

MercadoLibre: Building Latin America's Digital Infrastructure

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Ariel Szarfsztejn, MercadoLibre

Lawrence Burns, Investment Manager

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Lawrence Burns (LB): Hello. For our next session, I want to introduce Ari, who is President of Commerce, and as of January next year, will become CEO of MercadoLibre, a large and longstanding holding of the trust. Ari, thank you so much for joining us today. From Buenos Aires, we really appreciate your time as ever.

Ariel Szarfsztejn (AS): Hey, Lawrence, how are you? Hi, everyone. Pleasure to be here with you.

LB: Maybe for a UK audience, we could just start with a simple explanation of what MercadoLibre does and how people in the region interact with your platform.

AS: Sure. So, let me try to explain who we are and how we interact later. If you take retail sales from MercadoLibre as an ecommerce platform, we are probably one of the biggest, if not the biggest retailer, not ecommerce, but retailer in Latin America. But we don't think of ourselves as a retailer.

If you take our fintech business, we are definitely the biggest fintech in Latin America, the biggest financial services, digital financial services provider in Latam, but we don't consider ourselves a bank either.

If you take our logistics arm, we are basically the biggest employer of logistics resources across Latin America, but we are not a logistics 3PL leader. So we think of ourselves as a tech and product company that is here to change the lives of Latin Americans, particularly through commerce and financial services. And that means that we are basically present in everyday life of Latin Americans.

So let me put this into examples. I live in Buenos Aires. And a typical routine of somebody in Buenos Aires would be that he or she would get their salary in the traditional ways, because we are not allowed, based on regulations, to pay salaries in Mercado Pago.

But people will send 100 per cent of their salary to Mercado Pago, our fintech account, and that's because we are remunerating deposits, which banks are not, and we can talk about that later. And with that money, they would start investing in different products for the first time in their lives.

They would wake up in the morning, they would go to work, and they would pay using our app, the bus or the subway. They would top up their phones. They would pay for their bills. And when it's time to go to lunch, they would use our QR codes to pay for lunch at the restaurant.

Hopefully, while having lunch, they might surf our ecommerce app and they would buy something for their partner, which would be delivered that same day in the afternoon to their house.

And people would then go and do their groceries either in our MercadoLibre app or in a store and pay with our ecommerce app. They would get their first credit line. With Mercado Pago, they would go home, they would want to, I don't know, ask for food from a restaurant and they would buy that from MercadoLibre and they would go to bed and hopefully want to see something on the TV and they would open our Mercado Play app and look for streaming content in our own app. So that's kind of the type of interactions that you have every single day with our ecosystem, which is vast and trying to solve the daily issues in the life of Latin Americans.

LB: That's a pretty important ecosystem with a lot of touch points.

AS: It really is.

LB: You joined MercadoLibre in 2017. I think we first met in 2018. But you've had a number of very important roles at the business. Could you just take us through briefly your own journey at the company?

AS: Sure, it's a non-conventional one, I would say. So I was leading a business unit in an online travel agency before MercadoLibre and the MercadoLibre CFO gave me a call and he said that he wanted me to join to lead strategy.

And I basically said, no, that's not something that I think I want to do. You've been operating for 15 years with the same management team. What can I add in a strategy role to you guys? You're rock stars.

And he basically convinced me to have a coffee and then another coffee and then another coffee. And after 10 coffees and breakfasts, he basically convinced me that it was a good idea to join MercadoLibre. I got extremely excited with the opportunity, with the team that I met and so on.

So I started my journey here as VP of Strategy and Corporate Development and a few other things. And one of the first things that I realised after I joined from a strategic perspective that we would do well or not depending on two strategic moves.

A: we needed to develop our logistics arm. So at the time we were, MercadoLibre was basically not touching a single package and every single item sold in our platform was being shipped with Correios to Brazil. Correios, so [the] national post office from Brazil, Argentina and the other countries.

So we needed to build our own logistics infrastructure, because if not, we would just not be able to scale and to compete. And the other priority was to build our own wallet. So at the time, our FinTech arm was basically processing payments online for other websites, but we did not have a wallet whatsoever.

And I basically spent the next eight months almost 70 per cent focused on helping the logistics team put together a business plan in order to build that network across the region.

And less than a year after I joined, Marcos Galperin and Juan Martin de la Serna, which is another one of the historical team members of the company, said, okay, you've built a tremendous PowerPoint explaining what we need to do in logistics, why don't you pull up your sleeves and actually do something and help us?

So I quickly moved into logistics with the mandate of building the whole logistics network for the company. At the time we were 60 people that were reporting to me and that was the whole logistics team for MercadoLibre.

For you to have an idea, today we are like 70,000 people. It's like, I don't know, seven years later. So I had the privilege of building that from scratch and creating that amazingly powerful competitive lever that we have across LATAM. I did that for the next four years.

And back in 2021, I guess, Marcos came back to me once again. And he said, you know what, Stelio Tolda, [who] is a co-founder and at the time was president of Commerce, is retiring. And I want you to take over the whole ecommerce ecosystem, including logistics, but also the whole marketplace and everything related to ecommerce in the company.

And I've been doing that for the last four years, I guess, or three years and a half. A few months back, Marcos came back to me once again and he said, you know what, now it's me that is leaving. So I want you to take over the CEO seat. We just decided this with the board. And of course, this is where I am today.

LB: Well, congratulations on that appointment. It's well deserved because I know when we first met, you were just building out logistics and that's been one of the key ingredients and enablers of MercadoLibre's success in the subsequent years.

And it must be a huge honour, that appointment. I mean, [MercadoLibre] is the most valuable company in Latin America. And then that's paired with a company that is still at that scale, growing 30 to 40 per cent year on year.

But perhaps we could talk about some of the many opportunities that you face and start with ecommerce. The company started with ecommerce 26 years ago, but in many ways, it's still early.

I think of the UK, you've got 30 per cent of sales are done online. In Latin America, it's less than half that. But I'm also aware that you're not just benefiting from ecommerce as a trend, you're also shaping it.

You're not just capturing the market, but you're creating it. So could you talk a little bit about the size of the opportunity that remains and how you're actually growing your addressable market?

AS: Sure. So indeed, to your point, Latin America is like 10 years behind the UK in terms of development of ecommerce, ecommerce penetration and so on. The way we think about it is that it's not only Tailwind. We are the protagonists of that process. We are building ecommerce in Latin America and we really think it depends on us in order to make that happen.

Structurally speaking, we think that Latin America will get to UK standards or even Asian standards of ecommerce penetration. There's no reason why that will not happen in the region. And that basically means that we have ample room to continue growing. The size of our business could be huge. It is huge today, but it could be even bigger in the coming years.

And in order to hold that title of protagonist that I was just mentioning, we need to continue evolving the value proposition that we have, right? So we cannot trust in the fact that we are leaders in every single market. We cannot trust in the fact that we have a unique value proposition.

We need to continue evolving, you know, strengthening what the core of what we do. Selling across categories, having the best and most reliable logistics network in in the region, the best user experience.

But we need to continue doing more of that, verticalizing, improving logistics even further, innovating in product in order to improve the experience, while also

we need to continue putting some of our bets in place that might generate the extra growth in the future.

Cross-border was a bet a few years back and it's showing tremendous progress. We launched pharma a few years back in Mexico and we are excited [about] what will come in that regard.

We launched restaurants in Argentina and that is scaling very, very well. Supermarkets, connecting Latin American factories into Latin American buyers directly without intermediaries is another one of the bets that we have in place.

So, many, many things in our portfolio. But in the end, we need to continue finding the levels to foster engagement and to taking advantage of our ecosystem, right? We are one of the few, if not the only company that has that huge and vast ecosystem that combines FinTech with commerce.

And that's really part of the flywheel that we've put in place in order to continue growing and with that pushing for ecommerce penetration in retail.

LB: Yeah, and you face no shortage of competition of people that have also wanted to seize this very large prize. You've had local competitors, Magazine Luiza, Americanas, and you've had Amazon in your markets for a number of years.

And the stat that I think is quite profound of how well you've done is, even if you just go back four years, Amazon had an 8 per cent share in Brazil. Today, they've expanded that a little bit. They've got to 11 per cent. But over that same time period, you've gone from a 20 per cent market share to a 42 per cent market share.

What is it that's enabled you as a company, as an organisation, to even outcompete Amazon at ecommerce in the region?

AS: I think on the one hand and on the base of that is an amazing value proposition for Latin Americans, both merchants and consumers, right? Having the widest selection, the most competitive price, having our ecosystem in payments and financing and credit. That really gave us a boost.

Of course, the buildup of our logistics network. So it might be hard to understand for somebody coming from the UK or even the US, but our logistics infrastructure today is more developed than Amazon's logistics infrastructure.

So, we are operating probably more efficient. We are definitely faster. We are definitely more reliable. And that really gave us a boost in terms of competitive positioning.

But if I have to take one step back, I think the fact that we are 100 per cent focused in Latin America, that we live or die based on our results in Latin America, that we have deep knowledge of every single country...

Because people tend to think that Latin America is like one region with one type of standards. And Latin America is actually 20 different countries with different cultures, with different regulations, with different ways to operate. And we very much know how to deal with that, how to deal with volatility, how to deal with uncertainty and so on.

And last but not least, I think MercadoLibre has a unique culture, right? And that really gave us an advantage to hire, retain and develop the most valuable talent across the region. It's probably a combination of everything that I said [that] actually gave us that edge in terms of a competitive positioning.

LB: Yeah. And I think people forget just how big in aggregate Latin America is. 650 million people, a \$7tn economy. If it was a single nation state, it would be the world's third largest economy after the US and China and ahead of Japan.

AS: And the one thing that I would like to add to that one, going back to the opportunity, is that last year we had 100 million buyers in MercadoLibre out of 650 million people in the population.

So to the point on the opportunities [going] forward. It's not only about ecommerce penetrating retail, it's also us penetrating in the population of Latin America. So the opportunity ahead is very big.

LB: And then what's staggering is that the opportunity you face in financial services has been described to me by your colleagues as potentially even larger than the ecommerce in financial services.

And I often describe it to my colleagues as saying that the opportunity is so great because the traditional financial system in Latin America, the banks are so inefficient, that drives your opportunity.

Could you talk a little bit about what problems you're trying to solve with financial services on the continent?

AS: Sure, so I think it's a combination of two or three things. So, A: banks, to your point, are inefficient. B: Data service levels are actually very, very poor. So 15 per cent average NPS in Brazil for the traditional banks. And [C]: they are not serving the population. So they are happy serving a small share of the population that gives them very big and interesting returns, right?

So, our mindset is that we want to be at the centre of the financial life of Latin Americans. We want to fight, you know, that underserving problem, we want to generate financial inclusion through digital accounts, investments, credits, insurance, and so on.

I think we've been making tremendous progress in our product and experience. Our NPS in the last two years has improved between 15 and 20 percentage points in every single country. We are leading in NPS across the region in both traditional banks and fintech.

And let me give you a few examples of some of the products that we've put together, which I think are interesting. A: the remunerated account. So if you go back a few years, you would basically leave your money in a bank in Latin America and they would give you zero interest in that money. So they would keep the float, the return, unless you put the money in a time deposit, in which case they would give you 60 per cent of the benchmark rate.

So back in 2017, when I was discussing and strategising about the wallet to the point with which I started, we put together a project in which we said, why don't we give away our float and we pay our users 100 per cent of the benchmark rate or even more in every single country? And with that, we generate a big disruption in the traditional system, right?

So, before that, in Argentina, which was the first country in which we launched, you only had 400,000 people in the whole country using investment products – time deposits and others – from the total population.

Today, only Mercado Pago has 18 million people receiving interest in their holdings in their Mercado Pago account, every single day. So you would just leave it in your Mercado Pago account, your money is available 24/7, every single day of the year.

You can use it, no fixed period, no lock-in, nothing. You have your money available, but at the same time we are paying you 100 per cent of the benchmark rate for just leaving your money in in the country.

And by the way, the same is happening in Brazil, the same is happening in Mexico. I think we have 20 million account holders in Brazil today using our account, etc. And that's a big example of how we have disrupted the system, right?

Credits is another key element of our value proposition. We have today in Mercado Pago 150 million users in total. 35 million are basically getting their credit from Mercado Pago. And most of them are getting a credit line for the first time in their lives.

So that's huge, but still super nascent. And we are convinced that the opportunity to generate financial inclusion that we have at hand is amazingly big. And we are very much committed to making that happen.

LB: And just very briefly, even those huge opportunities in commerce remaining and fintech, is it possible that there is a third pillar emerging in what you're able to do within advertising? But just very briefly, it'd be good to get some insights there.

AS: Yeah, I should have mentioned that earlier. So thanks. It's definitely the case. We are one of the biggest retail media companies across Latin America. So if you take out Google and Meta, we are the biggest digital advertising player in Latin America.

And the interesting thing is that it's still super small. So advertising revenue as a percentage of our marketplace GMV is around 2 per cent on MercadoLibre. If you were to take a benchmark in Amazon in the US, it's probably around 7 [per cent], even more potentially.

And again, while we are very much obsessed with preserving the customer experience and we don't want to fill out the app experience with placements and so on, we think the opportunity for us to continue expanding the advertising world is huge, right?

And that will happen inside our premises, meaning inside our apps, both ecommerce and eventually FinTech, but also outside our apps. It's happening today in your TV, when you're looking [at] our streaming platform (we call it Mercado Play), or when you're looking at Disney+; Disney is running [a] MercadoLibre-powered advertising engine in their own streaming platform.

And now we have signed other deals with other partners. We've signed deals with Google in order to power some of their open web placement. So we really think that the unique access to data, to consumer data across Latin America gives us an edge in order to be able to build the best audiences for the different brands and products.

And through that, that we can put together a unique value proposition to become a huge advertising platform.

LB: Very impressive and fascinating. As we're running up on time, just a few more minutes left, maybe a final question, if you don't mind. Next year, you'll be leading Latin America's most valuable company, the leading digital platform across the areas we've talked about, retail, finance, advertising.

How do you think about the company and your role personally in impacting the lives of the 650 million people across the continent over the next decade?

AS: Yeah, I think I have the privilege of taking over this position in a unique moment of our history. We are in the best moment of our 26 years of life. Growing at startup rates while generating value, gaining market share across every single market in ecommerce, growing triple digits in fintech.

Every corner in which you look up in MercadoLibre, you will feel the same, that we are doing amazingly well, but that the opportunity forward is huge. So that gives me a big, big privilege of taking over [at] this [time].

And also the fact that Marcos Galperin will stay as chairman and will work very close with me is also another privilege, right? So it's not that I'm taking over a complicated company with its founder or CEO going to do some other things or retiring and so on.

So we will be able to capture the best of Marcos while also [having] him [hand] over the day-to-day leadership of the organisation to me. We have a unique team, probably the best in Latin America and one of the best in the world.

So really excited. I'm grateful. I'm honoured [by] the opportunity but excited [by] everything that is coming. I feel energised. I hope to be able to provide my own style of leadership and value-add to an organisation that is working tremendously well. And I know my team, I know my peers, they know me, so I'm sure we will do great things together.

LB: Great. I just want to say thank you so much for spending the time with us and sharing those insights and the opportunity. As ever, we're very grateful for the time that you and your team spend with us, helping us understand what you're building in the region. So thank you so much.

AS: Thanks, Lawrence. Thank you all. It's been a pleasure, you know, working and being close to you guys for many, many years. And I hope it will be the case in the future as well. And it's a pleasure to be here. Thanks for hosting me.

LB: Thank you. So MercadoLibre finishes its investor communication with the phrase, the best is yet to come. And I think Ari's comments today have made that very clear.

At Scottish Mortgage, we look forward to observing the company as it continues to transform retail, finance and advertising on a continental scale.

Scottish Mortgage Annual Past Performance To 30 September each year (net%)

	2021	2022	2023	2024	2025
Share Price	44.5	-45.0	-13.9	25.6	36.5
Net Asset Value	39.4	-36.3	-5.9	16.8	33.3
Benchmark*	22.7	-3.6	11.1	20.2	17.4

Performance figures appear in GBP. Net Asset Value is calculated with borrowings deducted at fair value for 1, 3 and 5 years and par value for 10 years. Performance source: Morningstar and relevant underlying index provider, total return. *FTSE All World Index (GBP) TR

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