What Won't Change

Recently, we have been asked how Eagle can invest with a five-to-ten-year view when things are changing so quickly. Fourteen years ago, Jeff Bezos had a counterintuitive answer along this theme:

I very frequently get the question, 'What's going to change in the next 10 years?' And that is an interesting question; it's a very common one. I almost never get the question, 'What's not going to change in the next 10 years?' And I submit to you that that second question is actually the more important of the two, because you can build a business strategy around the things that are stable in time...

In our retail business we know that customers want low prices, and I know that's going to be true ten years from now. They want fast delivery; they want vast selection. It's impossible to imagine a future ten years from now where a customer comes up to me and says, 'Jeff, I love Amazon, I just wish the prices were a little higher...I love Amazon, I just wish you delivered a little more slowly.' Impossible. So, the effort we put into spinning those things up, we know the energy we put into it today will still be paying dividends for our customers ten years from now.[1]

AI is advancing rapidly, established business models face new threats, geopolitical risks are ever-present, and stocks react to news more sharply than ever. Eagle incorporates new information and adjusts the portfolio when the facts warrant it. But our core approach is timeless: we analyze companies over a long horizon, anchoring on what is unlikely to change while looking for underappreciated change that is bending in our favor. Because humans tend to be impatient, we are able to find attractively priced investments by deploying this approach.

Companies built for the long term, like investors who think that way, accept short-term trade-offs that others won't. Over the past several quarters, we have built a position in MercadoLibre ("MELI"), a company whose strategy exemplifies this philosophy.

MercadoLibre

MercadoLibre operates Latin America's largest ecommerce business and second-largest fintech. The company's stated mission is to transform millions of lives by democratizing commerce and financial services in Latin America.

The marketplace is predominantly third-party ("3P"): merchants supply inventory and set prices, while MELI connects independent buyers and sellers and facilitates payments, fulfillment, and delivery. MercadoLibre resembles Amazon's marketplace but owns and sells less of the inventory itself. Mercado Pago, its fintech business, offers payments, merchant acquiring, credit, savings, and other financial services, aiming to become customers' primary financial relationship.

Brazil, Mexico, and Argentina account for approximately 95% of revenue. Over time, we expect smaller markets like Chile and Colombia to increase their contribution. MELI is the #1 ecommerce player in all of these countries.

Founded in 1999 by Marcos Galperin and several Stanford classmates, MELI has decades of experience. It runs the region's largest technology operation, with over 20,000 developers. While all of its markets are in Latin America, each country follows its own economic cycle, providing some diversification. The company is incorporated in Delaware, is listed on the Nasdaq, and follows U.S. accounting and disclosure rules. This governance structure brings transparency and accountability that most of its peers do not match.

To be sure, retail is intensely competitive, with incumbents and disruptors continually evolving their business models. MELI operates in emerging markets, which are more prone to political or economic crises. Consumer lending, even when executed well, exposes MELI to credit cycles. Over the past quarter-century, the company has successfully navigated a myriad of issues and will deal with more in the future.

Despite its scale, MELI continues to grow rapidly. Revenue has increased by at least 30% for 30 consecutive quarters, most recently up 50% year over year, bringing trailing annual revenue to approximately $35 billion. The opportunity remains large.

MELI is pursuing this opportunity by investing in the ecosystem. The company believes that continuing to improve the value proposition for all participants will change behavior, deepen engagement, and generate better economics and reinvestment opportunities. While signs point to the success of this strategy, the investments appear in the P&L today, while the benefits lie mostly in the future.

This approach has become an issue for the market, which is focused on the scale of the investment. We are instead focused on the scale of the opportunity. This mismatch has enabled us to become shareholders at an attractive entry price.

MELI's opportunity

Ecommerce penetration in Latin America is approximately 15% compared to almost 30% in the U.S. In the long term, we believe the region's penetration can catch and even surpass the U.S. Latin America's physical retailers generally have less extensive store networks and less developed digital operations, while lower labor costs can make shipping more affordable. With more than 600 million consumers across the region, most of whom don't yet use MELI, there is significant runway.

There is also a distinctive opportunity to bring consumers and merchants into digital accounts, payments, and credit. Many incumbents lack strong digital capabilities, which opens the door for MELI to build its own solutions.

Ecommerce marketplaces often develop a winner-takes-most structure because advantages reinforce one another. Assortment attracts buyers, whose spending attracts more sellers. Competitive prices and shipping encourage purchases, spreading fixed costs across greater volume and funding further improvements in value. Faster delivery increases frequency, creating a denser logistics network that can deliver faster at lower cost.

Fulfillment infrastructure makes this advantage hard to replicate. Via fulfillment, sellers place inventory in MELI's warehouses before a sale, giving MELI control over its location, availability, and delivery. Like Amazon in the U.S., MELI can offer delivery speeds for this inventory that independent sellers cannot match. Faster delivery improves conversion and inventory turnover, encouraging sellers to allocate more stock to the platform. Sellers have little incentive to fragment inventory across smaller platforms. Buyers follow the best selection and fastest shipping, reinforcing the advantage. A competitor can build warehouses, but attracting inventory and demand to fill them is much harder.

In the largest markets, Brazil and Mexico, MELI's 3P fulfillment scale is at least 4x greater than any competitor.

MELI's fintech emerged from this ecosystem approach. MELI originally built Mercado Pago to enable trusted payments on its marketplace. Processing these payments gave it merchant relationships and volume that helped it expand into handling the broader set of payments, known as merchant acquiring, for online and physical stores. Owning payments provided visibility into consumer and merchant cash flows, enabling lending. Mercado Pago is a core part of its users' lives. In the second quarter, it processed approximately 5.2 billion transactions, or 20 per user per month.

Commerce also gives MELI differentiated distribution for credit cards. This origination channel has low incremental acquisition costs. The company offers cards at checkout to existing customers and uses proprietary shopping and payment data to inform underwriting. Customers use the card because it is the most rewarding way to shop on the region's largest marketplace.

Why now: an investment cycle and competitive debates

Despite these advantages, the investment case has become controversial as MELI spends to accelerate growth. Winner-takes-most does not mean winner-takes-all. MELI competes with strong companies such as Amazon, Shopee, and TikTok Shop. This competition creates an urgency to improve customer relationships and scale at the expense of current earnings.

In Brazil, MELI is the #1 player in ecommerce, Shopee is a strong #2, and Amazon is a distant third. We expect MELI and Shopee to continue to account for most of the market's growth. In fintech, Nubank is the leader, with MELI a faster-growing #2. We expect both companies to take significant share from incumbents, with MELI continuing to close the gap over time because of its integrated commerce platform.

In Mexico, MELI is the #1 player in ecommerce, and Amazon is a solid #2. Amazon is helped by its adjacent U.S. fulfillment network. However, MELI is twice its size and has been growing at least as fast. On the fintech side, MELI andNubank are #1 and #2 respectively. Mexico is underbanked, and we expect both companies to build large businesses there, with MELI in the strongest position. More than 75% of consumer transactions are made in cash. MELI has placed more point-of-sale devices in Mexico than all incumbents combined and is laying the foundation for the digitization of its consumer economy.

MELI's position in Argentina is dominant, with limited competition from global players.

Management has previously embarked on major investment cycles. The company originally started as an eBay-like marketplace where sellers shipped directly to buyers. This was very profitable: back in 2013, operating margins were 33%. However, unlike eBay, the company recognized that it should build a logistics and fulfillment moat to head off eventual encroachment by Amazon and to build a broader offering. This investment cycle brought margins downto -7% by 2019, before they eventually recovered to 15% by 2023.

Since the current investment cycle began in mid-2025, MELI's stock has fallen 30%. Investors did not anticipate the magnitude of these investments. This stock price dislocation creates an opportunity for investors who believe the value creation is worth the short-term compression in earnings.

What is MELI spending on?

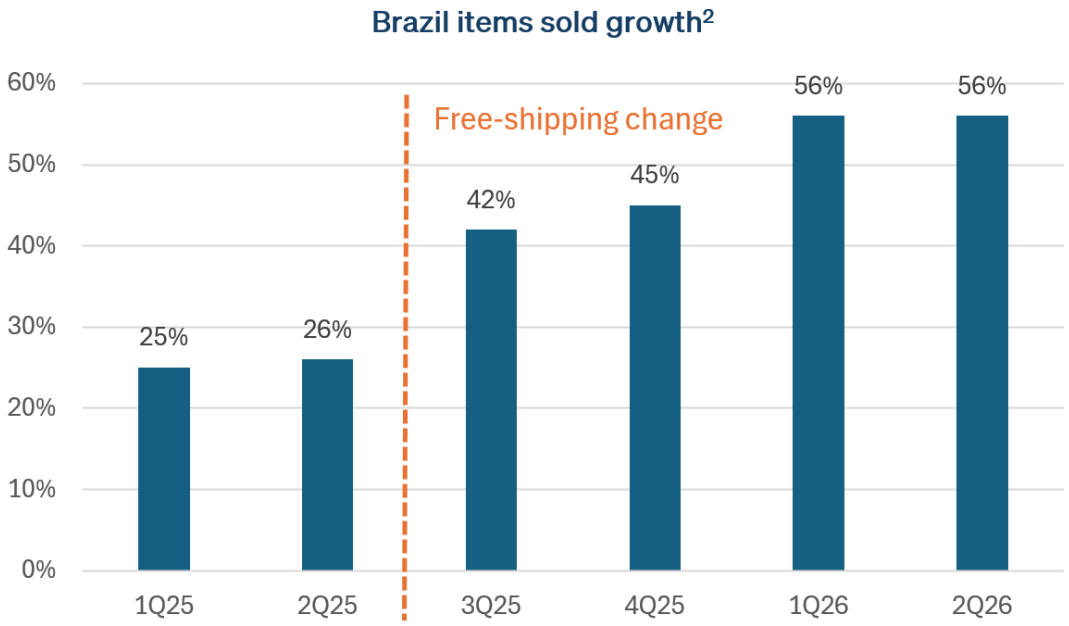
The current investments fall primarily into two areas. The first is improving the marketplace across fulfillment, assortment, loyalty, and affordability. For example, MELI lowered Brazil's free-shipping threshold from R$79 to R$19 and is improving pricing. These investments encourage everyday purchases and increase frequency. Higher volume absorbs logistics and technology costs, while greater engagement supports advertising revenue on the platform. But free shipping costs hit the P&L before these benefits are realized.

The second major investment is the credit card business. Under GAAP, MELI provisions for life-of-loan expected credit losses when card receivables are created, before the interest income associated with a mature customer relationship is recognized. Even a customer who initially pays in full can generate provision expense without revolving-interest income. Revolving balances take time to develop, so rapid issuance depresses reported earnings. As cohorts mature, revenue catches up with those upfront costs. The provision remains a real economic expense over time, but the timing dynamic makes current card economics not indicative of true earnings power in the credit card business.

What are the near-term results of these investments?

The business is accelerating. When a company enters an investment cycle, investors must ask whether it is offensive or defensive: defensive moves result in stabilization while offensive moves result in acceleration. There is already evidence of the latter.

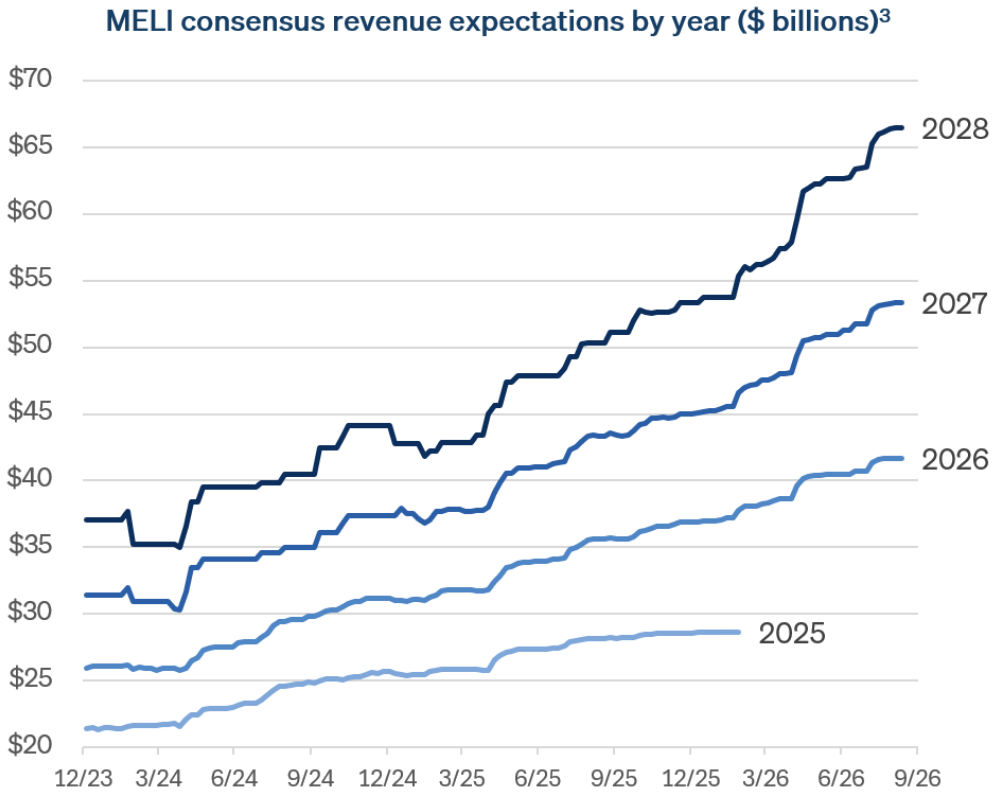
For example, after MELI lowered the free shipping threshold in Brazil, items sold accelerated significantly.



But the costs of these investments are having a large impact on the P&L relative to prior expectations. Since June 2025, consensus 2027 operating margin has fallen from 15.5% to 7.8%, and expected operating income has declined 35%.

Over the same period, consensus 2027 revenue has risen 30%, from $41 billion to $53 billion. That additional $12 billion expands the base on which MELI can eventually earn a normalized margin. MELI is the only company in the Nasdaq 100 to see an organic revenue revision of this magnitude that is not an AI capex beneficiary.

The market has persistently underestimated MELI's revenue opportunity in both its current businesses and new businesses, such as credit cards. This is the ecosystem at work. The chart below shows how consensus has consistently upgraded revenue expectations over the last few years. In the period covered by the chart below, 2028 revenue expectations have increased by 80%. Our internal forecasts are even higher than this.



What are the long-term results of these investments?

Our investment case is predicated on high topline growth and only moderate margin expansion, driven by scale and business maturity. Operating leverage is already visible in several expense lines, but MELI is reinvesting these savings. Current margins are akin to a beach ball held underwater.

MELI is generating operating leverage across expense lines such as product and technology development as well as general and administrative. It is also generating leverage in cost-of-revenue lines like collection fees and sales taxes as the fintech business grows as a share of revenue.

MELI is reinvesting in areas like shipping and logistics, selling its own inventory in strategic categories, the front-loaded credit card provisions previously discussed, and sales and marketing. Each of these margin-compressing areas offers strategic growth benefits.

The table below highlights areas of leverage and investment: it compares 2024, the year before the investment cycle began, to the trailing 12 months ("TTM").[4]

Cost line % revenue	2024 value	TTM value	Direction
Product and technology development	9.3%	7.3%	↓
General and administrative	4.6%	3.5%	↓
Collection fees	8.2%	7.5%	↓
Sales taxes	6.3%	5.7%	↓
Shipping and logistics	22.2%	23.7%	↑
COGS	8.8%	11.3%	↑
Provision for doubtful accounts	8.9%	12.3%	↑
Sales and marketing	10.5%	11.3%	↑

As revenue grows, fixed costs will become a smaller share of sales. Advertising and card interest add revenue without proportionate marketplace shipping costs. As a result, shipping and logistics can continue to keep rising relative to gross merchandise value ("GMV") while falling relative to revenue.

In time, provision expenses will flip from a headwind to a tailwind. By mid-2025, MELI's 2023 Brazil credit card cohorts had achieved positive profitability. New cohorts obscure this maturation: MELI issued 2.6 million cards in 2Q26, up from 1.6 million a year earlier, so the portfolio is weighted toward young, not-yet-profitable accounts. As the seasoned cards become a larger percentage of the total, portfolio profitability should expand.

Eagle's opportunity

We do not need to predict whether next year's operating margin is 6.5%, 7.0%, or 7.5%. We need confidence that today's investments will build durable customer habits, that scale improves unit economics, and that mature credit cohorts earn attractive returns. The operating evidence supports that view.

Over the next five years through 2031, if MELI grows revenue on average in the high 20s and operating margins expand to ~10%, operating earnings can grow in the high 30s and EPS more than 40% annually. Margins would be well below prior peaks, giving MELI room to continue investing. On near-term earnings, MELI is one of the most expensive stocks in the Eagle portfolio at just under 30x. However, when looking out five years, it is extraordinarily cheap, at a little over 5x earnings based on our estimates. Over the next decade, we believe the company's earnings can grow by more than tenfold.

It is rare to find a company growing this fast, at this scale, with this much opportunity. MELI often uses the phrase "lo mejor está llegando" ("the best is yet to come"). We believe it to be true for the company, which should make it true for shareholders.

Organizational update

We want to share that Michael Falcon will retire as CEO at the end of this year and become Vice Chair. In this role, Michael will remain involved with Eagle, supporting and advising the leadership team and focusing on strategic relationships. We're pleased to announce that Adrian Meli will become President and oversee Eagle's commercial activities. He will remain Co-CIO.

Over the past several years, we have deliberately strengthened our partnership structure and deepened our leadership team. This transition reflects that progress. We are grateful to Michael for his leadership as CEO and for his contributions in bringing us to this point. As always, we appreciate the trust you continue to place in us.

As always, if you have any questions or would like to discuss anything herein, please call us at (212) 293-4040. Also, if your financial situation or investment objectives have changed, if your IPO eligibility or U.S. Person status has changed, or if you would like to modify or discuss any investment restrictions or guidelines, please reach out to your contact on the client team or email ClientServices@eaglecap.com.[5]

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[1] Jeff Bezos, fireside chat with Werner Vogels, AWS re:Invent, Las Vegas, November 2012.

[2] Source: Eagle Capital analysis, company reports.

[3] Source: Eagle Capital analysis, S&P Capital IQ.

[4] Source: Eagle Capital analysis, company reports.

[5] Eagle Equity Composite holdings during Q3 2026 were as follows: AA; AER; AJG; AMZN; AON; ASML; CHTR; CMCSA; COF; COP; DHR; EL; ELV; EQT; GEV; GOOG/L; HLT; HUM; INTU; LBRDA/K; LEN; LSEGY; MA; MBGL; MELI; META; MDLN; MSFT; PTC; SAP; SPGI; TSM; UNH; WDAY; WFC; and WWD.

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