MercadoLibre (NASDAQ: MELI) Investment Analysis Report

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Executive Summary

MercadoLibre (Nasdaq: MELI) represents a compelling investment opportunity at $1,664.42, with a five-plus-year time horizon and a position sizing appropriate for an emerging market compounder. The price reflects the market's anxiety about a margin compression we believe is funding a moat-widening investment cycle, not a structural reset. The opportunity is to own a high-quality Latin American compounder at a price that already prices a meaningfully bearish scenario.

The business

MercadoLibre is the leading e-commerce company in Latin America and the largest by gross merchandise value across all 18 countries it operates in. Founded in Buenos Aires in 1999 by Marcos Galperin and listed on Nasdaq in 2007, MELI runs five integrated businesses: an online marketplace, a payments and digital banking platform, a logistics network, a consumer and merchant credit business, and an advertising arm. The businesses are sold under their own brand names, Mercado Libre for the marketplace, Mercado Pago for payments and digital banking, Mercado Envios for logistics, Mercado Crédito for credit, and Mercado Ads for advertising, but they share customers, data and infrastructure, and reinforce each other in ways a competitor would have to spend years and many billions of dollars to replicate.

In Brazil, Mexico and Argentina, MELI is the regional default for online shopping. In digital payments and consumer credit it is a top-tier competitor alongside Nubank, the major incumbent banks, and the central-bank-operated payment rails like Pix and SPEI. In retail-media advertising the platform is in the early stages of scaling what is, globally, one of the highest-margin businesses any e-commerce company has ever built.

The numbers underline how unusual the platform is. FY2025 revenue reached $28.9 billion, up 39% year-on-year, and Q1 2026 re-accelerated to +49%. Items sold grew 56% in that same quarter. Growth has stayed above 35% in every one of the last four years on a revenue base that started those years at $7 billion and now sits at $29 billion. Over the last 15 years, revenue has compounded roughly 120 times in US-dollar terms, almost entirely organically, no transformative acquisitions, no empire-building deals.

The opportunity

Latin America runs at only about 11% e-commerce penetration of total retail spending, against 17% in the US, 13% in Western Europe, and 53% in China. As that gap closes, and the underlying drivers (smartphone adoption, real-time payment rails, a young and urbanizing population) are all in place and accelerating, MELI's addressable market expands materially before the company gains a single point of share. This is the closest thing in the report to a free tailwind: a structural force lifting the whole industry that will play out over the coming decade.

MELI is uniquely well-positioned to capture that opportunity because of an integrated business model that competitors cannot easily copy. We call it the Five-Pillar Flywheel: the marketplace generates demand, owned logistics make it economic, payments capture every transaction by construction, the data underwrites credit, and the high-intent audience monetizes through advertising, each pillar reinforcing the next. The Competitive Moat chapter develops this in full.

The catch is that owning the flywheel today comes with a cost. Operating margin has fallen from a 14.6% peak in FY2023 to 11.1% in FY2025, with Q1 2026 at a 6.9% trough. MELI is

spending heavily, on lower free-shipping thresholds in Brazil, on building out the credit card, on advertising infrastructure, on Mexico expansion, in a deliberate cycle aimed at deepening competitive advantages and capturing more of a growing pie. The market is reading this as the new normal. We read it as the price of widening a moat that pays back over years, not quarters.

The verdict

We see meaningful upside in our central case, multi-bagger upside if our bull case plays out, and a contained downside even in a structural-reset bear scenario. At an 18x mature EV/EBITDA terminal multiple, the level investors pay for high-quality mature compounders growing in the mid-teens, such as Microsoft, Amazon, Visa or Mastercard, our central case puts intrinsic value at $3,030 per share, about 82% above today's price. The Valuation chapter sets out the full scenario fan, the methodology, and the asymmetry that makes us think the risk-reward is genuinely attractive.

MELI is best thought of as a multi-year compounding case, not a trade. The time horizon is five years and longer, because the engines of the return (the moat-widening investments compounding, the advertising layer scaling into the cost base, the credit-card book seasoning, the Mexico opportunity ramping) compound over years, not quarters.

The moat, briefly

The Five-Pillar Flywheel is the report's central concept. Its value is multiplicative rather than additive, which means a competitor cannot replicate MELI's position by spending money on any single piece, they would have to change their organizational form. In Brazil, MELI operates roughly 2.3 times Amazon's fulfillment-center count and more than five times Shopee's; the marketplace and payments data underwrites a credit book that intercepts loan repayments at source from a merchant's marketplace cash flow, a structural advantage no standalone lender can replicate. The full anatomy is in the Competitive Moat chapter, including the most contested piece, the Brazil battleground, where Shopee is building a parallel integrated stack and is, per its own filings, now profitable. The competitive intensity is real and durable, but MELI's structural lead is real and large.

The risks, briefly

Two risks dominate the case and are covered fully in the Risks chapter. The first is margin permanence, the bear's claim that the FY2023 14.6% peak was achieved before competition fully arrived and the new lower-margin environment is structural. The second is the credit book, which has grown to $14.6 billion at 87% year-on-year growth, with the credit-card piece growing fastest and carrying the lowest underwriting moat. A Latin American consumer-credit downturn while the book is young is the highest-velocity risk in the report. We treat both risks as live and material, but neither as decisive against the thesis at today's price.

Company Overview

MercadoLibre is best understood not as "the Amazon of Latin America" but as a single integrated transaction machine that monetizes the same Latin American user and merchant four or five times over: through a marketplace, a payments rail, a self-built logistics network, a credit book that reached $14.6 billion in Q1 2026, and a fast-scaling retail-media advertising business, all stitched together by a loyalty program that raises the cost of leaving any one service. Founded in 1999 in Buenos Aires by Marcos Galperin and listed on Nasdaq in August 2007, MELI has compounded revenue roughly 120x in US-dollar terms over the last fifteen years almost entirely organically. By FY2025 that compounding produced $28,893M of revenue, up 39.1% year-over-year, with Q1 2026 re-accelerating to +49%.

The flywheel: five businesses, one machine

The mechanism the rest of this report builds on is the way MELI's five operating businesses lower the cost or raise the value of the others. None of them is unique on its own. The integration is.

The Marketplace is the front door: a third-party-dominant platform across 18 countries that moved 2.43 billion items in FY2025 (+36%) to 121 million unique active buyers (+21%). First-party inventory is layered selectively on top, capped by company policy at less than 10% of GMV. Mercado Envios is the logistics layer: fulfillment centers, cross-docking facilities, thousands of partner drop-off points, and last-mile vans run mostly by third-party carriers under MELI's routing. Management stopped breaking out items shipped because the network now ships "almost all items sold" on the marketplace. More items moving through the network lower per-parcel cost and speed delivery, which raises conversion and repeat-purchase rates, which sends more items through the network.

Mercado Pago is where the integration becomes structural. When a buyer pays for any item on the Marketplace, the transaction by design routes through Mercado Pago. Buyers cannot pay with a competing payment method on MELI's own platform. So Mercado Pago's marketplace volume is structurally guaranteed by construction; the $188 billion of off-marketplace payment volume it processed in FY2025 is what Mercado Pago has had to win on its own merits. That off-platform business covers online payment infrastructure for third-party merchants, offline acquiring via QR codes and POS devices, and a digital account spanning transfers, cards, insurance, an asset-management product that pays a yield on idle balances, and a USD-pegged stablecoin. Total payment volume reached $277.8 billion in FY2025, up 41%.

Mercado Crédito is the link competitors cannot copy by writing a check. MELI lends almost entirely to users already inside the ecosystem, and the underwriting data is the marketplace sales history of merchants and the payment history of consumers. The structurally distinctive piece sits on the merchant side: when a marketplace merchant takes a loan, MELI deducts the repayments directly from that merchant's incoming marketplace sales. A standalone lender has no claim on the cash flow at source. The book closed FY2025 around $9.0 billion and reached $14.6 billion by Q1 2026, up 87% year-over-year, with the Mercado Pago credit card the fastest-growing piece.

Mercado Ads monetizes the high-intent shopping audience the Marketplace generates, primarily through paid placement against shoppers actively searching for products on MELI's own surfaces, supplemented by display and video formats that can also be served off-platform

against the same first-party data. Advertising runs at roughly 2% of GMV today; management has guided that they intend to push that share toward the low-to-mid single digits over a multi-year runway. The revenue lands at very high incremental margin because the audience and the purchase-intent data are by-products of the marketplace.

Holding the whole thing together is MELI+, the loyalty program, which tiers into Essential (shipping and cashback), Total (adding Disney+ and discounts on HBO Max), and in Brazil a Mega tier bundling Netflix, Disney+, HBO Max and Apple TV+. The strategic concept behind it is the ecosystemic user: a customer who uses both the Marketplace and Mercado Pago regularly, meaning they shop on MELI and use it for everyday payments, savings, or credit. Ecosystemic users are materially more retained and more profitable than single-service users. Fintech monthly active users reached 78 million in FY2025 (+28%) against 121 million unique active buyers; the gap is roughly the gap MELI is trying to close.

The financial anatomy: two revenue streams, four geographies

MELI reports two revenue streams. Commerce generated $16,294M in FY2025, 56.4% of the total: marketplace fees, shipping fees, MELI+ subscriptions, advertising sales, classifieds and first-party product sales. Fintech generated $12,599M, 43.6%: payment-processing commissions and float income, credit interest and fees, and POS device sales. Commerce is the older, asset-heavier stream; Fintech is the faster-growing one, and within Fintech, credit is the part both growing fastest and carrying the most risk.

The reportable segments are geographic, and that is where the margin story actually lives. In FY2025, Brazil generated $15,201M of revenue (52.6% of the company total), Mexico $6,475M (22.4%), Argentina $5,962M (20.6%), and Other Countries $1,255M (4.3%). The cleanest way to read the underlying economics of each segment is the direct contribution margin, which is segment revenue minus segment costs before any allocation of corporate overhead.

Geographic segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	FY2023 DC margin	FY2024 DC margin	FY2025 DC margin
Brazil	$7,821M	$11,406M	$15,201M	23.8%	20.0%	13.7%
Mexico	$3,071M	$4,664M	$6,475M	22.8%	18.3%	18.1%
Argentina	$3,550M	$3,818M	$5,962M	47.3%	43.9%	41.6%
Other	$665M	$889M	$1,255M	7.5%	13.2%	14.0%
Total	**$15,107M**	**$20,777M**	**$28,893M**	**28.4%**	**23.7%**	**20.4%**

The consolidated 20.4% blends four different stories. Brazil has collapsed: 1,010 basis points of margin gone in two years. Argentina is still throwing off 41.6%, the highest in the group by a wide gap, although it too is compressing (570 basis points over the same span). Mexico has stabilized in the high teens. Other Countries inflected positive off a low base. Argentina's high-margin revenue grew fastest in FY2025 (+56%), which means Argentina is mixing the consolidated number up and the underlying Brazil-and-Mexico operating compression is somewhat worse than the headline suggests. Consolidated operating margin fell from a 14.6% peak in FY2023 to 11.1% in FY2025.

Brazil revenue grew $3,795M FY24 to FY25, up 33.3%; Brazil segment costs grew roughly $3,985M, up about 43.8%. Costs outran revenue by roughly five points, which is why direct contribution dollars in Brazil actually fell about $211M despite 33% revenue growth. The 10-K breaks that cost rise into three lines:

Brazil cost line	FY24→FY25 rise	Share of revenue-growth increment
Cost of net revenues	+$2,535M	67%
Provision for doubtful accounts	+$873M	23%
Sales & marketing	+$577M	15%
Total Brazil cost rise	**~$3,985M**	**~105%** of $3,795M revenue rise

Three different cost forces stacked. The cost-of-revenue line reflects the lowering of the Brazil free-shipping threshold from BRL 79 to BRL 19 alongside 1P inventory expansion. The provisions line tracks the credit book scaling from roughly $5 billion two years ago to $14.6 billion at Q1 2026. The sales-and-marketing line sits inside a wider intensification (consolidated Sales & Marketing up 47% to $3,219M). Each line carries a different signal about the long-term shape of the cost base. We'll cover each in subsequent sections.

Scale, growth and the corporate substrate

The margin compression is happening on top of a business still growing very fast. Six numbers worth remembering:

- **Gross merchandise value:** $65.0 billion in FY2025, up 26% year-over-year
- **Total payment volume:** $277.8 billion in FY2025, up 41% year-over-year
- **Items sold:** 2.43 billion in FY2025, up 36% year-over-year
- **Unique active buyers:** 121 million in FY2025, up 21% year-over-year
- **Fintech monthly active users:** 78 million in FY2025, up 28% year-over-year
- **Credit portfolio:** grew from roughly $9.0 billion at year-end FY2025 to $14.6 billion by Q1 2026

Items sold are growing faster than GMV, which means average order value is falling: MELI is converting itself from an occasional big-ticket marketplace into an everyday-purchase platform, smaller orders more often. That is the shift the free-shipping-threshold cut was designed to produce.

Industry & Market Context

Latin America is the fastest-growing e-commerce region in the world and one of the least penetrated. The platform competes simultaneously across four reinforcing markets: e-commerce, digital payments, consumer and merchant credit, and retail-media advertising. Each has its own size, growth rate and competitor set. Sizing them separately matters, because the addressable opportunity any single-market view captures is a fraction of the real one.

The four markets, sized

LatAm e-commerce generated approximately $191 billion of gross merchandise value in 2025, growing around 12%, the fastest of any region globally. Brazil leads at roughly $78 billion, Argentina sits at about $20 billion, and Mexico spans a wider estimate range of approximately $50–65 billion (the two leading sell-side estimates for Mexico do not reconcile, which is itself a useful reminder that LatAm e-commerce sizing is genuinely imprecise. Amazon and Shopee do not disclose regional GMV, so every figure here is a triangulated estimate). Digital payments is the second market, and it has crossed into the mainstream: digital methods now account for around 60% of LatAm consumer spending, and Brazil's Pix rail alone processed an estimated 69 billion transactions in 2024 and brought more than 70 million previously unbanked Brazilians into the formal financial system. Consumer and merchant credit is the third: a LatAm fintech market estimated at roughly $15 billion in revenue and growing in the mid-teens annually, and structurally the most under-penetrated of the four given the region's thin consumer-credit history and historically under-served small and mid-sized merchants. Retail-media advertising, paid placement attached to commerce (the playbook Amazon and Walmart have proven globally), is the fourth: nascent in LatAm, but with mature retail-media businesses globally running at low-to-mid single digits of GMV versus around 2% at MELI today, the category itself has years of structural runway in the region.

The penetration runway

Roughly 11 of every 100 dollars LatAm consumers spend goes through e-commerce, against 17 in the United States, 13 in Western Europe, 13 in Japan, and 53 in China.

Region	E-commerce penetration of retail, 2025
China	~53%
United States	~17%
Western Europe	~13%
Japan	~13%
Latin America	**~11%**
India	~10%
Middle East & Africa	~5%

LatAm e-commerce penetration sits around two-thirds of US levels, leaving meaningful (if not enormous) room to compound. The underlying enablers, smartphone adoption outpacing bank-branch infrastructure, real-time payment rails like Pix and SPEI, logistics build-out, a young and urbanizing population of 650 million-plus, are all in place and accelerating. Even at modest convergence rates, the LatAm e-commerce GMV pool expands materially over the next decade, before MercadoLibre gains a single point of share. eMarketer projects Mexico specifically to cross 20% penetration by 2029, one of only six countries in the world expected to do so, with

the other major LatAm markets continuing to compound from their current bases. This is a secular, multi-year process driven by independent enabling forces.

Market structure: consolidated at the top, fragmenting at the entry layer

LatAm e-commerce is moderately consolidated at the gross-merchandise-value level and clearly MELI-led. The platform holds an estimated 37–41% of regional GMV, with a near-monopoly in Argentina at roughly 58–60%, clear leadership in Brazil at 42%, and the #1 position in Mexico at 33% (ahead of Amazon's 22% and with the omnichannel incumbents trailing). The geographic mix matters because the competitive picture differs sharply by market.

Market	MELI share	#2	#2 share	#3	Structural read
Brazil	42%	Shopee	~20%	Amazon ~10%	Contested 3-way + omnichannel incumbents
Mexico	33%	Amazon	~22%	Walmex / Liverpool	Effective duopoly with incumbent omnichannel retailers
Argentina	~58–60%	none at scale	,	,	Near-monopoly; cross-border entrants emerging

But the structure is dynamic, not stable, and the reason is a structural feature we will refer to throughout this report: asymmetric entry barriers. Standing up a third-party marketplace is genuinely cheap. The company's own 10-K acknowledges that barriers to entry for large, well-established technology companies are relatively low. Commercial software plus capital for shipping subsidies and seller acquisition is enough to launch, and Shopee, Amazon, Temu, Shein and TikTok Shop have all crossed that threshold. The layers above the marketplace, though, are extremely expensive and slow to build: a dense owned logistics network, a payments rail processing every marketplace transaction, a proprietary credit-data engine, a retail-media business. They take years of accumulated transaction volume to justify, and they only compound when all are present.

The implication is that competition at the cheap layer is permanent: the entry barrier doesn't exist there, so well-funded challengers will keep arriving. Brazil is the live example: Shopee went from a standing start in 2019 to roughly 20% of Brazilian GMV in six years, and it is now ahead of MELI on order volume and app sessions (6.2 billion versus 5.0 billion in early 2026). That is what permanent well-funded entry at the cheap layer looks like.

But persistent entry at the cheap layer is not the same as a market that never stabilizes. Large e-commerce markets historically settle with two or three players sharing the market at scale, Amazon plus Walmart in the United States; Alibaba, JD and Pinduoduo in China; Coupang reaching profitable scale in Korea, with the leaders defending through the expensive layers above the marketplace (logistics, payments, credit, advertising) while challengers keep arriving

at the cheap layer below. The settled structure is rational, not quiet: profitable for the top players, but with the leader having to keep investing in the expensive layers to maintain its position. We expect LatAm to follow that pattern: MELI plus Shopee in Brazil; MELI plus Amazon in Mexico; MELI dominant in Argentina; the top players reaching mature, profitable scale, but never coasting.

The competitor set

Four competitor sets matter, and they look very different from one another. Shopee is the live structural threat. It targets value-oriented consumers with aggressive shipping subsidies and gamified discovery, and roughly 90% of its Brazilian assortment is local sellers rather than cross-border: it operates as a genuine 3P marketplace, not a Chinese import channel. The most important industry-level finding of this research, confirmed against Sea Limited's own primary filings, is that Shopee's Brazil operation is profitable and has been for several consecutive quarters. Equally important, Sea is reinvesting its rising take rate (12.3% to 13.7% over five recent quarters) into building exactly the same integrated stack MELI built: owned fulfillment, a Brazilian loan book that has crossed $1 billion with its own credit license and grown more than 250% year-on-year, and a loyalty program. So the contest is not MELI versus a price-cutter who will eventually retreat. It is two committed ecosystem builders racing to reinvest into the same opportunity. We refer to this throughout the report as a mutual reinvestment race. The framing matters because it tells us competitive intensity is structural and durable, not a phase that resolves with the #2 player running out of money.

Amazon is the slower-burn threat. It is #3 in Brazil at around 10% and #2 in Mexico at roughly 22%, differentiating on logistics speed, Prime, and a heavier 1P mix in electronics and books. Infinite capital, world-class logistics know-how, and minimal LatAm fintech presence: a long-term competitor, not an acute one, and tellingly still sub-scale after years in the region, which is itself evidence that the integrated-stack barrier is genuinely high. Temu, Shein and TikTok Shop attack the low-ticket, price-sensitive entry layer with cross-border 3P and social-commerce models. Real at the margin, particularly in Mexico and post-import-liberalisation Argentina, and TikTok Shop's pursuit of a Brazilian fintech license is the one to watch: if successful, it would replicate part of MELI's integration logic. The traditional omnichannel retailers (Magazine Luiza and Casas Bahia in Brazil; Walmex, Liverpool and Coppel in Mexico) have mostly been losing share in pure e-commerce, though Walmex retains a genuine omnichannel-grocery position MELI does not directly contest.

The fintech competitive set is a different game entirely. Mercado Pago competes against Nubank, incumbent banks, payment specialists and, structurally, Pix itself, the free central-bank rail. LatAm fintech is a financial-inclusion land-grab with multiple well-capitalized winners; it is not winner-takes-all in the way the marketplace layer trends. Mercado Pago's structural edge is embeddedness across the wider platform; Nubank's is finance-first scale. Both can win, and the market is large enough to accommodate them.

Tailwinds, headwinds, and the open question

Four secular tailwinds carry the industry forward: the penetration runway, the cash-to-digital shift driven by Pix, SPEI and other real-time payment rails, favorable demographics and connectivity, and the structural expansion of retail media as a category in its own right. Four headwinds counterbalance them. Competitive intensity is the central one. Macro and currency volatility is the permanent operating reality of doing business in LatAm. Industry-level regulation

is intensifying. Brazil's central bank has been raising capital requirements for payment institutions, and cross-border import rules continue to shift, though on net fintech regulation in the region has been enabling, since it created the licensing regimes platforms like Mercado Pago operate under. The open question is whether LatAm e-commerce settles into a rational duopoly at maturity (the historical pattern in other large markets) or stays in permanent high-intensity contestation. Our base case is the former, with the caveat that the cheap entry layer remains permanently open to new well-funded challengers.

Competitive Moat

The Five-Pillar Flywheel

The moat is the integration itself. We call it the Five-Pillar Flywheel: an integrated ecosystem (Pillar 1), logistics network density (Pillar 2), a proprietary credit-data engine (Pillar 3), two-sided marketplace liquidity (Pillar 4), and the "ecosystemic user" (Pillar 5). Each pillar is the input to the next, which makes the system multiplicative rather than additive. A competitor that wants to copy MELI faces an organizational-form problem, not a strategy problem. And MELI is currently consuming margin to widen the system: the lowered Brazilian free-shipping threshold, the bigger credit book, the heavier logistics build. The chapter's job is to lay out what is being purchased.

Pillar 1: The Integrated Ecosystem

MELI competes in four arenas at once: e-commerce marketplace, digital payments and acquiring, consumer and merchant credit, and digital advertising. No competitor of comparable scale operates in all four. Shopee is a marketplace with a nascent fintech. Amazon is a marketplace with logistics and a thin LatAm fintech presence. Nubank is a fintech-and-credit operator with 114.7M customers but no marketplace. Each rival is structurally specialized; MELI is structurally integrated.

Arena	Primary competitors	Where it matters most
E-commerce marketplace	Shopee, Amazon, Magazine Luiza, TikTok Shop, Temu, Shein, Walmex	Brazil (most contested), Mexico (duopoly), Argentina (dominant)
Digital payments and acquiring	Nubank, Itaú, Bradesco, PagBank, Stone, Pix (the rail itself)	Brazil, Mexico, Argentina
Consumer and merchant credit	Nubank, incumbent banks, retailer credit arms	Brazil, Mexico, Argentina, Chile
Digital advertising / retail media	Google, Meta, Amazon Ads, TikTok	Region-wide

The arenas link together in a specific sequence. Marketplace volume funds the logistics build; logistics density then makes the marketplace faster and economic on small-ticket orders, generating more volume. Mercado Pago captures every on-marketplace transaction by construction: when a buyer pays for any item on the Marketplace, the payment routes through Mercado Pago by design, because buyers cannot pay with a competing method on MELI's own platform. That structurally-guaranteed volume funds the off-marketplace acquiring business that has had to win merchants on its own merits ($188.1bn of off-marketplace TPV in FY2025). The combined marketplace-sales and payments data underwrites credit; credit and the digital account raise the cost of leaving; the high-intent audience monetizes through advertising at high incremental margin, with the MELI+ loyalty program bundling shipping, cashback, and streaming on top.

A competitor attacking one spoke is fighting the economics of the whole system. A half-ecosystem produces no flywheel: the value only shows up when every layer is in place, which is a multi-year, multi-billion-dollar undertaking with nothing to show for it until the final piece slots in.

Pillar 2: Logistics Network Density

Mercado Envios now ships almost every item sold on the Marketplace. The company stopped disclosing the "items shipped" metric in the FY2025 10-K because the figure had effectively converged with the 2.43 billion items sold that year. Full logistics penetration of a $65bn-GMV marketplace is a position Amazon took two decades and tens of billions of dollars to build in the US, and no LatAm competitor is close.

The gap is most concrete in Brazil, the most contested market:

Brazil logistics metric	MELI	Amazon	Shopee
Fulfillment centers	28 (42 planned by end-2026)	12	5
Leased area (m^2)	~2.5m	~0.6m	~1.1m
Pre-leased space (m^2)	+273k	+12k	+46k
90km fulfillment coverage of GDP	44.6%	35.7%	27.1%
90km fulfillment coverage of population	32.4%	28.0%	20.4%

The numbers translate into something specific for a Brazilian consumer placing an order. Roughly twice as many fulfillment centers as Amazon and more than five times as many as Shopee means shorter average distance to the customer, which means faster delivery. Greater leased area and denser coverage means fewer bottlenecks at peak demand. Lower cost per parcel means MELI can economically ship a low-ticket item a sub-scale competitor cannot. The BRL 79-to-BRL 19 cut in the Brazilian free-shipping threshold in 2025 only works because the density is already there to absorb it. Q1 2026 management commentary confirmed that "cost per order continues to improve" and that "free shipping penetration reached a new record" with faster deliveries: unit economics are improving even as the company subsidizes more shipping. That is the Scaled-Economies-Shared (SES) mechanism at work. SES is the Costco and Amazon Prime playbook: instead of banking scale advantages as margin, you pass them back to the customer in lower prices or cheaper shipping. Done well, it deepens loyalty and widens the cost gap to smaller competitors, compounding the moat over time.

The hardest barrier to entry is replication cost measured in time and volume, not capital alone. Building a competing logistics network requires accumulated marketplace volume. Fulfilment-center density becomes economic only when there is enough volume to fill it, and that volume is itself a function of marketplace leadership. A challenger with infinite capital still cannot buy the years of operating history that justify MELI's density. Capex has stepped from $509M in FY2023 to $1,327M in FY2025 without breaking the unit economics, and MELI is widening the lead in absolute terms while the volume base that funds it keeps growing.

There is a sharper way to read what MELI is doing with this advantage: it is weaponizing its scale, using a volume density no rival can match to drive cost-to-serve down and free shipping wider, forcing competitors either to match (and absorb the cost) or to cede the cheap, high-frequency layer of the funnel. On this reading the FY2025 Brazil margin compression is MELI dictating the terms of the fight on a cost structure rivals cannot sustain. The honest qualification (developed in the durability section below) is that Shopee is profitable enough in Brazil to keep matching, so the spend is offensive but the response is sustainable.

Pillar 3: The Proprietary Credit-Data Engine

The credit pillar splits cleanly into two parts: a hard moat on merchants, a softer-but-real moat on consumers. Conflating the two is the central analytical error in most MELI write-ups, and the distinction matters for reading the compression in NIMAL (net interest margin after losses: the interest MELI earns on the credit book minus the losses from defaults, expressed as a percentage of the book; net profitability per dollar of credit after bad loans).

The merchant-credit moat is structurally unique. The 10-K describes the mechanism directly: "Because our online merchants' business flows through Mercado Pago, we are able to collect principal and interest payments from their existing sales on Mercado Libre's Marketplace, meaningfully reducing the risk of uncollectability on the loans we originate to our merchants." Put plainly, MELI deducts loan repayments at source from the merchant's incoming marketplace sales. A standalone lender cannot replicate that. Nubank has the bank data but does not see the marketplace cash flow. Shopee can build a Brazilian credit book on open-banking data, which it is doing, but cannot intercept the Mercado Pago payment stream. The longer the merchant trades on the Marketplace, the deeper the data and the safer the loan.

The consumer-credit moat is real but contested. For consumer cards and lines of credit, the marketplace-cash-flow intercept does not apply. Nubank's 114.7M-customer dataset competes credibly on data and distribution; Brazilian and Mexican banks compete on price; the LatAm consumer-credit market is large enough to support several profitable players. What MELI retains is genuine but narrower: Mercado Pago carries multi-year payment-behavior data on each customer, and the Marketplace contributes purchase history. That combined dataset gives MELI better risk discrimination than a pure-fintech entrant, just not the uniquely defensible edge it has on merchants. The framing that does the work: hard moat on merchants, softer-but-real moat on consumers. MELI does not need a uniquely defensible consumer-credit moat to make the credit card profitable. The company needs to be as good as the banks and Nubank on underwriting, which the data gives it, with better ecosystem-embedded distribution, which the rest of the flywheel gives it.

NIMAL has compressed sharply, from 36.2% in FY2023 to 28.2% in FY2024 to 22.4% in FY2025. The instinct is to read this as underwriting deteriorating. The composition tells a different story. The credit book grew to $14.6bn by Q1 2026, up 87% year-on-year, with the credit-card sub-book at $6.6bn and credit-card TPV growing 90% year-on-year. The credit card is consumer lending, and the fastest-growing piece of the book. So the average yield is mechanically dragged toward the lower-yielding consumer-card line, even with stable underwriting on each cohort. NIMAL is falling because the mix is shifting. The merchant pillar is unchanged.

Pillar 4: Two-Sided Marketplace Liquidity

The classic e-commerce network effect. 121M unique active buyers and millions of sellers produce the largest assortment in the region; the largest assortment attracts the most buyers, which attracts the most sellers. The effect is strongest where share is highest. In Argentina, where MELI sits at roughly 58–60% share, the company is functionally the default e-commerce destination. In Mexico the same dynamic supports the duopoly with Amazon. In Brazil the dynamic has been tested, and that is where the nuance lives.

Sell side analyst data shows Shopee at 6,193M Brazilian app sessions in Q1 2026 against MELI's 4,984M, and bear-case commentary suggests Shopee has overtaken MELI on Brazilian order volume even though MELI retains 42% GMV share to Shopee's ~20%. Network effects in a

marketplace come partly from transaction count (more transactions, more reviews, more habit) and partly from GMV. Shopee has caught up on the habit layer while still trailing on the value layer. MELI's response, lowering the free-shipping threshold and pushing into low-ticket everyday categories, is an explicit attempt to defend the count layer alongside the value layer.

The standard objection to network-effect moats is market-specificity: a Brazilian network effect does not automatically protect Mexico. That is true but understates the barrier. Replicating MELI's flywheel in any single market is the same replication-cost-in-time-and-volume problem we saw in logistics. Shopee has spent roughly six years and substantial capital to reach ~20% GMV share in Brazil. Mounting an equivalent campaign market-by-market against MELI's duopoly position in Mexico and near-monopoly in Argentina is implausible on any reasonable timeframe.

Pillar 5: The Ecosystemic User

Pillar 5 is the ecosystemic user (defined in the company overview). The strategic point in moat terms is that this is the layer where behavioral lock-in actually lives, and the infrastructure for manufacturing more ecosystemic users is MELI+ and the Mercado Pago digital account.

The infrastructure is the MELI+ loyalty program and the Mercado Pago digital account. MELI+ bundles shipping benefits, cashback, instalments, and at higher tiers Disney+, Netflix, HBO Max, Apple TV+, Paramount+. The digital account adds debit and credit cards, asset-management products paying above-bank yields, savings, insurance, and crypto. A user whose salary balance earns a return inside Mercado Pago, whose credit card is a Mercado Pago card, and whose loan repayment is automatic from Mercado Pago flow faces real friction leaving.

The company does not disclose a clean retention rate, so the pillar is evidenced by direction-of-travel metrics. Fintech monthly active users grew from 46M in FY2023 to 78M in FY2025, a 28% year-on-year rate that outpaced the +21% growth in marketplace buyers. Q1 2026 alone saw 2.7M credit cards issued, and assets under management in the digital account grew 77% year-on-year, evidence that users are leaving balances inside Mercado Pago for the yield rather than sweeping them out to a bank.

Why the System Is More Durable Than Its Parts

Each pillar is the input to the next, which is why we keep using the word multiplicative. Marketplace volume makes owned logistics economic; owned logistics makes the marketplace faster, driving more volume; payments capture every transaction by construction; the transaction data underwrites the credit; the audience monetizes through advertising at near-zero incremental capital; the loyalty program raises the cost of leaving any single piece, feeding repeat volume back to the top. This is why MELI's revenue grew 39% in FY2025 while buyer count grew 21%: monetization per user is compounding as the layers reinforce. A competitor attacking one spoke is fighting the whole system's economics, not one product line.

Durability by Geography

The moat is not uniformly distributed across MELI's footprint. The honest verdict varies materially by market.

Brazil deserves the closest reading because that is where the bull and bear cases meet. The careful distinction: the battleground is contested, while the structural competitive advantage itself remains intact. The logistics gap holds. The merchant-credit advantage is unique. The

ecosystem integration is still ahead. What is being contested is the day-to-day intensity of the fight, while MELI's structural position remains real and large.

The mutual reinvestment race established in the Industry chapter has direct moat implications. With Shopee now confirmed profitable in Brazil and methodically building its own integrated stack, the comfortable bull reading (that Shopee will eventually bleed out and retrench) is closed. The durability question becomes whether MELI's flywheel out-compounds Shopee's parallel build. The finding carries two implications worth naming clearly.

The first is that the Sea filings cut in two directions across this report. Read one way, they strengthen the bear case: competitive intensity in Brazil is structurally durable because the challenger is profitable, disciplined, and going to stay in the ring. Read the other way, they support the bull thesis here that LatAm e-commerce settles into a rational duopoly at maturity (the pattern large e-commerce markets have followed elsewhere: Amazon plus Walmart in the US, Alibaba plus JD plus Pinduoduo in China, Coupang and Naver in Korea). The expectation is that LatAm follows the same path, with MELI plus Shopee in Brazil and MELI plus Amazon in Mexico competing but both reaching mature profitable scale.

The second implication is structural. MELI's segment-level direct-contribution margins (Brazil 13.7%, Mexico 18.1%, Argentina 41.6% in FY2025) are already meaningfully larger than Shopee's group-level adjusted-EBITDA margin (~0.6% of GMV in Q1 2026). MELI's scale advantage in Brazil (the ~2.3x Amazon and ~5.6x Shopee fulfillment-center count, the unique merchant-credit intercept, the $188.1bn off-marketplace acquiring base) means MELI can operate profitably at a cost base Shopee cannot match without years of additional volume build. The structural-reset bear case does not produce a "MELI margins collapse to Shopee's group level" floor. The case it produces is "Brazil margins recover above the current 13.7% low but below the FY2023 23.8% peak", with the scale advantage doing the work.

One final qualifier on Shopee's fintech build, because that is the credible long-dated threat. Shopee can build a Brazilian consumer-credit business and a digital account that competes with Mercado Pago over the next three to seven years. What Shopee cannot easily replicate is the $188bn off-marketplace acquiring base, or the time-to-license advantage Mercado Pago's existing Brazilian footprint provides. If Shopee meaningfully erodes Mercado Pago's consumer-account share, the impact on MELI is material because consumer-credit TPV and NIMAL are large lines. The merchant pillar and the acquiring pillar hold either way.

The moat case rests on five reinforcing pillars and on the discipline with which MELI is currently choosing to consume margin to widen them.

Management & Capital Allocation

The defining capital allocation decision at Mercado Libre is the reinvestment cycle: the deliberate choice to spend down operating margin from a 14.6% peak in FY2023 to 11.1% in FY2025, and to triple capital expenditure from $509M to roughly $1,327M, to defend and extend the flywheel. While this chapter won't answer that directly, it will examine whether we can trust the team that made that decision.

A succession that demonstrates institutional depth

On January 1, 2026, founder Marcos Galperin handed the CEO role to Ariel Szarfsztejn after twenty-six years and stepped up to Executive Chairman. This is the first time MELI has not been founder-led at CEO level, and that fact earns serious attention. Three features argue the transition is evidence of institutional strength.

Szarfsztejn is a deep insider. He joined in 2017, ran Mercado Envios from 2018 to 2021, then ran Commerce from 2022 to 2025. The logistics network that anchors the moat is his work. So is the current Brazil investment cycle. The new CEO is the executive who personally built the asset under the most investor scrutiny.

Galperin has not departed. The proxy is explicit that he "remains actively engaged... contributing to the Company's long-term strategy, culture, product development, capital allocation, and innovation agenda." He still holds approximately 7.0% of the company economically through the Galperin Trust, an interest worth several billion dollars at the current share price. The founder has billions of his own money on the line and a board seat from which to defend the capital-allocation philosophy he wrote.

The senior team is intact: CFO Martín de los Santos, Fintech President Osvaldo Giménez, and COO Daniel Rabinovich are all in place. A company that can hand over the founder-CEO role mid-investment-cycle with the senior team intact is showing that the system and the culture, not one person, are the durable thing. The caveat that the transition is untested through a full cycle is real but secondary.

The executives who built the business still run it

The pattern is rare at a $79bn-market-cap company. The pieces of the business under the most investor scrutiny, the credit book and the logistics network, are run by the people who built them. The CFO who has to defend the loan portfolio is the executive who underwrote it; the CEO who has to defend the logistics spend is the executive who designed it.

Incentive alignment: strong, by an unusual mechanism

Performance-based compensation runs at roughly 95.5% of CEO target pay and 84.4% of NEO target pay. FY2025 actual total pay was modest for the company's scale: Galperin $13.1M, Giménez $5.1M, Rabinovich $4.9M, Szarfsztejn $4.3M, de los Santos $2.9M, at a roughly $79bn market cap, $29bn revenue company. There are no tax gross-ups, executives are barred from shorting MELI stock, and there is a clawback policy and an annual Say-on-Pay vote.

The structural feature to understand is that the Long-Term Retention Program, the dominant component of pay, is cash, not equity. Award values are referenced to MELI's share price, so realized pay tracks the stock directly: a sustained 30% share-price decline cuts an executive's actual cash by close to that amount. The alignment is real. But the LTRP is share-price-linked

phantom equity, not stock ownership, which is why all directors and officers as a group hold less than 1% of shares. The real ownership alignment is Galperin's 7% Trust stake. MELI's executives, other than the founder, are not large equity owners by design. They are paid to make the share price compound. Galperin is the owner.

One disclosure gap: the proxy describes annual bonus metrics only as "company financial results and strategic goals" and names no specific return-on-capital target. For a company in a heavy reinvestment cycle, the absence of a disclosed return metric is a real, if common, gap. It does not change the alignment verdict.

The philosophy, earned

The 10-K language is the clearest statement of the operating model: "it is our policy not to provide earnings guidance in the traditional sense... we seek to make decisions focused primarily on the long-term welfare of our Company... A long-term focus may make it more difficult for industry analysts and the market to evaluate the value of our Company."

That is a Bezos-style stance. It is also the kind of language that can be a shield against accountability when the track record is thin. For MELI, the track record is the answer. Revenue has compounded roughly 120x in US dollar terms over fifteen years, almost entirely organically. No destructive M&A. No EPS management. No empire-building. The philosophy produced the leading position in every market that matters. We take it on its own terms.

Reinvest everything, organically

Every dollar of free cash flow goes back into the business. No dividend has ever been paid, there is no meaningful share-buyback program, and cash acquisitions over five years total a rounding error. Shareholder yield is approximately zero by design. The entire return case rests on reinvestment compounding, the approach Amazon has used for two decades. It is the right approach when management genuinely believes the internal reinvestment opportunity out-earns returning cash. On MELI's twenty-six-year track record, that belief has been correct.

The reinvestment cycle as the character test

The management chapters of our deep dives usually evaluates character through a meaningful M&A transaction. MELI does not give us one. The defining capital decision is instead the choice in front of investors today: spend down operating margin and triple capex to defend Brazil and extend Mexico, against Shopee on one flank and Amazon on the other.

The decision has the shape of every MELI capital decision before it. Organic, not acquired. Into the core flywheel, not into adjacencies. Funded from operating cash flow, not from leverage or equity issuance. Disclosed transparently and described in plain language on the earnings calls. No balance-sheet engineering. The team making this decision is the team that has been making this same shape of decision, at smaller scale, for twenty-six years.

The four warning signs that justify distrust of a heavy-reinvestment story are absent. Empire-building M&A: none. EPS management: the company refuses to provide quarterly guidance and has accepted material margin compression to fund the build. Related-party leakage: the proxy records none in fiscal 2025. Lavish pay: a $13.1M CEO package at a $29bn-revenue company is not high relative to peers. Each box is checked.

Returns on capital, with two adjustments

Headline returns are strong: return on equity in the high-twenties to low-thirties percent range across FY2023 to FY2025, a normalized return on invested capital of approximately 20%, and free cash flow at 5.4x net income in FY2025. Each headline carries a caveat.

ROE is flattered by an artificially small denominator. Currency depreciation against the dollar flows through other comprehensive income (OCI), suppressing cumulative book equity well below cumulative earnings. The return on capital actually deployed is strong, but not 40%-plus strong.

FCF at 5.4x net income is structurally inflated by float. Mercado Pago and the credit book generate large customer balances and short-term liabilities that look like operating cash inflow but are really working capital tied to the lending and payments business. Adjusting brings the FCF figure much closer to net income. The Valuation chapter uses the cleaner number. Corporate leverage is modest in context: of roughly $9.9bn of debt at Q1 2026, the majority funds the credit book and payments float, not the equity.

Verdict

A deep, internally-grown management team with clean governance and twenty-six years of disciplined capital allocation is executing the largest reinvestment cycle in the company's history with the senior bench intact, the executives who built the assets under scrutiny still running them, and none of the warning signs of a distrustworthy heavy-reinvestment story present. The process has earned the benefit of the doubt. Whether the cycle compounds at the return the track record predicts is the question the next chapter, on growth, takes up.

Growth Opportunities

The growth question for MercadoLibre is not whether the runway exists. It obviously does, on top of the Latin American penetration gap the industry chapter laid out. The question is whether the growth MercadoLibre is manufacturing with its current margin investment is validated or aspirational, and whether the mix of vectors driving it adds up to a self-sustaining compounding machine. The clean articulation of the bull answer reduces to a single line: the scaled-economies-shared engine in shipping is widening the moat at current margin cost, and the advertising business is the high-margin layer growing into that cost base. Everything in this chapter is a vector-by-vector test of whether that line is true.

Every vector below rides on top of the structural backdrop. LatAm e-commerce ran at roughly $191 billion of gross merchandise value (the dollar value of goods sold on the platform, or GMV) in 2025, growing around 12% and sitting at only ~11% of retail spending against ~17% in the US and ~53% in China. That penetration gap expands the addressable market materially over the next decade even before MELI gains a single point of share, and it does so for reasons (smartphones, real-time payments, urbanization) that are independent of any one operator's decisions. This is the floor under everything else. The industry chapter sized it; the rest of this chapter is what MELI is doing on top of it.

Vector 1: The free-shipping engine

This is the largest single thing MercadoLibre is doing right now, and the most important thing to understand. Over the last twelve months the company cut the Brazilian free-shipping threshold from 79 Brazilian reais to 19, and items sold accelerated to +56% year-over-year in Q1 2026, more than double the quarterly pace before the cut. GMV grew about 40% in the same quarter. "Free shipping penetration reached a new record," management reported on the Q1 call, "and unit economics continue to improve with cost per order" still falling. A specific lever was pulled. A measurable response followed. Unit economics on the lever are getting better, not worse.

The right structural read of this vector, set out in detail in the Moat chapter, is the scaled-economies-shared (SES) engine: every quarter MELI lowers the threshold is a quarter Shopee, Amazon and Temu must either match (and absorb the cost without the same fulfillment density) or cede the low-ticket layer. The SES dynamic compounds for the leader because cost falls faster than the late challenger's can, even with the same playbook in principle, and the leader gets the most cycles of the loop.

The density advantage that makes the play economic is already in place, as the moat chapter laid out, MELI operates roughly 2.3 times Amazon's Brazil fulfillment-center count and 5.6 times Shopee's. The 56% items-sold growth, against ~40% GMV growth, says average order value is falling: MELI is converting itself from an occasional big-ticket destination into an everyday-purchase platform, smaller orders more often, exactly what the threshold cut was designed to produce. Management has stated that "several brackets within that range are already breaking even" on shipping economics.

There is a load-bearing caveat. This vector is the Brazil margin compression. The 56% items-sold growth and the collapse of Brazil's direct-contribution margin from 23.8% to 13.7% are the same event viewed from two sides. The company-overview chapter carried the arithmetic of that compression; the point to register here is that the engine of validated traction and the cost line that has alarmed the market are the same thing. The bull thesis on vector 1 is exactly that

this is the price of widening the moat, not evidence the moat is breaking. Shopee is profitable enough in Brazil to keep matching, as the moat and industry chapters established, which means the lever is not bleeding the competitor out, a real caveat. But the structural argument compounds anyway: at any given level of industry intensity, MELI's scale lead means its cost base sits below Shopee's, and that gap widens each turn of the SES loop.

Vector 2: Advertising, the margin-recovery layer

This is the second leg of the bull thesis, and the part of the model that pays the margin back. Mercado Ads is the retail-media business: paid placement on the marketplace plus display and video ads on and off platform, sold against the proprietary first-party data and high-intent audience the rest of the ecosystem generates. Revenue from advertising grew roughly +73% year-over-year in dollars in Q1 2026, with management describing Mercado Ads as the "fastest-growing player in the region, 4x the market in 2025." Advertising sits at about 2.4% of GMV today, against an estimated 2.0% a year earlier.

Retail media is a globally-proven, very-high-incremental-margin model. Amazon Ads is the analogue, having scaled from negligible to a $50bn-plus revenue stream over the same kind of audience MELI now has. The model commands roughly 70–80% EBIT margins at scale because the audience and the underwriting data are by-products of the marketplace, so the incremental cost of running the ad business is small. One sell-side estimate (worth taking as directional, since MELI does not break out Mercado Ads as a reported segment) put advertising at roughly 36% of consolidated EBIT in FY2025 at a 75% margin assumption. Even allowing meaningful uncertainty around the precise share, the order-of-magnitude point is real: this is already a large, very profitable line.

The trajectory is what makes this vector important for our thesis. The available long-range model on Mercado Ads is the path below:

MELI LatAm advertising	2021A	2023A	2025A	2027E	2029E
Ad revenue ($M)	251	710	1,544	3,265	5,527
As % of GMV	0.9%	1.6%	2.4%	3.3%	4.1%
MELI share of LatAm digital ad market	2%	4%	7%	11%	15%

Source: sell-side research. Carried for directional shape, not as company guidance. MELI does not break out Mercado Ads as a reported segment and provides no formal forecast.

The shape that matters: from 2.4% of GMV to 4.1% by 2029 on a GMV base that is itself compounding, with the forecast implying MELI's share of LatAm digital advertising rising from ~7% to ~15%. At ~70–80% EBIT margins, every incremental percentage point of monetization drops most of itself to operating profit. This is the a margin-recovery mechanism the bull case rests on: the reinvestment cycle (vector 1) builds the audience and engagement; the advertising layer monetizes it; margins recover not by cutting investment but by the high-margin layer growing into the cost base.

Vector 3: Credit and the largest-digital-bank ambition

This is the most exciting growth lever in the section and the most dangerous. The credit book reached $14.6 billion in Q1 2026, up 87% year-over-year, with the credit card the fastest-growing piece (about $6.6bn of the total). MercadoLibre issued 2.7 million credit cards in Q1 2026 alone; credit-card total payment volume (TPV, the dollars flowing through Mercado Pago) grew +90% year-over-year and credit-card monthly active users grew +68%. Assets under management in the digital account, the saving and money-market product paying yield on idle balances, grew +77% year-over-year. Fintech monthly active users reached about 82.9 million by Q1 2026.

Management is explicit about the endpoint. The Q1 call described the long-term objective as "becoming Latin America's largest digital bank, with our credit card as a central pillar." That is the largest-digital-bank ambition in named form, and the chapter treats it that way: a stated long-term aspiration, not a validated outcome. Nubank, with 114.7 million customers, is the incumbent for the title, and displacing it on customer count would take years even if traction continues.

Bank of America's research team has put a net-present value of roughly $40 billion on MELI's credit card alone if it scales as projected, equivalent to about half the company's entire market capitalization. We carry that figure illustratively, as one analyst's view of what the credit-card vector is worth if it works. It is a single sell-side estimate, not a triangulated number, and should be read in that spirit, especially against the risk treatment of the same book in the next chapter.

The vector is dangerous because it grows the balance sheet and the loss exposure together. The Moat chapter set out the underlying structure (a hard moat on merchant credit, a softer-but-real moat on consumer credit) and explained why the NIMAL compression from 36% to 22% over three years reflects mix-shift toward the lower-yielding credit card rather than per-cohort underwriting deterioration. The Risks chapter sizes the downside: how a Latin American consumer-credit downturn while the book is still young could materially impact provisions. The growth-side point for this chapter is that the traction is real and scaling, the strategic prize is large enough to motivate the spending, but the same characteristics that make the upside attractive (rapid book growth, mix-shift toward consumer credit) are exactly what concentrate the risk.

Vector 4: Ecosystemic-user cross-sell

This is the flywheel converting single-service users into multi-service ones, in real time. The Q1 2026 disclosure is the most direct evidence yet: "a meaningful share of [credit-]cardholders were previously marketplace-only users and are now active fintech users." That is the ecosystemic user mechanism (defined in the company overview chapter as a customer who uses both the Marketplace and Mercado Pago regularly, materially more retained and profitable than a single-service user) showing up as measurable cross-sell. The supporting numbers track the same direction: fintech monthly active users grew from 46 million in FY2023 to 78 million in FY2025 to about 82.9 million in Q1 2026, on a 28–29% year-over-year pace that outpaced marketplace buyer growth. The fintech base is catching up to the 121-million unique-active-buyer base.

The direction is evidenced. The magnitude is not cleanly disclosed: MELI does not publish a clean "ecosystemic user %" or the lifetime-value uplift, so the size of the lock-in effect must be inferred from the directional metrics rather than read off a single disclosure.

Vector 5: Geographic deepening, Mexico the standout

MELI dominates Argentina (~58–60% share) and leads in Brazil (42%, contested). Mexico is the under-fished pond: the company holds about 33% of e-commerce there, in a market with higher overall e-commerce penetration than Brazil's (~17%) growing roughly 21% per year. Mexico revenue grew +39% in FY2025, and on the Q1 2026 call management cited "acquiring TPV growing 25% in Brazil and 50% in Mexico." The proven playbook in a less-saturated market, in other words, is ramping fintech roughly twice as fast as the home market. "Other countries" (Colombia, Chile, Peru and others) generated $1,255M of FY2025 revenue, growing +41%, on a smaller base and from an earlier stage.

Conviction on Mexico sits at moderate: the playbook is proven, but Mexico is also where Amazon competes hardest (~22% share), so this is share-gain into a real fight rather than into a vacuum. Still, it is the cleanest "more of the proven playbook" vector in the section.

Vector 6: 1P and everyday categories

MELI is selectively expanding first-party inventory (where it owns the goods, rather than running them as third-party listings) and pushing into everyday low-ticket categories: groceries, pharmacy, CPG. Company commentary notes that 1P accounted for "eight of the top ten best-selling items during Black Friday in Brazil," evidence that 1P is working where deployed. The items-sold-growing-faster-than-GMV pattern (vector 1) is partly this: everyday low-ticket categories smaller and more frequent.

This is structurally a frequency play, not a margin play. 1P carries lower margins than 3P marketplace by construction because it adds cost of goods sold. The vector earns its place by raising purchase frequency, which feeds vectors 1 and 4: more frequent users densify the logistics network and convert into ecosystemic users faster. Treat it as an enabler of the other two vectors rather than a standalone profit driver.

LatAm e-commerce grew about 12% in 2025. MELI grew revenue 39.1% in FY2025 and re-accelerated to ~49% in Q1 2026. At most about a third of MELI's growth is the underlying market wave. The other ~25-plus percentage points are MELI-specific, share gains driven by the Scale Economies Shared engine, monetization deepening driven by advertising, and the faster-growing fintech and credit layer compounding on top.

That is higher-quality growth than a passive market beneficiary story. It also depends on continued share gains and monetization against a structurally competitive backdrop. Shopee's profitability and parallel ecosystem build in Brazil (covered in detail in the moat and risk chapters) close off the comfortable bull reading in which the competitor eventually retreats. Our base case assumes LatAm e-commerce settles into rational competition at maturity, with margins rationalizing above current Brazil lows but below the FY2023 peak.

Our read is that past growth is not exhausted. It has been replaced with a new, more capital-and-margin-intensive growth model deliberately engineered in late 2024 and 2025. The 2021–2023 drivers (post-COVID e-commerce surge, off-platform Mercado Pago expansion) had naturally decelerated; the FY2025 re-acceleration is driven by a threshold cut, credit-card push, advertising ramp and 1P expansion: vectors the company actively chose. That is the bull thesis on growth restated as a process claim: the runway is real, and the engine driving it is one MELI controls.

Risks

The bear case on MercadoLibre is not that Latin American e-commerce stops growing. It will keep growing. The bear case is that MELI's economics have permanently reset to a lower-margin, more capital-intensive, more credit-exposed business than the FY2023 peak suggested, and that the stock price still embeds something closer to the old peak than to the new equilibrium. This is what we will call the structural-reset thesis. It is more sophisticated than "the stock is overvalued" and more dangerous, because it does not require the company to break. It only requires the long-run margin to settle a few hundred basis points below where the bull case projects.

Risk 1: Margin permanence

Consolidated operating margin has fallen from a 14.6% peak in FY2023 to 11.1% in FY2025 to 6.9% in Q1 2026. Brazil direct contribution margin collapsed from 23.8% to 13.7% in two years, and Brazil direct contribution dollars fell roughly $211 million in FY2025 despite revenue growing 33%. The company has missed consensus EPS four quarters running, sales and marketing spend jumped 47%, and JPMorgan downgraded MELI to Neutral in March 2026 citing "competition persists, EBIT to miss consensus on margin weakness". Bulls and management call this a deliberate investment cycle. Bears call it a structural reset.

The bear's core claim is simple. The FY2023 14.6% peak was achieved before Shopee, Amazon, Temu, Shein and TikTok Shop had all fully arrived, and the new competitive environment is permanent. If that is right, MELI is not a 14% business taking a temporary breather; it is a 9–11% business that briefly over-earned, and bull and bear earnings power differ by roughly two-to-one on this single variable. Long-term margin settling at 10–11% rather than 13–14% is sufficient on its own to flip the verdict from material upside to roughly neutral. This is the version the market appears to be actively re-rating against.

The harder-to-refute variant is a compound one: margins stay depressed AND revenue growth fades through 2027 and 2028. If both happen at once, the spending was feeding a shrinking opportunity rather than widening the moat. The mitigating data point against this scenario is that most of the current margin compression is going into vectors that are clearly working (the lowered free-shipping threshold has produced items sold +56% in Q1 2026, the credit-card book has grown 87%, advertising revenue is up 73%) and Q1 2026 revenue grew 49% year-on-year. The growth side of the compound bear is not currently in the data. The margin-only version of the bear, however, remains live regardless.

Risk 2: The credit book (the highest-velocity risk)

The credit business is the part of MELI most capable of going wrong fastest. The portfolio reached $14.6 billion in Q1 2026, up 87% year-on-year, with the credit-card sub-book at $6.6 billion (+104%). Originations grew 61% in FY2025. The provision for doubtful accounts rose 66% to $3,091 million, now consuming 10.7% of revenue against 7.0% two years earlier.

NIMAL (net interest margin after losses: the interest MELI earns on the credit book minus losses from defaults, as a percentage of the book) has fallen from 36.2% to 22.4% over three years, and sell-side analysis suggests the trend continued into the high teens in Q1 2026. The 10-K itself flags the funding risk: MELI relies on "structured credit vehicles" with a "concentrated" profile, raising the risk of write-offs that "could negatively impact our liquidity". A 10% rise in

modeled probability-of-default would add roughly $99 million to the allowance, but that is mild stress; a real Brazilian or Mexican consumer-credit downturn on a book this young could drive provisions several hundred million higher.

Two points sharpen this. More granular cost-of-risk data shows the book is mix-shifting toward its weakest moat-protected product: credit cards run a cost of risk around 35–37%, against roughly 32% on online merchant loans where MELI's repayment-at-source mechanism gives it a structurally lower-risk position. The fastest-growing piece is the consumer card, the piece with the least defensible advantage. Second, the reported "NPL improvement since 2024" looks better than underlying credit quality alone justifies: MELI extended its write-off horizon in three steps between 2020 and 2021, from 90 days to 360 days. Stretching that window keeps delinquent loans on the books longer. The trend is real but partly policy maturation.

Mitigants are also genuine. MELI's provisioning is conservative: for every dollar of loans that are even one day past due, MELI has already set aside roughly a dollar in reserves against potential losses; for loans more than 90 days overdue, the company has set aside 140% of the loan value, well in excess of what a loss would require. That over-reserving is the company's buffer against a downturn surprising the existing book. Separately, the merchant-credit moat, repayment intercepted at source from marketplace cash flow, is structurally lower-risk than any standalone consumer-credit business; the catch is that the protection sits on the slowest-growing part of the book. The trigger to watch is rising LatAm unemployment or a currency shock while the credit-card book is still young and unseasoned; the falsification is NIMAL stabilizing as the existing cohorts season cleanly.

Risks 3: FX, macro and regulation

MELI's revenue is generated in BRL, MXN and ARS, Argentina is formally hyperinflationary (the official rate ended 2025 at 1,455 ARS to the dollar), total debt sits around $9.9 billion, and liabilities-to-assets runs near 84%. A sharp BRL or MXN move hits revenue, funding cost, book equity and credit losses in the same direction at the same time. On regulation, Brazil's central bank has raised payment-institution capital requirements to 10.5% from January 2025 and is rolling further rules through 2028, and pending Mexican and Argentine banking licenses will bring heavier prudential oversight if granted. The cleanest single number is in the 10-K's commitments note: reasonably-possible, unaccrued Brazilian tax exposure of up to $449 million in aggregate. Against an $84 billion market cap that is material but not existential.

Valuation

Method

We use a discounted-cash-flow model rather than a multiple-based valuation, because MELI's reported earnings sit on a deliberately depressed margin and its headline free cash flow is inflated by the Mercado Pago payments business. Mercado Pago and the credit book generate large customer balances and short-term liabilities that flow through working capital and look like cash flow, but are really working-capital float tied to the payments and lending businesses. FY2025 cash from operations was $12.1 billion against operating income of $3.2 billion; the gap is roughly $5.9 billion of float benefit. Float is real cash but it is not owner earnings, because it depends on the credit and payments book continuing to grow. We strip the float out and value the operating business on a normalized earnings spine, then add a conservative perpetuity value for the float income on top.

Cash flows are projected over five years, discounted at 9.5% (the long-term nominal total return on the S&P 500) and a terminal value is set by applying a mature EV/EBITDA multiple to year-five EBITDA. The terminal multiple is the most consequential single assumption in the model, so we anchor it to what the market actually pays for mature, high-quality compounders growing in the mid-teens. Microsoft, Amazon, Visa, Mastercard and similar businesses trade at 17 to 25 times EV/EBITDA at maturity. We use 18x as our central anchor, with 15x and 22x bracketing the defensible range either side.

Four scenarios

The four scenarios are not "everything better, everything worse". Each changes a specific set of operating assumptions with a specific narrative reason.

The bear case prices the structural-reset thesis. Brazil margin compression is permanent. Free-shipping economics and a well-funded Shopee force MELI to operate at materially lower industry margins than it earned at its FY2023 peak. Growth still compounds, because Latin American e-commerce penetration is genuinely low, but at a slowing pace, ending the explicit period at 15% and stepping down to a 3% long-term run-rate beyond the explicit period. Long-term operating margin settles at 9.0%. This is the bear's primary one-variable claim made concrete.

Our base case holds Brazil direct contribution margin recovering to roughly 15–17% by the final year, well below FY2023's 23.8% peak. Five-year compound annual revenue growth is about 25%, anchored to the recent run-rate decelerating along the pattern peers (Coupang, Sea and Amazon) showed when they crossed similar revenue scales. Long-term operating margin reaches 11.5%, below MELI's FY2023 peak but materially above the Q1 2026 trough, and below the level the rational-duopoly view would imply at maturity.

The moderate bull / optionality case is the same path but with Brazil duopoly recovery arriving faster: long-term operating margin reaches 13.5% rather than 11.5%, reflecting a regional market structure where MELI and Shopee both reach profitable scale on the analogue of how US, Chinese and Korean e-commerce matured. Growth holds at 25% long term. This is optionality on top of the base case, not the lead.

The bull case lets the moat-deepening investments compound through fully. The Scaled-Economies-Shared free-shipping engine drives sustained items-sold growth; Mercado Ads

scales to roughly 4.1% of GMV per the analyst forecasts, contributing 70-80% incremental EBIT margins; Brazil direct contribution margin recovers toward its FY2023 peak; the credit-card layer seasons cleanly. Five-year revenue CAGR runs around 33%, long-term operating margin reaches 17.5%, and terminal growth settles at 5%. This is the explicit modeling of the bull thesis, not aspirational hand-waving.

The matrix and what it shows

At our central 18x mature multiple, the four scenarios give:

Scenario	Per-share value	vs $1,664.42
Bear (9.0% long-term margin)	$1,983	+19%
Our base case (11.5%)	**$3,030**	**+82%**
Moderate bull / optionality (13.5%)	$3,589	+116%
Bull (17.5%)	$6,168	+271%

We stress-tested the matrix across the defensible mature-multiple range:

Scenario	At 15x	At 18x (central)	At 22x
Bear	$1,685 (+1%)	$1,983 (+19%)	$2,380 (+43%)
Our base case	$2,574 (+55%)	**$3,030 (+82%)**	$3,637 (+118%)
Moderate bull	$3,052 (+83%)	$3,589 (+116%)	$4,306 (+159%)
Bull	$5,236 (+215%)	$6,168 (+271%)	$7,410 (+345%)

The base case produces meaningful upside across the entire defensible mature-multiple range: between 55% and 118%. The bear sits between roughly flat and 43% upside across that range. The bull is a multi-bagger at any reasonable anchor.

Of course, one could argue that, tailwinds and moats notwithstanding, forecasting a 5-year revenue growth of around ~15% in a bear case is too optimistic and a genuine worst-case scenario, triggered by a black-swan type event, could see a negative long-term return for the stock. Especially, given the fact MELI operates exclusively in emerging markets.

The verdict

The market is pricing approximately bear-case fundamentals on a properly-calibrated base case. The implied-growth view says today's price assumes growth roughly six percentage points below our conservative base, on a path that is already running materially below the Q1 2026 actual. The implied-margin view says today's price assumes terminal margin recovery only halfway from the current trough to the FY2023 peak. We do not need the bull case to play out for the price to look low. We just need the conservative base case to be approximately right. We see material margin of safety in the base case, with optionality for multi-bagger returns if the bull case plays out, and contained downside even if the structural-reset thesis turns out to be right. This is the kind of risk-reward profile we look for as a core long-term holding, sized for a five-plus-year compounding emerging market case.

Investment Thesis

MercadoLibre is a high-quality compounder whose deliberate, growth-maintaining margin investment is being misread by the market as a structural reset. That misreading is the opportunity. We see material margin of safety against a conservatively-calibrated central case of mature-platform compounding, and optionality for multi-bagger returns if the bull case plays out.

Why this is a core compounder

The moat rests on the Five-Pillar Flywheel we mapped in the Moat chapter (integrated ecosystem, logistics density, credit-data engine, marketplace liquidity, ecosystemic user), whose value is multiplicative rather than additive. The logistics gap (roughly 2.3 times Amazon's Brazil count) and the merchant-credit intercept (uniquely defensible) are the load-bearing pieces. The ecosystemic user adds the behavioral lock-in: fintech monthly active users have grown from 46 million in FY2023 to roughly 83 million in Q1 2026, outpacing the marketplace.

Above the moat sits a free tailwind. Latin America runs at about 11% e-commerce penetration against 17% in the US and 53% in China. Convergence toward developed-market levels expands MELI's addressable market materially over the next decade before MELI gains a single point of share.

The combination, a structurally durable moat on top of a multi-decade penetration runway, run by a senior team where the executives who built the credit book and the logistics network still run them, is the textbook profile of a long-duration compounder. The 26-year track record makes the case. Revenue up 120x in dollars, almost entirely organic.

Where we disagree with the market

The market is pricing growth that is decelerating faster than we project AND margin recovery that stops well short of where comparable platforms settle at maturity. Both conditions would have to hold for the current price to be fair, and current data suggests neither is in motion.

Pull either condition out and the price looks low. We do not need both conditions to break. Either one breaks the price.

Conclusion

The case for MercadoLibre rests on three facts the market is undervaluing in combination. The platform compounds revenue at roughly 40% on a $29 billion base. It sits on a Latin American e-commerce penetration runway that materially expands its addressable market before it gains a single point of share. And it operates an integrated five-pillar flywheel of marketplace, payments, logistics, credit and advertising that no regional rival can replicate by writing a check. Management has spent down operating margin from 14.6% in 2023 to 11.1% in 2025 (with Q1 2026 at a 6.9% trough) to lower the Brazilian free-shipping threshold, scale the credit book, and build out fulfillment density. That spending is not a defense; it is a Scaled-Economies-Shared offensive, paid for by today's operating margin and to be recovered by tomorrow's high-incremental-margin advertising layer growing into the cost base. The market is pricing the spend as if growth is fading. Q1 2026 revenue accelerated to +49% year-over-year, with items sold growing +56%. The cost is visible. The compounding is visible. The bear case requires both, and only one is in the data.

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