

## SM - MercadoLibre

**Pedro Arnt (PA):** When I think of the sheer scale of what the teams at MELI have built, that is something that could potentially change the face of a continent.

**Lawrence Burns (LB):** They need to be accepted, and so they have to be able to show that they're having a positive effect on society to really be in that position of responsibility.

PA: The most important thing at MercadoLibre is how do we make sure that we continue to innovate constantly?

LB: They're not out there to make a quick buck, they're out there to really build something. And I think that makes the probabilities of them having what I would call a strong social licence much higher.

PA We've been able to iterate and innovate at a pace where, quite frankly, we've gone much further than even we had envisioned.

**Claire Shaw (CS):** Hello and welcome to Invest in Progress, a podcast brought to you by the Scottish Mortgage team. I'm Claire Shaw, a director and investment specialist. This podcast is designed to give you a behind-the-scenes look at the conversations that take place between our managers and the visionary founders, entrepreneurs and business leaders of the world's most exceptional growth companies.

00:01:14

As we are a UK investment trust, we can only market Scottish Mortgage to certain audiences and in certain jurisdictions. Check out the podcast description to ensure this content is suitable for you. Also, please bear in mind that, as with any investment, your capital is at risk.

MercadoLibre, or MELI, is sometimes called the Amazon of Latin America. MercadoLibre is a company at the forefront of the shift to the online world, and is aiming to close the digital divide to drive more social inclusion in the region. To discuss MercadoLibre today, I'm joined by deputy manager Lawrence Burns. Welcome, Lawrence.

LB: Thank you for having me. I'm hoping we'll have a really good show.

CS: MercadoLibre's one of those companies you've known for a very long time. What is it about MercadoLibre that excites you?

LB: I think in some ways you can simplify the investment case quite easily. They're a leader in the region, they've built a really formidable logistics network to support that leadership position, and the ecommerce penetration is still low, and there's

room to grow at least for the next decade, and probably longer, that part of the business.

00:02:16

But then, in addition to that, they've been able to go and really build up and validate a large financial service business, covering credit, savings and insurance. And if you then zoom out, you go, you've got a continent of 650 million people, \$5 trillion of GDP, and you have a company that is targeting two of the biggest areas of any economy, commerce and finance. And that's really their opportunity set in the scale that enables them to really be an outlier potential.

CS: Tell us a little bit about who we've got coming on, today.

LB: We have Pedro Arnt, who's the CFO. He joined in the founding year. He's been, I think, an incredibly important part of MercadoLibre's journey, and a very important part for me of helping understand it, over time. That founding team also has Marcos Galperin, who's their founder, CEO and chairman. But also, a lot of the people that were involved in the early days of MercadoLibre are still involved in the business. So they've got quite a tight-knit, long-term-focused team.

CS: Very much looking forward to listening to you both. So with that, I'll hand it over to yourself.

00:03:14

LB: I can't wait to hear from him. I've never had a bad conversation with Pedro. I think the first thing is just to thank you both for coming up to Edinburgh and being willing to do this.

PA: It's a pleasure to be here.

LB: You've left summer in Uruguay to come to Edinburgh in the depth of winter, so I think that deserves extra credit.

PA: Thank you.

LB: I think the starting point we're trying to ask in these series really is just trying to ask what is the problem that MercadoLibre is actually trying to solve?

PA: In many ways, it's encapsulated in our mission statement, of democratising commerce and money. How can we apply technology to the retail and banking industries to broaden accessibility, to improve service and to lower the cost to serve. So we're making products available at a scale that wasn't occurring before for Latin American consumers. We're helping Latin American merchants reach hundreds of millions of consumers that otherwise they wouldn't be able to reach.

00:04:23

And on the financial side, and this is potentially I think the one that excites us the most, we really are at the forefront of driving financial inclusion that, ideally, will better the lives of hundreds of millions of Latin Americans, by giving them access to credit, by giving them access to financial services and by helping them to better organise their financial lives.

LB: And do you think the societal benefits of that mission statement, of democratising commerce, democratising access to financial services, it's more meaningful in a continent like Latin America than we might think of it in the UK or the US?

PA: Absolutely. And I think it goes both ways. The impact, I think, of the mission is larger, but in many aspects easier, in that the more inefficient a market is, I would argue the easier it is to generate significant value for consumers, and to therefore gain consumer preference through technological innovation.

LB: And you joined MercadoLibre in its founding year, so over 20 years at the company. Just curious, if we go back to 1999, what was it that originally attracted you to MercadoLibre?

PA: It's been a while, Lawrence. It's been 20-plus years. In the late 90s, I was working as a consultant at BCG in São Paulo and Buenos Aires, and I recall we were doing a lot of work for the large telco companies, trying to help them figure out what they should be doing with this new technology called the Internet that was around.

00:06:06

And it was interesting, by mid-99, most of us at that BCG office in Buenos Aires realised that this was a generational opportunity, but at the same time that these large telcos, our clients, were not built or equipped to actually capture that opportunity. So literally something like 60% of the office quit at some point between June and October 99 to go start their own consumer internet companies or enterprises.

And our vision, at that point, was to ride that consumer internet wave. But there was something else that attracted me to the way that Marcos and my colleagues at MELI were approaching this, which was most of us had been studying abroad, and we had always had this sense that we, as Latin Americans, felt completely at the same level as most of our European, North American and Asian colleagues or fellow students, and yet when we looked at Latin America, we didn't really see that many companies that had emerged from the region and had become relevant at a global scale, on a global level.

00:07:26

And so part of what attracted us to building MercadoLibre together was not just the opportunity of disrupting retail and then, eventually, disrupting finance, but let's build something out of Latin America that is on par in terms of the way it's run, and the global impact it can have, as many of the multinational companies that typically came to dominate the region.

LB: I suppose you would have joined just before the dot-com bubble. Did that change the confidence of the long-term mission, or make you doubt it at that point? Or was it more this is survival mode, we need to get through this, get the capital and we know this project will still work in the long run?

PA: I don't think we ever wavered in our conviction that the project could work. I think there was an element of luck and an element of capability. We closed about a \$50 million series B or series C, I don't remember it right now, right around the right timing, so just when the market closed. That left us fairly well capitalised to go through the desert.

And I think there were some characteristics about our team that made it easier. Most of us really believed in the transformational power of technology. We hadn't joined that internet wave to become millionaires in a year and then get out and go do what we really wanted to do. Many of us that are still leading the company have been around for the full 22-year ride. And so that made it easier to retain talent and to stay committed through that desert we had to pass, 01, 02.

00:09:17

So we didn't think it would take this long for consumer internet to become mainstream, but the vision and the conviction that it would happen, I think, was always there in the core team.

LB: When I was in Montevideo and you were kind enough to see us in the summer, I actually showed my colleagues, Helen and Tom who were with us, that one of the founding photos, at least that's on the Internet, of the team, and what's remarkable is so many of the people are still there or involved in some way or another. And I think that does show the stability of being builders.

Today, in the core businesses, you've got commerce, you've got finance. On the e-commerce side, that's been a global story, as you were alluding to, over the last 20 years. Online sales, today in Latin America, are probably somewhere around 11%, give or take. That might compare to, say, 30% here in the UK. I'm just curious, how do you think about the scale and duration of the e-commerce opportunity from this point onwards?

PA: We're still very optimistic. There's this wonderful Bezos concept of the day-one company, and I think in many ways MercadoLibre still is a day-one company, not only in the way that we try to run it but the fact that our markets still allow for

that kind of day-one mentality and day-one opportunity. I think you laid out the numbers quite well. It's still early-stage for e-commerce in Latin America.

00:10:40

And we really believe that, in many ways, we sit on the levers to continue to unlock that shift from offline to online. We still believe that a lot of the friction is still supply-driven.

So as we are able to bring on more inventory and more merchants, as we continue to build out the logistics that make it faster and cheaper to get those goods from warehouses or from merchants to consumers, and as we continue to improve the technological interfaces and experiences, we are able to unlock a lot of what eventually drives online retail penetration from high single-digits, low-double-digits, where it is today, more towards developed-market levels.

So certainly the opportunity is there, and it's very much in our control to unlock that opportunity, which is a privileged position to be in from a business-building position.

LB: And if we go back to 1999, the original vision was something akin to eBay, eBay was the inspiration, and for most of its history it's been very different from eBay. It hasn't been about second-hand goods, it hasn't been about auctions and so on, but that constant evolution, which you're still going through today as you move into groceries, as you're thinking of different ways to address the consumer and even the base of the pyramid, how important is it to not have a static model of what commerce should be and to continue to innovate and evolve in this space?

00:12:12

PA: And I think, Lawrence, that is the key question. The most important thing at MercadoLibre is how do we make sure that we continue to innovate constantly? I'd say there are two types of innovation that we need to constantly push. One, which is, to a certain degree, the one you're alluding to, how do we continue to innovate on our existing core businesses where we are already leaders, how can we continue to improve our commerce business, how can we continue to improve logistics?

And logistics is a great example. Like you said, for the first 15 years of this company, actually touching physical inventory was anathema to us. A lot of what we initially had built was that purely asset-light model, where the beauty of it was that we never touched inventory, we never touched products.

I think we recognised, about six, seven years ago, that logistics was going to be a critical piece to the user experience, and therefore we had to go all in in logistics.

Which was daunting, it was scary for us, but we did so, and today we run the most efficient e-commerce logistics network in Latin America.

00:13:23

And then the second piece is we need to continue thinking what are the new avenues of growth, what are future growth engines that make sense because they're very synergistic with the existing business but that generate new opportunities for MercadoLibre.

And the final thought on this is I'm convinced that part of our success is that we've actually found somewhat of a repeatable model for innovation that de-risks a lot of the new things we approach. So it's not simply chaotic innovation but there is method to it.

And I'm going to grossly oversimplify here but I think it goes somewhat like this. First of all, we need to identify something where we think the addressable market and the opportunity is large enough that it makes sense to take the risk of trying to build a business around that.

The next steps are the ones that get interesting, because when I look back at all the things we've launched, there is a certain repeated process to it, which is, first of all, launch rather quickly with a product that we know is not really necessarily market-ready yet, but launch it on the marketplace to a limited number of users. And then start iterating based on the feedback that we're getting from those consumers.

00:14:43

Phase two is start expanding that to a larger percentage of on-marketplace users. Eventually, you've iterated enough and you've gotten enough feedback and, most importantly, you have enough scale that your cost structure is now competitive. Then, move that off-platform and start offering it in the open market, and then build from there.

And we've done that with most of the FinTech products we're launching, we're beginning to trial that on logistics, and in general I think that's what we'll do going forward every time we think of entering a new vertical or a new industry. And it significantly de-risks the innovation process and it allows us to kill things that aren't working way before we've over-allocated capital actually trying to build that out in the open market.

LB: When I was in Latin America in 2018, meeting yourself and Marcos, he was quite clear that the one competitor that really keeps you up at night is Amazon. I suppose what's interesting within Brazil is they've been involved and investing and operating in the region in different forms for quite a long time, they're not actually one of the major players, I suppose, in terms of share. Why hasn't it yet

quite worked out for Amazon in Brazil? And how do you think about the elements that could change to enable them to work out, and effectively therefore how do you pre-empt that and limit their ability to manoeuvre in the country?

00:16:14

PA: I think part of the reason that we've always seen them as perhaps the most relevant competitor, and Brazil is potentially the most competitive ecommerce market globally right now, is because of the long-term approach they take. I think potentially we're the only other company that thinks as long-term as they do. And the reason I say that is this is far from over in terms of that competitive dynamic.

Now, on a more optimistic note, if we look at everything that's happened from that 2018 conversation you had with Marcos to today, I think we've held up incredibly well competing against potentially one of the most formidable companies to have emerged in the last 200 years.

And I think, to answer the specific question, that market structure is complex in Latin America. To gain access to those potential 650 million inhabitants, it's not one country, it's not even a single market. It's multiple, smaller markets. And then, when you go into each one of those markets, there are particularities, not just the fact that Amazon was entering Brazil where there were already large, entrenched incumbents, ourselves being one of them, but there are particularities around logistics and geographical reach. The credit environment is quite unique to Latin America.

00:17:42

So there are many things that don't just make the Amazon playbook applicable almost as a replica. I would argue the US and Europe have much more of just replicate the working playbook. So all that, what we like to call, topicalization of the business model is not necessarily that easy if Latin America is not a core market for them as it is for us.

And then we've, I think, also done our part in terms of identifying what our weak spots were. I think logistics is one that clearly comes to mind, and over the past five, six years, we've built logistics capabilities that I don't think anyone would have envisioned us being able to build five years ago. What we've done on the credit front, what we've continued to do on the payments front, and I think the interaction between payments and commerce is much more relevant in emerging markets than developed markets.

So there are many things that I think leave us optimistic in terms of competitive dynamics going forward, even with the most fearsome of competitors like Amazon.

00:18:54

LB: I think what was helpful for us, as a data point and validation, was also Amazon's entry into Mexico, where they were going to work it and make it succeed in one market in Latin America, it would be Mexico, given the overlap, its geographically contiguous nature and so on, and being part of NAFTA.

You also mentioned logistics there, and I suppose six or seven years ago, you didn't really have that much involvement on the logistics side, you were a software business, and you had to learn a very different type of business. And you seem to have done that, actually, as you were alluding to, remarkably well.

80% of deliveries within 48 hours across Latin America is a real achievement. How have you been able to develop that expertise in a very new and very different area, and execute it in a way that... I see the logistics platform you've built today, it's not just fast but it's scalable, it's economical. And it had its biggest test of course through the pandemic period as well.

PA: And I think that team is probably the team that deserves the most recognition internally in MELI, because what they have built over the last five years, starting from scratch, is truly phenomenal. And like you mentioned, to have done that and to have been able to cope with the significant surge in demand that occurred throughout the pandemic is really, really a tribute to the way they've executed.

00:20:12

And there are probably a few components to that. The first one, and this is fantastic because I think this really is a proof-point of what we've tried to build as a company, we approached logistics with a very keen eye on technology. So we didn't just say, let's hire a whole bunch of people from the logistics industry. Obviously, we've taken on a lot of industry expertise, but when you look at the core engineering team, most of those were people that were already with us and didn't have prior industry knowledge.

So much of that network is optimised, and the efficiency that you were talking about is driven by technology, software, algorithms on the backend. I remember this critical point where we had to decide do we hire existing, best-in-class software out there for the logistics industry, for routing, for warehouse management systems, or do we build our own from scratch. And at the end, we decided to build from scratch, and it was probably the best decision we could have made.

And then the second piece is that I think we've also built a lot on our own, but we've also hired people away from the FedExes, the DHLs, even the Amazons of the world. Coupang, we've brought people in from Asia. So we've always, I think, been quite good at understanding that you can accelerate your learning curve



from learning from others who have done it before. And I think we've been fairly okay with combining building from scratch for our own necessities with copying what has worked elsewhere.

00:22:00

LB: For me, observing it from the outside, it has been a remarkable transformation. And I think in the context of when I was first looking at Latin America and Brazil's delivery, the idea of 80% within 48 hours would have been almost like a dream. Everyone used Correios, the national postal service. That was consistent in the sense that it struck every summer, which caused the entire industry a headache.

I remember one of your major competitors, a number of years ago, was actually banned from operating for a period of time in the state of São Paulo because the deliveries got so late. So I think to have moved to that stage is really, really impressive. And I think visually, I don't know how you feel about this, when I see the images of the MercadoLibre planes in yellow with the logo, that is quite a transformation.

PA: It is, and it's interesting, I think the planes are very emblematic of how far the logistics organisation has come in a fairly short period of time. And quite honestly, I think if you had asked us five years ago, will you be running MELI Air, much in the same way Amazon runs, I think it's called, Prime Air, I don't know what it's called, in five years, the answer would have been absolutely not. And yet, we've been able to iterate and innovate at a pace where, quite frankly, we've gone much further than even we had envisioned five, six years ago.

00:23:19

LB: I remember when you were working out what you wanted to do in logistics, that it was, if you don't mind me saying, both a very thoughtful but also very long process. You didn't jump to we're going to do this, it was a lot of thinking, if we're going to have anything that's going to be asset-heavy, we want to be very cautious about how we do that and change the profile of the business.

A lot of companies really struggle when they start out with a very neat software solution and they need to build the hard infrastructure, because the financial profile is just radically different. You've got to invest quite a lot upfront. Over a period of time, you basically trash your financial model in terms of cash flow. How difficult was that for MercadoLibre, and also for you as CFO, to make that decision to be willing to change the financial profile of the business?

PA: And change it we did. But surprisingly enough, Lawrence, it wasn't that difficult. And I think there are a few elements there. First of all, we talked about this earlier in the conversation, we really approach our business with a long-term view. And I think it had become very clear to us that controlling logistics, although it wasn't

a necessity back then, was going to become a requirement for the business to be able to thrive over the long run.

00:24:33

Because someone was going to push the boundaries and get to 48, and we're actually now getting to 24 and even same-day delivery, and we could either decide that that someone was going to be us, or leave it to someone else to do. So I think again, as our competitors, as Amazon, say, if you build back from the consumer, it was painfully clear to us that that was going to be a necessity.

And because we approached the business long-term, and I think founder-led businesses also... The enormous advantages of Marcos still being the CEO as well as the chairman and incredibly involved, is that I do think founder-led companies find it easier to dramatically change their financial profiles, because of the credit that's been built, and also a management team that's been around since the beginning.

Now, to not just give us the credit, I also think we were fortunate in that the market backdrop was supportive. So it would have been a more difficult, I think, change in business model were we to try to pull that off standing here today in late 22 than when we did it in early 16. And I think sometimes timing and context are also part of success stories.

00:25:54

LB: And obviously Amazon are a competitor, but that's also one of the things that were presumably done that was quite helpful for showing investors, look, if you invest very heavily, you can reap the long-term rewards. And that made it easier because they were presumably doing a bit of pattern recognition and going, actually, we think this will be okay.

PA: Absolutely. I think they did a lot of the investor education and investor convincing for us. And also, to my previous point, it was very easy to point out, look, either we do this or eventually they will. They might take ten years, but they will come to Latin America.

LB: If we move on to the other half of the business, FinTech, it's been born out of a payments app, allowing people to pay online when you've got low credit and debit card penetration, and also the credit and the financing element. I've always been struck, when I first looked a Brazil, you go online to buy something, it might only be £5, £10, but there'll be the offer to buy it on credit and instalments, which is a very different dynamic.

And you've moved into credit, savings and investments and loans. Latin America's always seemed particularly ripe for financial disruption. Can you just

talk a bit about what the nature of the market is that makes it even more attractive?

00:27:12

PA: The underlying, I guess, metric is the percentage of the truly banked population. And the numbers sometimes are misleading because many people have a banking relationship but with extremely limited access to services from those banks. Or, quite frankly, in many cases, if you're not a profitable consumer or a higher-income-demographic consumer, very poor service.

And so there's this enormous pent-up demand for financial services by Latin Americans, both on the consumer side but equally interesting on the small business size and the micro business size and the medium business size. So it's a classic example of pent-up demand.

What allows, I think, that thesis that, as you say, has been there for the longest time, to actually play out now, again, is technology. The way that technology dramatically changes the cost to serve is what makes it possible to now pursue those literally hundreds of millions of Latin Americans that are absolutely clambering for a financial services relationship and simply weren't getting one from the incumbent banks.

00:28:31

You overlay that will the fact that we already have relationships with tens of millions of Latin Americas because of our retail business, and the amount of data that gives us and the ability to then underwrite those products for those consumers, I think placed us in a position where the opportunity was there and we had quite a distinct set of capabilities and assets to be able to capture that opportunity. And that's what Mercado Pago is quickly becoming, I think, a de facto digital bank for the under-banked and un-banked throughout the region.

LB: And how tricky has it been? You've built a very successful commerce business, the rules in e-commerce are very different from the rules of doing financial services. Not only is the latter highly regulated, but it makes some degree of logical sense, given the network effects and scale in e-commerce to go and have losses and build up that scale. The risk profile in finance is very different.

How culturally difficult was it, and the challenge of making sure that the teams of commerce and FinTech had quite different subcultures, I assume, and different KPIs, different incentives, different approaches.

PA: It was challenging, and I think it still is challenging. We've, I would almost say, over-acted and been very, very deliberate about setting up, at times, even somewhat artificial constraints on some of the FinTech businesses. And even

within FinTech, it's very different, I suppose a culture of growth-focused mentality similar to the e-commerce business is not that risky.

00:30:21

Now, when we start getting into things like asset management or particularly credit, you completely need to change that chip, because it can't be growth first. It has to be growth only at the right risk profile, and also recognising that our ability to identify risk, we haven't been at this for that long, is also somewhat limited. So we've been very deliberate at building those guard rails and communicating those guard rails very clearly. You should not lose money on the credit business. You want this to be a profitable credit business.

Or you need to fully fund your credit book by 2023 on your own, because the rest of the business doesn't want to continue to have to put up the equity for the growth of the credit business. So these artificial guard rails, that if you triple-click potentially wouldn't make too much sense but that were necessary to be able to generate those distinct cultures within a single organisation, where some elements of the culture, innovation, taking risk, moving quickly, you need to maintain.

LB: And we've touched on it a few times, and I think it's quite clear in the conversations we have had in your team that you care quite deeply about it, and see it as very aligned with how do you become commercially successful? Well, as we were saying at the beginning, you solve a problem. But any background on how you think about how important MercadoLibre is in actually driving financial inclusion in the region?

00:31:49

PA: It's absolutely a key player in driving financial inclusion. Because of our pre-existing first commerce business but then also the payments business, we have this unrivalled distribution capacity. And a lot of that is exactly in those segments of the population that are most demanding of financial inclusions. We already have relationships with them, so we will be a central player in financial inclusion in the region.

And fortunately, that's something that has been quite recognised by regulators as well. When I think of our relationship with regulators, so much of that back-and-forth is, I think, permeated by their understanding that if well-executed and with the appropriate level of oversight, this could be a tremendous force for good in terms of driving more financial inclusion.

LB: And that cost to serve point, what really stuck out to me about that is you think of how many people across the region would want and benefit from, you can choose different numbers, a \$20 bit of credit, \$50, \$100, \$150 credit, but a lot of the time we talk about disruption, and there is an element of disruption but

there's also an element of actually growing the market in the first place. Which, again, presumably is quite helpful to regulators, saying we can be really helpful even without massively damaging the existing banking infrastructure, but just by growing that pie.

00:33:26

PA: And that's the case. And I think the media in some markets have made a lot about Mercado Pago versus the banks. And if you look at that today, that's simply not the case. Fast-forward ten years, I think eventually we come up against each other, but if you look at even the potential size of our credit books, it's still just a drop of water in the ocean. And not just consumers.

When you think of that again on the merchant side, you look at small and mid-sized banking, it's been an extremely difficult value proposition for banks, because visibility into those businesses is very limited. Cost to serve is very high.

For us, visibility is full. We're processing payments for them, we're helping them sell online, so we're seeing their businesses real-time, we're interacting with them digitally. So it's on both sides of the banking business, consumers and merchants, where it's complementary to the existing industry and definitely it's enhancing the size of the market, not zero-sum game where we're competing for the existing market.

LB: Do you ever consider what will Latin America look like if MercadoLibre succeeds? How will it change, what will it look like? Because the scale of what you're doing is such that I think that question is relevant.

00:34:47

PA: Yes, it's humbling that it's relevant. Because my initial instinct is to say we're not changing a continent, but then when I think of the sheer scale of what the teams at MELI have built, we're probably beginning to inch up on 150 million Latin Americans that interact with us on an annual basis, that is something that could potentially change the face of a continent.

So when I think of that, and again there are still day-one elements of what we're building, I can clearly see a path where that 150 become 300, and the remaining 300 to get to 600, a lot of the work that we're doing, and we've talked about this in the past, is how do I get to a logistics model that is slower but so much cheaper that I can actually access those last 300 million Latin Americans?

And then the same with FinTech, I think we will have to figure out what the right products might be for those consumers, and it could end up being just helping them with financial literacy and how to better manage their existing cash flows. So when I put all that in, I think our vision is can we help give all these consumers access to goods and services in a way that would have been entirely unthought-

of prior to the digital revolution? Can we help them also gain financial inclusion, and therefore can we be a driving agent in closing that digital divide?

00:36:21

Because it's obvious that for the top 50 million Latin Americans, technology will dramatically change their lives. The big, big challenge here is how do we make sure that we can also deliver all those benefits to the other 500 million. And I think MELI will have a huge part to play in that challenge.

CS: That was fascinating, listening to Pedro. And I think what struck me, from the conversation, was just how much of MercadoLibre's philosophy and values really aligns with Scottish Mortgage. For you, Lawrence, what is it that stands out for you in terms of MercadoLibre's culture and what Pedro was saying about how they run the business?

LB: I think two things. The first is long-term. I don't think they would have been able to make that logistics transition without being a founder-led company. As we talked about, changing that financial profile, that's a hard thing to do. eBay didn't manage to do it, and so I don't think you should underestimate that ability to be long-term.

This is a tricky environment for a lot of companies, but I think that when you've got that management team in place, that founder-led management team, you know that they're going to be making the decisions that make sense over the next five years, not that give you necessarily a good quarter. And that is the right thing, I think, to maximise shareholder value over the long term.

00:37:50

The second part is one we also touched on, which is innovation. We should never be happy with where we've got to in Scottish Mortgage, we should always be trying to get better, working out different ways to improve our process and be better as individuals as well. And I think that comes through with MercadoLibre. They've permanently adapted and innovated and iterated and have never been complacent. And I think those two things, to me, really do stand out.

CS: And I think Pedro alluded to this, the importance of having that founder still involved, the importance of having Marcos still there. For Scottish Mortgage, we have a lot of founder-led businesses, how important is it to have those founders that can make those difficult, those brave, decisions?

LB: The average tenure of a CEO is not very long for CEOs when you take out the founders of the sample size. And that naturally means that your time horizon is shorter. It's also shorter because for CEOs that are hired in, it can only take a few bad quarters for you to be removed from your position.

And I think what's really important about founders is their ability to focus on the long term and shut out the noise that comes from financial markets, to realise that a quarter is not the be-all and end-all. It doesn't matter if you don't hit your revenue or profit targets in a quarter as long as you're building towards that long-term vision. And that is a very hard thing to do.

00:39:06

It's also a very hard thing to do, I think, even for some founders in some parts of the world, where I think we have a role of trying to encourage them and support them and shield them from some of that pressure. I think it's really easy to underestimate what financial markets can do to the psychology, even of these brilliant people that are leading these companies.

CS: One of the things that I took away from the conversation that you had with Pedro was the concept of financial inclusion. And I think for Scottish Mortgage ESG has never been our starting point, it won't be our starting point, but what really came across when Pedro was talking is there's huge upside opportunity for companies on the front foot.

He used this great phrase, they want to become the de facto digital bank for the un-banked and the under-banked. How do you think about that from the perspective of Scottish Mortgage, this concept of financial inclusion and the impact it can have?

LB: I think it's really important. And if you take a step back, ESG isn't the greatest term but what you want is companies where that positive impact and commercial success align. Yes, you can go off and do charitable stuff, but it's where there's alignment between business purpose and that broader impact. And you have that with MercadoLibre.

00:40:21

And that is important, and it matters. It matters for different reasons. I think one is going with the grain of society really matters. It is much harder to build a business and to scale exponentially if you are going against the grain of society. And so one of the things really, I think, of MercadoLibre is, as they scale, they need to be accepted. They need to be accepted by consumers, they need to be accepted by regulators, governments, and politicians. And so they have to be able to show that they're having a positive effect on society to really be in that position of responsibility.

It's not often that you get to quote Spiderman in these things, but I would say it's the element of with great power comes great responsibility. And I think they understand that and are managing that. And I think the core thing is that the purpose of the company is well-aligned with that.

CS: On that, Lawrence, you talk about this concept of going with the grain of society, MercadoLibre is the largest e-commerce and FinTech platform in the region, do you think there's a risk that they could get too big? Could they get too powerful? Could regulators seek to break it up?

00:41:22

LB: I think it's healthy to say there is a risk. But if you take a step back, it's one of the better risks that you could probably have in investing, because it is an output of scale and success that that risk grows. And one of the things in some of our conversations with them has been about trying to think not just about the next one or two years but what can you do so that when you hopefully scale much larger in five or ten years, you continue to be seen, and actually be, in this positive light by your different stakeholders.

And I think they have a good chance of doing that, because again some of the things that we're saying in terms of bringing financial services to the un-banked and the under-banked and so on, and I think they also have a good chance of getting that right as much as possible because of that long-term orientation of Pedro and of Marcos.

They're not out there to make a quick buck, they're out there to really build something, and I think that makes the probabilities of them having what I would call a strong social licence much higher.

CS: And, Lawrence, one of the conversations we've had, away from the podcast, is what a fascinating case study MercadoLibre is in this current environment. We're in a climate where everyone's pessimistic towards growth stocks because of interest rate and inflationary concerns, but here's a company where its biggest market, Brazil, the currency's dropped something like 60%, GDP 40%.

00:42:41

Do you think this provides, I don't know, some sort of food for thought for pessimists, that great companies can still make progress in difficult environments, and that the structural shifts that are almost underpinning MercadoLibre and other holdings will continue, whether we're in a recession or not, whether interest rates rise or fall?

LB: The macroeconomic and indeed political backdrop for MercadoLibre has not been easy over the last ten years. You gave some of the stats there that show it. You also had an actual impeachment as well in Brazil. Argentina has a long history, it's a country of many great things but also a degree of economic instability. I think they've spent about 30% of the time in the last 70-odd years in recession. So it's a really tough environment.



And that, in many ways, has shaped MercadoLibre as well, but I think it's right what you say in that even in difficult macroeconomic environments, if you are pursuing and delivering real change, real innovation, real disruption, there is the ability to get rewarded for that. And MercadoLibre have been.

00:43:44

Now, I think it makes it harder in that environment to deliver that, but it is still possible. Maybe the next ten years will be kinder to them from a macroeconomic viewpoint than the last ten years, but I don't think that is a prerequisite for their success. The continent needs financial services extended to the base of the pyramid. It needs that growth in a more efficient retail infrastructure and more efficient logistics infrastructure, irrespective of the economic environment.

So I think that's the attraction, where you can back companies, and we have a number in the portfolio, Moderna would be an obvious example, where it's not that macroeconomics doesn't affect the outcome or matter, but their success is not predicated on that broader environment.

CS: So, a massive thanks to our guest today, Pedro Arnt of MercadoLibre, and of course your manager, Lawrence Burns. In the next episode, we will be talking to Ryan Watts, the founder of Denali, one of the companies at the forefront of finding a treatment for Alzheimer's disease.

You can subscribe to our podcast to be kept informed of what is coming up, and you can learn more about Scottish Mortgage by visiting our website, [scottishmortgage.com](http://scottishmortgage.com). You've been listening to Invest in Progress. Thank you for joining us.

00:45:01