

MercadoLibre

Sustainable Growth Hypothesis:

MercadoLibre (Meli) began life as an online marketplace. It now offers digital payments, lending, advertising and logistics services across South America. The company plays an important role in job creation, raising incomes and improving social mobility in emerging economies. MercadoLibre aligns with our **prosperity** theme, through **products** which lower barriers to entrepreneurship.

1. Growth: How likely is the company to deliver 10% p.a. profit growth over the next decade?

- Ecommerce penetration in Latin America is still only circa 10%. Meli operates across 18 different countries, and its market share continues to grow along with its competitive position. As the business scales, we should see significant profit growth.

2. Resilience: How much control does the company have over its own success?

- By operating leading ecommerce and payments platforms, it is able to launch solutions to solve its own challenges far easier than competitors could. For example, it has been investing heavily in its logistics business due to poor state-run services that are unreliable and costly.

3. Valuation: What is our insight?

- Despite seeing its share price weaken in 2022 because of the challenging inflationary environment, operational performance has improved, and we believe the benefits of recent investments should bear fruit as operational leverage comes through.

4. Products: To what extent will the core products & services create value for society over the next decade?

- Its ecommerce platform is the primary source of income for around one million families in Latin America. It has a cascade of benefits, such as job creation and equality of opportunity. Furthermore, its fintech services support SMEs and previously unbanked consumers and can indirectly contribute to reducing inequality in an area with high poverty rates.

5. Practices: Does the company show leadership in its business practices?

- Meli's biggest impact is helping small- and medium-sized enterprises (SMEs) overcome structural barriers to growth (such as credit fees and data handling). It could further improve its support available to merchants, along with data security standards. It is taking a thoughtful approach to sustainability and climate.

6. Ambition: What is the company's purpose, and how ambitious are they?

- Its core products help to solve and improve some key problems faced by the countries' consumers and retailers. Its recent investment into logistics is an example of thoughtful ambition.

7. Trust: Should we trust the company with our clients' capital?

- As a firm, we have been investing in MercadoLibre for over a decade and have good access to management resulting in open and honest conversations. We are impressed by the leadership team's focus on sustainability and how this filters through the company's culture and can clearly see the founder's focus on the long term.

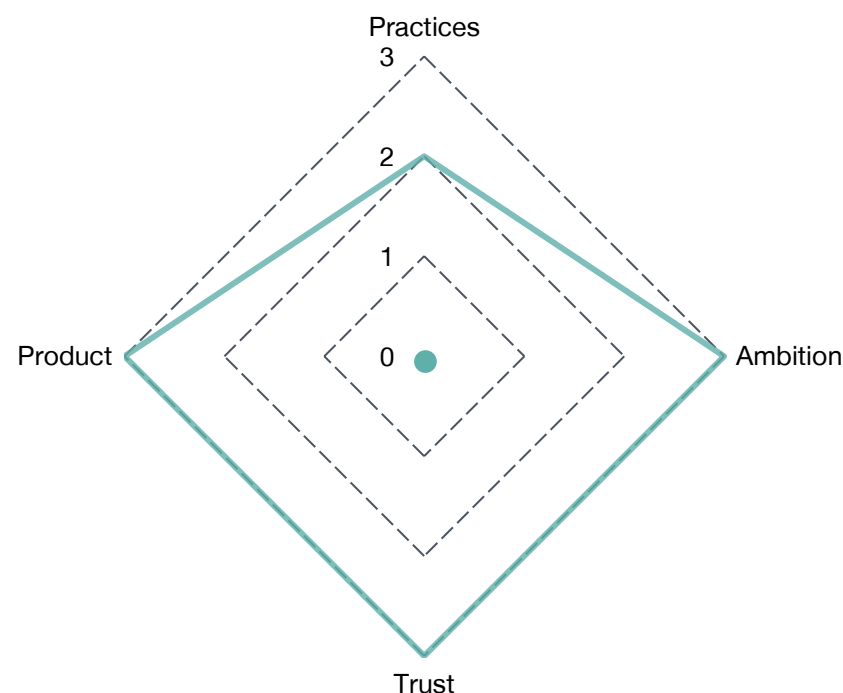
8. Engagement: No company is perfect, what should be our engagement priority?

- Improvement to remuneration practices – for example, we would prefer the vesting period to be three years rather than one, and further disclosure on how the performance portion of the long-term remuneration plan works.

9. Milestones: What developments should we pay most attention to? Where could we be wrong?

- Due to the company's scale in the region, there could come a point where its ecommerce and fintech segments are required to split, which could have a material impact on the investment case.

Compass Scores



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