

GIB AM Sustainable World

No stone unturned – Fuelling LatAm's SME economy

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Fuelling LatAm's SME economy

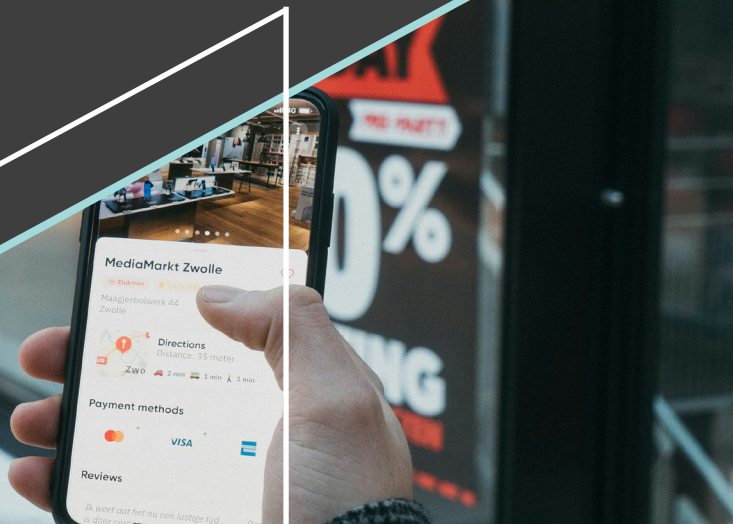
MercadoLibre's role in empowering SMEs and driving financial inclusion

Latin America's small and medium sized enterprises (SMEs) have been reported by the International Development Bank as the 'best antidote' for the region's poverty.¹ Representing 99.5% of companies and employing 60% of the workforce, SMEs hold immense potential to drive change in a region historically challenged by poverty. Yet SMEs face significant barriers, such as entrenched and antiquated financial systems, that keep opportunities just out of reach and create uphill battles for families striving to lift themselves out of economic hardship.²

Our 'No Stone Unturned' series highlights GIB AM's Sustainable World investment philosophy hunting for overlooked opportunities in strong and persistent themes. Here, we focus on our Inclusivity theme, highlighting the surprising role of MercadoLibre — Latin America's (LatAm) largest e-commerce and digital payments platform — in democratising access to commerce and financial services across the region.

Executive summary

- ▶ We believe MercadoLibre's growth durability may be underestimated, as investors overlook its crucial role in empowering SMEs which contribute 70% of the platform's sales and serve as the primary income source for over 1.8 million families.
- ▶ MercadoLibre drives financial inclusivity by offering first-time credit to 60% of its lending customers, positioning it to capture growth in a region where 70% remain unbanked or underbanked - a strategy that has helped fuel the company's 41% compound annual revenue growth over the past decade.
- ▶ MercadoLibre's founder-led management team has built an extensive logistics network, capturing nearly one-third of the regional e-commerce market. Through continuous reinvestment in technology and infrastructure, they have created barriers that are challenging for competitors to replicate.

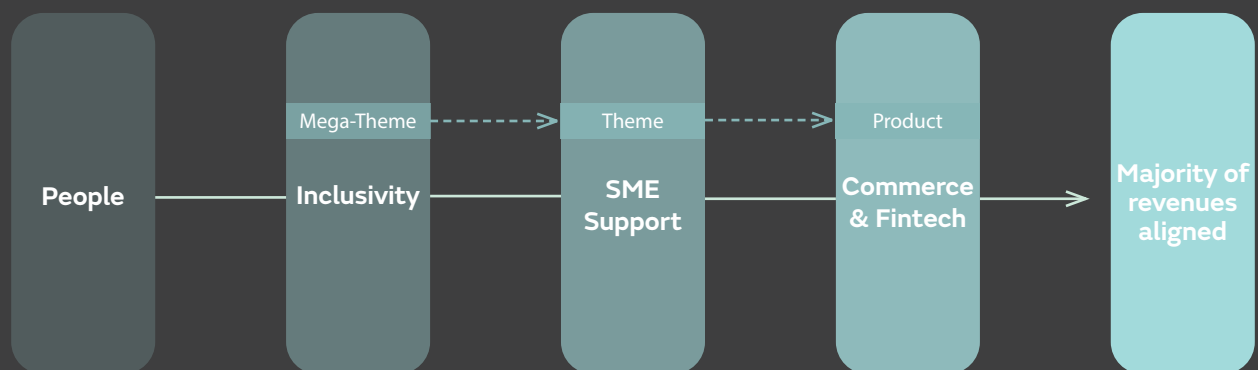


SMEs are engines of growth that level the playing field

Our investment process is underpinned by identifying themes that drive positive change, and companies that provide solutions to some of the world's great challenges. Through deep-dive thematic reviews, we focus on areas of structural growth across value chains that benefit both People and Planet.

Poverty levels remain high in LatAm, and we believe that accelerating SME growth through digitisation and improved financing can reduce poverty and drive progress throughout communities. These enterprises are often vital to local communities, serving as primary employers and key suppliers of goods and services, as well as addressing unmet needs in markets commonly neglected by larger corporations.³ Sustainable Development Goal 8, which aims to "promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all", supports our view of the critical role of SMEs in certain geographies.

Importantly, solving these challenges presents an opportunity for MercadoLibre's e-commerce and fintech business, positioning the platform as both a driver of sustainable economic development and a powerful revenue engine. Currently, 70% of the region's population is unbanked (lacking access to basic banking services) or underbanked (with limited access to credit), a situation which largely stems from the dominance of financial service incumbents, which can create significant barriers to innovation.⁴ By disrupting these traditional barriers, MercadoLibre catalyses financial inclusion, enabling individuals to get access to the resources they need in a fast and developing economy.



MercadoLibre transforms inclusion into growth

A survey by the International Chamber of Commerce of 2,000 micro, small and medium-sized enterprises (MSMEs) in LatAm revealed that these businesses face significant barriers in areas such as logistics and payment systems. Commerce itself has traditionally been constrained by high scaling costs, further complicated by limited access to digital markets and formal credit. These limitations hinder growth potential and job creation, with structural issues such as inadequate physical banking infrastructure, low trust in financial institutions, and high cost of services at the core. Collectively, these factors pose material threats to inclusive economic growth and societal progress. In this challenging landscape, MercadoLibre has emerged as a powerful catalyst for change, offering a two-pillar solution that addresses both market access for SMEs and financial inclusion.

¹SMEs: Key Drivers of Green and Inclusive Growth ([oecd-ilibrary.org](https://www.oecd-ilibrary.org/))

²Latin American development strategies | OECD

³SMEs: Key Drivers of Green and Inclusive Growth ([oecd-ilibrary.org](https://www.oecd-ilibrary.org/))

⁴Bringing financial inclusion to Latin America with fintech and AI ([microsoft.com](https://www.microsoft.com/))



Pillar 1: Democratising market access

MercadoLibre's marketplace significantly reduces barriers for SMEs, enabling them to access markets across LatAm. The impact of this approach is substantial:

- 70% of the platform's Gross Merchandise Value (GMV) comes from SMEs.
- 73% of SMEs are family-run businesses.
- 1.8 million families operate on it and consider it their main source of income.⁵
- MercadoLibre made \$8.2 billion USD in their Commerce segment in 2023.

This reach has been achieved by providing merchants with access to a dependable commerce platform, enhanced logistics services, and reliable payment solutions.

By offering these integrated services, MercadoLibre is effectively making money by democratising commerce in the region, allowing family-run businesses to compete on a larger stage.

Pillar 2: Driving financial inclusion

MercadoLibre's fintech offering transforms regional finance by providing digital payments and credit access both on and off platform. Their fintech services empower SMEs, accelerating financial inclusion across LatAm and contributing to SDG 8's goals of sustainable economic development:

- Before joining, 60% of MercadoLibre's credit customers had never received a credit offer before.⁶
- 65% of loans granted were to businesses investing in inventory, new products, equipment, or expansion.
- MercadoLibre made \$6.2 billion USD in their Fintech segment in 2023.

MercadoLibre's consumer credit and digital account offerings are growing to become one of the region's leading Fintech solutions. By leveraging transaction data, we believe MercadoLibre offers financial services to individuals and businesses that may be overlooked by traditional institutions. This approach broadens access and improves service quality through innovative, user-friendly technologies.

Through these two pillars, MercadoLibre is driving business success through actively reshaping the economic landscape and catalysing a more inclusive and dynamic economy, one transaction at a time.

^{5&6} [The MELI 2024 Investment Story \(mercadolibre.com\)](https://www.mercadolibre.com)

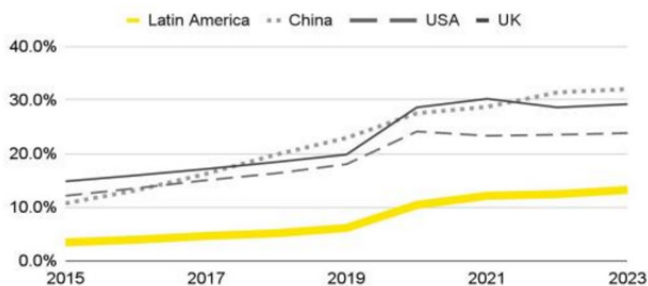


Identifying mission-driven management with a focus on relentless innovation

Founded in 1999 by Marcos Galperin and his Stanford classmates, MercadoLibre has grown from a small online marketplace into LatAm's leading e-commerce and fintech ecosystem. The company's name, which translates to "free market" in Spanish, encapsulates its mission to "democratise commerce and financial services in Latin America". Under Galperin's leadership, MercadoLibre has focused on long-term value creation through societal impact, reinvesting profits into technology and logistics infrastructure, enhancing its appeal for SMEs and, in turn, developing local economies. This approach creates a virtuous cycle that benefits SMEs, many of whom rely on the platform to grow and thrive.

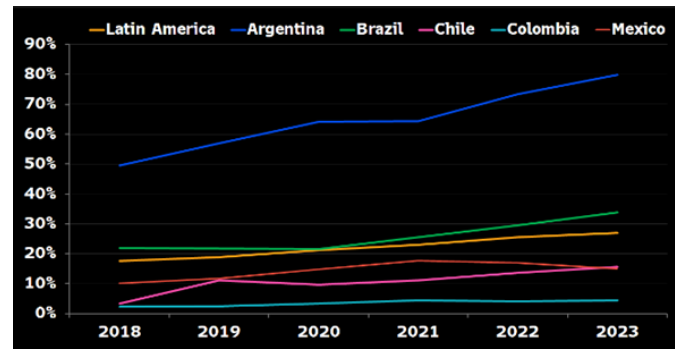
As e-commerce penetration and fintech adoption in LatAm continue to grow, the demand for MercadoLibre's services is expanding rapidly. E-commerce penetration in the region remains significantly lower than in the other markets, presenting MercadoLibre with a substantial opportunity to drive revenue growth, while advancing its mission of inclusivity and economic empowerment.

Chart 1⁷: E-commerce penetration



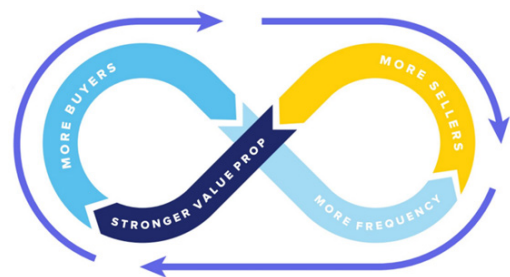
MercadoLibre's competitive edge can drive sustained value creation and impact.

Chart 2⁸: MercadoLibre Retail E-Commerce Share



MercadoLibre commands a dominant position in Latin America's e-commerce landscape, capturing nearly 30% of the region's market share.⁹ This leadership is bolstered by formidable barriers to entry, primarily driven by MercadoLibre's powerful network effects and levels of high-traffic. Together, these factors create a compelling value proposition for buyers, who benefit from a wider range of products and competitive pricing.

This enhanced buyer experience attracts more users, which draws more sellers, fuelling a continuous cycle of growth. The impact of this self-reinforcing ecosystem is clear, with unique buyers on the platform growing 15% year-over-year to 85 million in 2023.¹⁰ In our view, the strength of MercadoLibre's network makes it challenging for new entrants to replicate, further cementing the company's market leadership.



In the e-commerce arena, speed of delivery and breadth of product selection are paramount to success and MercadoLibre excels on both fronts. Leveraging the most extensive logistics network in LatAm, MercadoLibre operates with remarkable efficiency - 76% of deliveries in Brazil, its largest market, are completed within 48 hours.¹¹ The scale of their operation is equally impressive and, in 2023, MercadoLibre shipped 1.4 million items, with the vast majority moving through their own managed network. MercadoLibre's competitive advantage is formidable and difficult to replicate, which in our view hinders competitors' ability to match their capabilities.

⁷ The MELI 2024 Investment Story ([mercadolibre.com](https://www.mercadolibre.com))

⁸ Euromonitor, Bloomberg Intelligence 2024

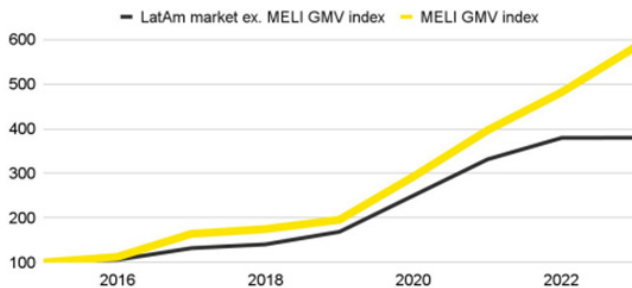
⁹ <https://blinks.bloomberg.com/screens/DOCV%20RES%20SEI41ADWLU6A>

¹⁰ The MELI 2024 Investment Story ([mercadolibre.com](https://www.mercadolibre.com))

¹¹ GIB AM analysis, Canalyst, Bloomberg



Chart 3¹²: MercadoLibre growth vs the market



This market supremacy translates into exceptional financial performance. Over the past decade, MercadoLibre has delivered impressive results including net revenue and total shareholder return being compounded at an annual rate of 41% and 34% respectively.

Long-term opportunities amid near-term uncertainty

MercadoLibre navigates a challenging macroeconomic environment, particularly in Brazil, where high inflation and interest rates may weigh on consumer spending and credit growth. Currency fluctuations and political uncertainties further complicate the landscape creating risks in the short-term. Despite these hurdles MercadoLibre's robust ecosystem and strategic positioning allow it to weather these difficulties effectively in our view.

We forecast strong earnings growth at nearly 20% compounded annually over the next decade, underpinned by mid-teens theme-driven revenue expansion. We believe MercadoLibre's profitability is set to improve as it capitalises on three key levers. First, cost efficiencies can increase as the company progresses utilisation of its distribution centres, enabling scale-driven margin expansion. Second, the growth of its higher-margin credit business, coupled with prudent risk management, can drive incremental profitability. Finally advertising presents a high-margin monetisation opportunity as MercadoLibre leverages its customer and merchant base to capture more ad spend in the region.

These factors, supported by secular growth trends such as increasing internet penetration and the shift to digital payments, provide a solid foundation for MercadoLibre to deliver long-term value and strengthen its positive impact across Latin America.

Conclusion: unearthing opportunities in inclusive commerce

Our multi-thematic research process drove our identification of MercadoLibre, recognising its potential for financial returns driven by societal impact. By looking beyond traditional financial metrics, we uncovered a company that is reshaping the economic landscape of Latin America through a combination of e-commerce and fintech.

Challenge: Latin America's 33% poverty rate persists as SMEs struggle with limited market access and 70% of the population remains unbanked or underbanked.

Solution: MercadoLibre's integrated e-commerce and fintech platform empowers 1.8 million SME families with digital market access, while extending first-time credit to 60% of its lending customers.

Opportunity: By solving fundamental market barriers, MercadoLibre is well positioned to capture Latin America's expanding digital commerce market, enhancing profitability to drive nearly 20% forecasted annual earnings growth over the next ten years.

MercadoLibre exemplifies the transformative potential our investment process seeks to uncover. A company turning structural challenges into high revenue growth, and empowering millions of families along the way. This is the essence of leaving no stone unturned in sustainable investing, uncovering companies that convert positive impact into market-leading performance.

¹² [The MELI 2024 Investment Story \(mercadolibre.com\)](https://www.mercadolibre.com)



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