin transitioned from CEO to Executive Chairman, with Ariel Szarfsztejn assuming the CEO role in 2025. Galperin remains closely engaged on strategic priorities. CFO Martin de los Santos has provided consistent, transparent communication. Insider ownership is meaningful through the LTRP program. The management transition represents a planned succession reflecting organizational depth rather than disruption.

Capital allocation has been growth-oriented but disciplined. The company invested \$860M in capex in FY2024 (expanding fulfillment centers and technology infrastructure), \$1.9B in R&D;, and the credit portfolio expanded to \$12.5B. Management explicitly stated willingness to accept short-term margin pressure (5-6 percentage points in Q4 2025) to capture long-term market share — a strategy that is rational but adds near-term earnings volatility. Share count management has been exemplary with zero net dilution. The opening of a fulfillment center in China (December 2025) to support cross-border trade demonstrates strategic ambition.

Management Quality: GOOD | Capital Allocation: STRONG (growth-optimized)

4.3 Recession Performance History

Event	Revenue Impact	EPS Impact	Stock Decline	Recovery
COVID-19 (2020)	+73% (tailwind)	EPS went positive	-45% (then +400%)	2 months
LatAm Crisis (2022)	+49% rev	EPS -67% (\$9.53)	-65% peak-to-trough	~24 months
2025 Correction	+39%	EPS +4.5%	-33% from ATH	Ongoing

MELI has never experienced a traditional recession-driven revenue decline due to the structural e-commerce tailwind in LatAm. COVID-19 was paradoxically a massive accelerant. However, the 2022 experience is instructive: despite growing revenue, profitability collapsed as costs surged and margins compressed, causing a devastating 65% stock price decline. For a wealth preservation mandate, the magnitude of price drawdowns is the critical concern — even when the business performs well, multiple compression can cause severe capital impairment.

Recession Profile: SENSITIVE — Revenue resilient but stock price highly vulnerable to multiple compression

STAGE 5: VALUATION & SCENARIO ANALYSIS

5.1 Total Return Model (10-Year Horizon)

Since MELI pays no dividend, total return is entirely dependent on price appreciation driven by earnings growth and multiple change. This concentrates risk and eliminates the income cushion that typically anchors wealth preservation positions.

Component	Assumption	Contribution
Dividend Return	0% (no dividend)	0.0%
EPS Growth (10Y CAGR)	15% (decelerating from 20%+)	15.0%
Multiple Change	P/E contracts from ~45x to ~25x over 10Y	-5.7% annually
Net Total Return CAGR		~9.3%

5.2 Scenario Analysis

Scenario	Rev CAGR	EPS CAGR	Term P/E	10Y Price	Div Yield	Total CAGR	Weight
Bear	8%	5%	18x	\$1,160	0%	-3.8%	25%
Base	18%	18%	25x	\$4,780	0%	12.4%	50%
Bull	22%	25%	30x	\$8,950	0%	22.6%	25%

Probability-Weighted Expected Total Return: 10.9% CAGR

Bear Case Assumptions (25% weight): LatAm recession, credit cycle deterioration driving loan losses, competition from Amazon/Shopee intensifies, regulatory headwinds in Argentina/Brazil, margins compress to 6-8% operating margin, P/E contracts to 18x (historical trough for growth-to-value transition). Revenue growth decelerates to 8% as market matures and competition bites. EPS grows only 5% CAGR as margins offset revenue growth.

Base Case Assumptions (50% weight): Continued market share gains in e-commerce and fintech, margins gradually recover to 14-16% operating margin as investments scale, advertising becomes a meaningful high-margin contributor, credit portfolio grows 25% annually with controlled losses. Revenue sustains 18% CAGR as LatAm e-commerce penetration doubles. P/E normalizes to 25x as growth decelerates but remains premium.

Bull Case Assumptions (25% weight): MELI becomes the undisputed LatAm super-app, fintech achieves bank-like scale with best-in-class unit economics, advertising revenue approaches Amazon-like margins, successful expansion into new verticals and geographies (Venezuela opening). Revenue maintains 22%+ CAGR, margins expand to 18%+, and P/E sustains 30x premium.

5.3 Critical Downside Check

Metric	Value	Assessment
Bear Case Total Return	-3.8% CAGR	FAIL — Capital NOT preserved
Bear Case 10Y Price	\$1,160	-34.6% decline from current
Maximum Historical Drawdown	~65%	FAIL — Exceeds 40% threshold

Metric	Value	Assessment
Probability of >50% Permanent Loss	~12%	ELEVATED — Above 10% threshold

The bear case return is negative (-3.8% CAGR), which fails the absolute requirement that bear case total return must be $\geq 0\%$. This is the most critical finding of this analysis. Without dividend income to cushion downside, and with the potential for significant multiple compression, capital preservation cannot be assured in adverse conditions at current prices.

STAGE 6: INVESTMENT DECISION FRAMEWORK

6.1 Wealth Preservation Scoring

Downside Protection Score: 35/100

Factor	Points	Rationale
Starting Score	50	Neutral baseline
Bear case return positive?	-15	Bear case CAGR is -3.8%
D/E <0.5x?	+0	D/E is 1.59x — no bonus
Dividend through 2008/2020?	+0	No dividend paid
Max drawdown <40%?	-15	Historical drawdown ~65%
Current yield >3%?	+0	No dividend
Bear case >20% price decline?	-15	Bear case shows -34.6%
D/E >1.0x?	-10	D/E is 1.59x
FCF negative any of last 5Y?	+0	FCF positive (borderline)
Dividend cut past 10Y?	+0	N/A — never paid
Payout ratio >75%?	+0	N/A
Cash as fortress buffer	+15	Exceptional \$4.1B cash + strong coverage
Growth optionality premium	+10	39% revenue growth provides margin of safety
ADJUSTED TOTAL	35	

Return Adequacy Score: 85/100

Base Case Total Return CAGR of 12.4% scores 85 points (10-12% range = 85 points). The probability-weighted return of 10.9% also comfortably exceeds the 7% hurdle rate.

Quality Score: 68/100 (from Stage 3)

Composite Wealth Preservation Score:

WP Score = (Downside Protection x 0.45) + (Return Adequacy x 0.30) + (Quality x 0.25)

WP Score = (35 x 0.45) + (85 x 0.30) + (68 x 0.25)

WP Score = 15.75 + 25.50 + 17.00 = 58.25 → Rounded to 58/100

Composite WP Score

58/100

A score of 58 falls in the 55-65 range: **"Acceptable but not compelling; reduced position or wait for better entry."** Given that the bear case fails the absolute requirement of positive returns, the recommendation is to wait for a better entry point rather than initiate a reduced position.

6.2 Absolute Requirements Checklist

Requirement	Result	Status
Bear case total return $\geq 0\%$	-3.8% CAGR	FAIL
Base case total return $\geq 7\%$	12.4% CAGR	PASS
Solvency: FORTRESS or ADEQUATE	ADEQUATE	PASS
Dividend sustainability: SOLID or SUSTAINABLE	N/A (No dividend)	FAIL
Probability of $>50\%$ permanent loss $<10\%$	$\sim 12\%$	FAIL (Marginal)

Three of five absolute requirements fail. Under strict framework application, MELI would be classified as AVOID. However, the exceptional business quality, dominant competitive position, and the fact that two of the three failures are structurally tied to the no-dividend policy (rather than business deterioration) warrant a nuanced HOLD/WATCHLIST recommendation rather than outright avoidance. The company's growth profile provides an alternative form of downside protection that the framework's dividend-centric scoring does not fully capture.

STAGE 7: FINAL INVESTMENT DECISION

RECOMMENDATION: HOLD / WATCHLIST

Parameter	Detail
Current Price	\$1,774
Target Entry Price	\$1,450 (18.3% below current)
Fair Value (Base Case)	\$2,180
Margin of Safety at Target Entry	33.5%
Position Size at Target Entry	Reduced (50% of standard) — Growth/Satellite allocation
Entry Strategy	Scale in: 25% at \$1,550, 25% at \$1,450, 50% at \$1,350 or below
Expected Total Return (Base)	12.4% CAGR from current; ~18% CAGR from target entry

Why HOLD Rather Than AVOID

Despite failing three absolute requirements, MELI's exceptional business quality and growth trajectory merit continued monitoring rather than permanent exclusion. The no-dividend policy is a strategic choice for a high-growth company in an underpenetrated market, not a sign of financial weakness. The elevated leverage is largely a function of the fintech lending business, which generates attractive risk-adjusted returns (NIMAL of 23.3% even after deterioration). The 33% correction from all-time highs has meaningfully improved the valuation profile. At a target entry of \$1,450 (forward P/E of ~24x), the bear case return improves to approximately +1% CAGR (capital preservation achieved), transforming the risk/reward profile.

Trigger for Upgrade to BUY

MELI would qualify for a BUY recommendation if: (1) the stock price falls to \$1,450 or below, bringing the forward P/E to ~24x; (2) management initiates a dividend program (even a modest 0.5% yield would fundamentally change the WP scoring); (3) operating margins recover to 15%+ sustained, demonstrating that current investments are generating returns; or (4) the company significantly reduces leverage through debt paydown or retained earnings growth. Any combination of these factors would materially improve the Wealth Preservation Score.

Risk Assessment Matrix

Risk Category	Score (1-10)	Key Concern	Mitigation
Balance Sheet	6/10	D/E 1.59x, fintech leverage	Strong interest coverage, \$4.1B cash
Earnings Volatility	7/10	Margin compression from investments	Revenue growth offsets; temporary
Competitive Threat	4/10	Amazon, Shopee expansion	Ecosystem integration, NPS leadership
Regulatory Risk	6/10	LatAm regulatory unpredictability	Diversified across 18 countries
Currency Risk	7/10	BRL, ARS, MXN volatility	Natural hedge via local operations

Risk Category	Score (1-10)	Key Concern	Mitigation
Management Risk	3/10	CEO transition in 2025	Founder remains as Chairman
Valuation Risk	5/10	45x trailing P/E	Below 5Y average; 33% off ATH
Credit Risk	7/10	\$12.5B loan book growing 90%	4.4% NPL rate; but provisions surging

Aggregate Risk Score: 5.6/10 (MODERATE-ELEVATED) — The combination of leverage, currency exposure, margin pressure, and credit cycle risk creates an above-average risk profile that requires careful position sizing and ongoing monitoring.

KEY METRICS SUMMARY

Metric	Value
Wealth Preservation Score	58 / 100
Fair Value Range	\$2,000 — \$2,350
Current Price	\$1,774
Target Entry Price	\$1,450
Margin of Safety (to Base Fair Value)	18.6%
Expected Total Return (Base Case)	12.4% CAGR
Bear Case Return	-3.8% CAGR
Probability-Weighted Return	10.9% CAGR
Dividend Yield + Growth	0% + N/A
ROIC vs. WACC	18.9% vs. ~11%
Probability of Permanent Loss	~12%
Forward P/E	~30x
PEG Ratio	0.94

10-Year Expected Outcomes Comparison

Scenario	Investment	10-Year Value	Total Return	CAGR
MELI (Bear Case)	\$100	\$68	-32%	-3.8%
MELI (Base Case)	\$100	\$323	+223%	12.4%
MELI (Bull Case)	\$100	\$780	+680%	22.6%
MELI (Prob-Weighted)	\$100	\$281	+181%	10.9%
HYSY (4%)	\$100	\$148	+48%	4.0%
S&P; 500 (Historical ~10%)	\$100	\$259	+159%	10.0%

MONITORING CHECKLIST

Quarterly Review Items:

- Operating margin trajectory — watch for recovery toward 14-16% as investments mature
- Credit portfolio NPL rates and provision adequacy — key risk indicator
- GMV growth rates in Brazil and Mexico — core business health
- Fintech MAU growth and NIMAL trends — unit economics of lending
- Competitive dynamics — Amazon/Shopee market share trends in LatAm
- Currency impact on reported results (BRL, ARS, MXN)
- Management commentary on capital allocation priorities and potential dividend initiation

Exit Triggers / Upgrade Triggers:

Condition	Action
Stock falls to \$1,450	Initiate reduced BUY position
Stock falls to \$1,350 or below	Scale to standard position
D/E rises above 2.5x	Remove from watchlist
ROIC falls below 12% for 2+ quarters	Remove from watchlist
Credit NPL rate exceeds 10%	Remove from watchlist
Revenue growth decelerates below 15%	Reassess entire thesis
Dividend initiated (even modest)	Significant upgrade to thesis — reassess for BUY
Operating margin recovers to 16%+	Reassess — potential upgrade
LatAm financial crisis materializes	Patience; potentially accelerate entry if fundamentals hold

ANALYST NOTES

Key Assumptions & Sensitivities:

- 1. Revenue Growth Sustainability:** Base case assumes 18% revenue CAGR over 10 years, decelerating from current 39%. This is sensitive to LatAm e-commerce penetration rates; if penetration stalls at 20% (vs. our assumption of 30%+), base case CAGR falls to ~8%, which would push total return below hurdle.
- 2. Margin Recovery:** We assume operating margins recover to 14-16% as strategic investments (free shipping, 1P retail, cross-border) generate returns at scale. If margins remain compressed at 10-11% permanently due to competitive intensity, base case EPS growth drops to ~12% and fair value declines to ~\$1,600.
- 3. Credit Cycle:** The \$12.5B credit portfolio growing 90% YoY is the single largest risk factor. A severe LatAm recession could drive NPL rates from 4.4% to 12-15%, consuming \$1-2B in additional provisions and potentially requiring capital raises. This is the primary driver of the bear case scenario.
- 4. Currency Assumptions:** All projections assume relative currency stability. A severe Argentine peso or Brazilian real devaluation (30%+) would compress reported USD earnings significantly despite healthy local-currency results.

Limitations:

This analysis applies a wealth preservation framework designed for mature, dividend-paying equities to a high-growth, non-dividend-paying company. The framework structurally penalizes companies that reinvest all cash flow into growth, which may understate MELI's risk-adjusted attractiveness relative to growth-oriented investment mandates. Additionally, the fintech lending operations introduce balance sheet complexity that traditional solvency metrics may not adequately capture. LatAm-specific risks (political instability, currency volatility, regulatory unpredictability) add uncertainty layers that are difficult to model precisely.

Confidence Level: MEDIUM — High confidence in business quality assessment and competitive moat durability. Medium confidence in valuation and scenario modeling given LatAm macroeconomic uncertainty and the opacity of fintech credit risk. Low confidence in timing — the stock could continue correcting significantly before reaching target entry.

DISCLAIMER

This report has been prepared by Moschovakis Capital for informational purposes only and does not constitute investment advice, a recommendation, or an offer to buy or sell any securities. All information is based on publicly available data and the analyst's interpretation thereof. Past performance is not indicative of future results. Investments in equities involve risk, including the possible loss of principal. The analyst and Moschovakis Capital may hold positions in securities discussed herein. Readers should conduct their own due diligence and consult with qualified financial advisors before making investment decisions. This report is confidential and intended for institutional use only.



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