

MercadoLibre



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What it does

MercadoLibre operates an ecommerce and fintech business across Latin America, comprising an online marketplace, payments platform, digital advertising as well as a range of financial services to merchants and consumers. It also has a nascent asset management business.

Why we own it

- MercadoLibre is well placed to capitalise on increasing ecommerce penetration across Latin America – which is less than 20% at present. There is also an enormous unbanked and underbanked population in Latin America, with roughly half of the total regional population falling into either of these categories. Revenues are growing at 60% across the various business units.
- Significant investment in logistics and inventory depth has created a fantastic competitive advantage.
- The management team has repeatedly prioritised long term outcomes over short term benefits, and has a proven track record of operating within a macro environment that has seen persistently high inflation.

How it could be worth many times more

- On the ecommerce side of the business there are three growth drivers which we find very compelling. They comprise rising ecommerce penetration in Latin America, continued market share gains as well as take rate expansion.
- We believe that the fintech business will, over the long run, become an increasingly important pillar in the growth of MercadoLibre. It is operating within an accommodating backdrop with relatively low penetration of non-cash payment and an existing banking system notorious for poor service and high fees.
- Over the long term there is a clear opportunity within the nascent asset management business for leveraging and democratising low-cost distribution of investment in regions where it has been confined to the wealthy.

Where we might be wrong

- Increased competition across the different business segments could eventually take its toll.
- There is a threat of increased regulation within the financial services segment.
- The macro backdrop could turn decidedly negative.

Short 10 questions

Can sales double in the next five years?

1

Combination of rising ecommerce penetration, market share gains, and take rate expansion.

Ten years and beyond?

2

Multiple growth drivers in ecommerce, while fintech operations service the large proportion of currently unbanked and underbanked Latin American population.

Competitive advantage?

3

Established ecommerce market leadership in key regions, benefitting from increasing returns to scale and ability to cross-sell. Has thus far managed to fend off omnipresent competitors such as Amazon and Shopee.

Is the business culture different?

4

Candour, balance, and clear strategic direction. Founder-CEO, Marcos Galperin, has been instrumental to this story.

Customers like you? Contribute to society?

5

Yes - providing ecommerce merchants marketing, infrastructure, and logistics for a highly competitive rate. Fintech will enable financial inclusion.

Are returns worthwhile?

6

Quick growth is bolstered by improving margins and greater cash generation.

Will they rise or fall?

7

Mix shift toward fintech and improving margins in both operating segments could generate ROE +30%.

How is capital allocated?

8

Clear prioritisation of long-term growth and competitive advantage over short-term margin, combined with sensible attention to unit economics and risk. M&A has been to acquire features and engineering teams.

Could it be worth 5x as much?

9

40% CAGR in both fintech and commerce.

What doesn't the market understand?

10

Dislocation between share price and continued high growth, deepening competitive advantage, and record operating profit generation.

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