

MercadoLibre, Inc.

**Earnings Conference Call for the quarter
ended March 31, 2025**

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CORPORATE PARTICIPANTS

Martin de Los Santos - *Chief Financial Officer*

Ariel Szarfsztejn - *Commerce President*

Osvaldo Giménez - *Fintech President*

Richard Cathcart - *Investor Relations Officer*

PRESENTATION

Richard Cathcart

Hello, everyone, and welcome to the MercadoLibre Earnings Conference Call for the quarter ended March 31, 2025. Thank you for joining us. I'm Richard Cathcart MercadoLibre's, Investor Relations Officer. Today, we will share our quarterly highlights on video, after which we will begin our live Q&A session with our management team.

Before we go on to discuss our results for the first quarter of 2025, I remind you that management may make or refer to, and this presentation may contain forward-looking statements and non-GAAP measures. So please refer to the disclaimer on screen, which will also be available in our earnings materials on our investor relations website. Please note that this call is being recorded, and a replay will be made available on our IR website as well.

With that, let's begin with a short message from our CFO.

Martin de Los Santos

Hello, everyone. We are excited to kick off 2025 with another great quarter at MercadoLibre as we continue to deliver strong growth across both e-commerce and fintech. In Q1, we maintained the rapid pace of net revenue growth achieved in 2024, while making solid progress on all of our strategic initiatives. This momentum is fueled by continued investments and improvements in the value proposition for our users.

In e-commerce, we continue to deliver strong growth, outpacing all of our major markets, brand preference metrics for our marketplace reached all-time highs in Brazil, Mexico, Argentina and Chile, in the quarter. This is clear evidence that our investments are working and that we are further consolidating our position as a destination of choice for online purchasing in Latin America. In fintech services, monthly active users continue to grow at start-up rates of more than 30% year-on-year, reaching a total of \$64 million.

Our strategy of offering attractive remuneration of deposits is proving to be a powerful tool to attract, retain and engage users. Our credit portfolio grew by 75% year-on-year while maintaining delinquency at comfortable levels. In March, where certain defaults on the credit card in Brazil reached a new all-time low, driven by ongoing improvements in our scoring models and a successful mobile market. As a result, we are scaling the credit card business while improving its profitability.

Argentina performed exceptionally well in Q1 in all of our business units, with US dollar revenues more than doubling year-on-year. The stabilization of the macroeconomic environment has helped us to fully leverage the strength of our brands and value proposition in the country. Income from operations grew at a faster pace than revenue, helped by the strong performance in Argentina. We are very encouraged by the positive impact of our strategic investments across the MercadoLibre ecosystem, which are critical for us to capture the many long-term growth opportunities that we see in both commerce and fintech in Latin America. Thank you for your continued support and interest.

Now I'll hand it over to Richard for some exciting updates on Fintech.

Richard Cathcart

Q1 was the most recent of a long series of quarterly results that reflect MercadoLibre fantastic momentum. Monthly active users, for example, continue to grow above 30% year-on-year and

reached \$64 million in Q1 '25. Today, we want to highlight some of the exciting changes that are taking place as we continue to democratize financial services in the region. Our aim is to transform people's relationships with financial services so that as many people as possible have access to products such as the yielding account, credit, investments, insurance and much more. Perhaps more importantly, we want users to see the relationship as win-win.

This is a core pillar of MercadoPago's positioning and more importantly, how we intend to continue disrupting the markets in which we operate. Here's a short video that should help investors understand how we're thinking about every decision we take as we build MercadoPago to become users' primary financial relationship.

Aside from communicating the win-win value proposition of MercadoPago, we also want it to be even more closely tied to MercadoLibre at the center of our ecosystem. This is why MercadoPago has turned yellow and now shares the primary color of our ecosystem. This allows us to feed off the huge awareness and high levels of confidence that consumers across the region have in our marketplace. We don't want to have a yellow side of the ecosystem and a blue side of the ecosystem. We want to have a single ecosystem. We launched a new branding in our absent sites in Chile and Mexico in Q1 with Brazil following in mid-April.

This change doesn't only impact our fintech services business, but also our acquiring business. And alongside the yellow colorway, we're also implementing an updated visual identity that is more aspirational and more modern. We have also updated MercadoPago's UX, evolving the in-app experience from something that resembled a super app. So, a look and feel that brings a more specialized banking experience.

We're raising the bar so that all of the products we offer are displayed and can be navigated in the simplest way possible. These are all changes that should help us achieve our long-term ambition of becoming the largest and best digital account in Latin America. And it's another reason why we're excited that the best is yet to come.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press "*" then "2." We also ask that you please limit yourself to one question and if you have further questions, you may re-enter the question queue. And at this time, we will pause momentarily to assemble our roster.

And the first question will come from Andrew Ruben with Morgan Stanley. Please go ahead.

Andrew Ruben

Hey. Andrew Ruben, Morgan Stanley here. Thanks very much for the question. I'd like to explore a bit this sustainability of some of the trends you're seeing in Argentina, items sold. It looks like this step changed 52% gross, so I'm trying to understand even quarter-on-quarter what drove such an acceleration, and similarly, when we look to the contribution profit in the country, you mentioned the reinvestment in Brazil, reinvestment in Mexico, but still quite strong margin in Argentina. So, trying to understand the sustainability of that trend and how you're thinking about investments in the country going forward. Thank you.

Ariel Szarfsztejn

Hey Andrew, this is Ariel. Thanks for your questions. So, as you said, we had an amazing quarter in Argentina with last year recoveries, recovery in demand strengthening even far that we were able to capture strong growth. As you said, 126% of GMV growth year-over-year and 52% on items sold, items per unique buyer going up. Of course, there are different effects, right? On the one hand, we are comparing our numbers with a baseline from Q1 last year, which was a bit weak.

But simultaneously, we see ourselves and more importantly, we see ourselves gaining market share. And that's not just because of what happened last year, but it's also because of everything we've been executing over the last few months in order to help the business get recovered being in shipping and making our prices more affordable, pushing for more financing, improving selection and so on. So, in all, we continue to enhance our value proposition, and we'll continue to do so in the coming quarters. Of course, comparables will get tougher, but we are convinced we have the core of what we need to continue having a great business coming from the country.

Martin de Los Santos

And just to complement, Andrew, yes, we're seeing, clearly, stabilization of Argentina. We have seen it for the past few quarters. But obviously, you have a tough comp, comp last year was a really tough quarter in Q1. So that also helped us with a comparison. But having said that, we've seen lower inflation, decreasing interest rate, which is helping us with our credit book.

Our credit book grew by 4x year-on-year in Argentina in dollar terms, not only that, but it improved profitability as well, that's helping profitability. In Argentina asset under management from a very large base in Argentina continues to grow, grew at 69% year-on-year and profitability, overall, the consolidated profitability for Argentina improved by 11 percentage points during the quarter compared to last year.

So, we think we are very optimistic on Argentina, not only because of macro, but more important than that because of all the brands that we have in Argentina, both from MercadoLibre and Mercado Pago, the user experience that we have in Argentina performing extremely well, as Ariel mentioned, both in commerce as well as in fintech. And we will continue to deploy and improve the user experience in Argentina just like we are doing in the other countries.

Osvaldo Giménez

And if I were to add one comment with regards to the reinvestment we're doing in Brazil and Mexico on the fintech side that is mostly related to our credit card in those countries. And we have not yet launched a credit card in Argentina. So, when we do, definitely, we will invest also in building that portfolio.

Andrew Ruben

Great. Thank you all for the color.

Operator

The next question will come from Irma Sgarz with Goldman Sachs. Please go ahead.

Irma Sgarz

So, 1P GMV posted some really solid growth. Can you talk a little bit in more detail about what drove this growth and what categories perhaps contributed more? Was supermarket, for example, a relevant force here? And if you can also comment on margin evolution here, are

you getting closer to breakeven ex ads and on a full cost basis or is that something on the cards for this year? Thank you.

Ariel Szarfsztejn

Hey Irma, how are you? Ariel here again. So yes, as you said, 1P had a tremendous Q1 with GMV growth evolving 102 years over year with strong performance across markets and across categories. And I would say that's the consequence of continuing to improve selection and price competitiveness. We also continue to make progress in terms of managing the business through more and more technology. We are doing automatic onboarding, automatic buying, automatic pricing, and that's all contributing for us to get better economics and simultaneously continuing to grow.

I would say growth in 1P is not driven by supermarket. 1P supermarket is growing, but our growth in 1P goes much beyond what happened in supermarket and is more and more spread across different categories of our business. Of course, consumer electronics continues to hold a big share of what we are doing in 1P.

So, to the second part of the question, going to supermarkets, we are extremely satisfied with the consistent progress we have been making in supermarket for some quarters already. In Q1, we grew 65% year-over-year. That's faster than any other category in our marketplace and sequentially accelerated. And I'd say that's the result of an improved value proposition across the board, right? So, we have better and more consistent selection. We have better navigation with aisles that facilitates shopping experience.

We have deployed features for repurchase and some other things that allow our users to fill in their carts and buy stuff easily. We improved our promotional activities and special dates and last but not least, we are increasing the share of 1P within supermarket. And we are doing so because it helps us get more effective in getting consistency and availability of supply day after day. But it also brings efficiency and improvement in economics, right?

So 1P in supermarket actually has better unit economics than 3P as we managed to operate with massive movements in our warehouses operating by pallets and master cases. We managed to get better revenues from advertising through our relationships with manufacturers. So, 1P is and will definitely play a strategic role in supermarket moving forward.

Going to the question on margins, year-over-year margins in supermarket in particular, continue to improve. So, we are excited with that. And that's part of the reason why we feel comfortable investing behind doing more and more site merchandising to push for a category in which we have a lot of confidence, and we have proven that can bring down some impact in the users that do engage in buying consumer packaged goods in MercadoLibre.

Operator

The next question will come from Robert Ford with Merrill Lynch. Please go ahead.

Robert Ford

Hey, good evening, Richard, Martin, Ariel, Osvaldo. Thanks for taking my question. With respect to fast-moving consumer goods, I was actually surprised that it was a highlight in Argentina. Can you talk a little bit about the TAM across the region? Maybe the halo effect for other categories, how you're thinking about subscribe and save, and you alluded to this Ariel but how big of an unlock is this in terms of having now a full funnel solution and FMCG for advertising.

Ariel Szarfsztejn

Hey Bob. Ariel once again. So, thanks for the question. I think in general terms, e-commerce penetration in FMCG is pretty low. So, longer term, the opportunity is huge. We are just starting with this category, both ourselves and probably some of our competitors. So, we are excited with everything we see and with everything we can build has to push that penetration closer to what e-commerce represents to the general retail.

On halo effect, I was just mentioning before, we do measure downstream impact of supermarket. So, buyers who buy CPG in MercadoLibre end up buying more of general merchandise in MercadoLibre as well, and that's very positive. Then there is a huge list of product improvements that we need to deploy, and we need to code first, subscribe and save is definitely in that list, it will get a time in which we will be able to do that, but we are more on the basic feature building right now.

So, many things to continue doing in order to get there. We will at some point, but again, excited with the progress that is happening in every single market where we operate, and we expect that to continue in the future.

Operator

Your next question will come from Marcelo Santos with JPMorgan. Please go ahead.

Marcelo Santos

Hi. Good evening. Thanks for taking my questions. I would like to ask for an update on the logistics plan, especially on Brazil. I think there was some news saying that you were planning to boost the distribution center deployment. So, where you are now? Where do you want to get? And if you could also comment on other regions. Thank you very much.

Ariel Szarfsztejn

Hey Marcelo, how are you? Yes, I think there's nothing changing in terms of our logistics plan to be shared in this call as we mentioned in the past, logistics is a key enabler for the growth of our business, and we don't want to take risks in terms of not having the required capacity to deal with demand. But given our current scenario and our internal projections, there are no changes to what we announced in the past in terms of footprint. So, we were very active in deploying a large number of fulfillment centers last year. I think this Q, in particular, the number was a bit lower, but that's just because of seasonality and time to market in setting up new facilities, but we'll continue building and expanding our footprint as needed in order to deal with the demand that we think we will continue generating in the marketplace.

Osvaldo Giménez

And to complement from a financial perspective, if you take logistics investment or CAPEX and logistics this quarter as performance of revenues is consistent with what we had a year ago. So, in the past for finance perspective.

Operator

Next question will come from Rodrigo Gastim with Itau BBA. Please go ahead.

Rodrigo Gastim

Yeah. Thank you. Good evening, everyone. I just would like to double-click here on the main drivers behind Argentina's contribution margin evolution. You said it is the comps, understanding that, but you've reached the highest contribution margin ever. So just wondering

here where it mostly came from? Is it coming from higher take rates, revenue mix with higher growth in the fintech business with acquiring business which has higher margins, SG&A dilution from the faster top line growth? So, anything here on the main drivers, specific drivers in Argentina, actually to help us to understand the future would also be very helpful. Thank you, guys.

Martin de los Santos

Hi, Rodrigo. It's Martin here. I think Argentina performed extremely well both on commerce and fintech. Most of our businesses grew very nicely in the quarter. I think the main...one of the main drivers is growth that enables us to dilute fixed costs in a very efficient way and also to find efficiencies in logistics and in many other areas of our business. The credit business grew very nicely, I mentioned it before, and improved profitability, interest rates coming down in Argentina helping us also with the credit business, not only because of more adoption of credit because it's more affordable to people, but also by lowering the cost of funding, it improves our margins on that particular product.

So, I think for the most part, we've seen recoveries and as Ariel mentioned earlier, in commerce, items all growing at 50% plus year-on-year. So, I think this is throughout the business and margins have improved and this is the reason why not only because of comp from last year, but also genuine and sustainable improvements on profitability we've seen in Argentina so far.

Osvaldo Gimenez

The only thing I would add to that is that as interest rates have continued coming down, we also saw an increase in the percentage of transactions that were paid with credit cards and installments where we have also extra revenues and an extra take rate.

Operator

The next question will come from Neha Agarwala with HSBC. Please go ahead.

Neha Agarwala

Hi. Can you talk a bit about the asset quality trends? We did expect some seasonality and some seasonal worsening, but I also see that it's stronger growth in credit cards, which should dilute the asset quality, both early delinquencies and 90 day NPL. So, if you can shed some more light on what kind of trends should we expect going forward? And also, if there's any contribution of the growth in the Argentina credit business on these asset quality numbers that we are seeing? Thank you so much.

Osvaldo Gimenez

So, I'd say there are several moving parts. When we look at our portfolio of loans, basically on the one hand, we are increasing the share of credit cards to the overall portfolio...the share of credit cards to the overall portfolio. And even though, yes, credit cards have a lower NIMAL than other parts of the portfolio, the NIMAL of credit cards itself has been improving. We never had such a good quarter as this one.

So, the asset quality is super good. What is changing is the share there. And also, as these...we grow our portfolio and all the cohorts mature, the percentage of cohorts that are older and therefore with a positive NIMAL will increase and therefore, this goes in the opposite direction. This improves and offsets the change in mix.

Then, we are moving upmarket, and by moving upmarket both in the merchant and particularly in the consumer side of the credit book, this...what it means is we will have a little bit lower risk,

but also lower spreads because of the credit we are offering. And so, I would say that those have been the main drivers behind the change of mix in the credit portfolio.

With regards to Argentina, in Argentina, I would say that...is a country where we find delinquencies to be the lowest. Part of the reason behind that is that it's a country where the private sector has lower debt than in every other market just because the credit markets were closed for so long. And also, that people are...really use MercadoPago pretty much every day. So, they tend to pay us back quickly because we are in many cases, the primary account, and they need us for their everyday lives. And so, the credit quality in Argentina continues to be very good and that has driven up the increases Martin mentioned in terms of portfolio size, both on the consumer and the merchant side of the business.

Operator

The next question will come from Geoffrey Elliott with Autonomous. Please go ahead.

Geoffrey Elliott

Hello, thanks very much for taking the question. Can you discuss the strategy in terms of deposits in Brazil? We've seen the 120% of CDI rate offered over the last few days. What's behind that? Is that about building customer loyalty, is it about funding? Is it about something else? Can you give us some thoughts there?

Ariel Szarfsztejn

Yes, Geoffrey, I'd say that the main driver for that is really its marketing and positioning ourselves as really the leading digital bank. It's something that we...when we look at our positioning, it's moving in this direction, and this really adds to principality. Once consumers starts bringing their money into MercadoPago, what they do is they start using MercadoPago more often.

We include...increase their retention, we increase the use they do of their money in the marketplace through our many, many positives. And we launched a campaign a few weeks back with a very powerful marketing campaign in Brazil where we are starting to use the yellow color as background instead of a blue color.

And also, we have recruited Anitta, which is a very popular singer in Brazil to push for our...to advertise MercadoPago and that is working very nicely. And part of the value proposition is that we are the account that pays the most in Brazil and so we are making sure that continues to be the case. There are limits to that, as you know or we...there are three different conditions you have to keep in order to get the 120% of CDI. You have to be part of our loyalty program. You have to put together the money in a special pot and there's a limit of a few thousand Reals that you can invest in that pot. So, it's...I think it is working nicely. We have created a lot of awareness and people associate it more and more in a digital bank. And so, thinking I'd say in the right direction.

Operator

Your next question will come from Kaio Prato with UBS. Please go ahead.

Kaio Prato

Hello, and good evening. Thanks for the opportunity for asking question here. I would like to explore a little bit more about the credit business. First, I would like to understand how is your appetite today across your main products, if you can share. Last quarter, you made clear that you were going to reduce the issuance of micro cards. So just wondering if you can share a

little bit the effects from that and more about the strategy going forward. Also, if you can talk a little bit by region would be helpful.

And finally, we noted a drop of your credit portfolio. We've seen one of your funding structures filing in Brazil in March. And in this report, you mentioned that you had almost \$800 million from own cash for funding on the fintech. So, can you provide further details on this? What is the funding breakdown of the portfolio today? And if you are somewhat changing the strategy going forward? And if so, what's the rationale? Thank you very much.

Osvaldo Gimenez

Hi Kaio. Let me start with how we are seeing the credit portfolio in general. And let me start with Brazil and our risk capital in Brazil. We have not seen any deterioration in our portfolio. And I think that both on the consumer side and on the credit side, we continue to be very profitable and NPLs continue to be very healthy. And now in Brazil, as I mentioned, the credit card book, the recent cohort has the lowest first payment defaults we have seen. So, we are very excited with how our credit models are evolving.

And that said, we have taken some more measures to reduce risk because we are looking at what's happening in the market, and we have seen some deterioration from other players. And so, what we have done is beyond reducing the issuance of micro cards, we have been, I'd say, more conservative with regards to those customers who have the lower credit score. And I would say this tightening is rather small, but it's something that we have done, and we are very comfortable with the level of risk we are currently taking.

Something similar has happened in Mexico, probably more towards the end of last year and early this year, than we have been able to relax a little bit the issuance of new cards, but we were also more conservative and attended a little with regards to those customers that have a lower credit score. But we have not seen any impact in our NPLs.

Martin de los Santos

Regarding funding, Kaio, the strategy continues to be the same. Just as a reminder, we fund our books, our credit books in Mexico and Brazil mostly with warehouse facilities, which are funded by large banks, JP Morgan, Goldman Sachs, and Citibank. And in Argentina, we typically go to the capital markets on a regular basis to fund our credit portfolio. In Brazil specifically, which you asked, we also book certain loans on our financial institution, as opposed to sending it to the [indiscernible]. Sometimes we optimize the cost of funding by leaving some more loans in our financial institution. This is what we did this quarter. This is where you're referring to. But there's no change in terms of the share of third-party funding and the ways we are funding our credit book. This is mostly a tactical adjustment that we did this quarter.

Operator

The next question will come from Joao Soares with Citigroup. Please go ahead.

Joao Soares

Thank you for taking the question. Very quick points and kind of follow ups. The first one is just to understand if there should expect any, what would be the repercussions on the commerce growth when you move, when you try to de-risk a little bit your concession, right? Initially we saw with the microcredits, and we saw limited impact and now you're moving towards cutting some of the, let's say middle level risk here on the client? So just wanted to understand if there were any repercussions on the commerce growth. And just to understand the opportunity of the credit card in Argentina and any view on timing, should we expect a similar impact that we saw

as you start to accelerate credit origination in other countries? Should we expect something similar in Argentina? I don't know how the behavioural changes varies, right? From Brazil and in Mexico? Those are the questions. Thank you.

Martin de los Santos

Hi Joao. Let me address for the first part of the question, which is what repercussions it may have or not in the marketplace, the actions we are taking with MercadoPago. I would say we don't expect any repercussions in the marketplace when we look and what we track so closely is what we call blue money, which the total of payments on the marketplace that are coming from any of the MercadoPago sources, sources such as account to account or personal loans or credit cards and some of those three variables continue to grow in all three markets in Brazil, Argentina and Mexico, and we expect that to continue to be the case.

So, we don't expect to see any deceleration in the marketplace driven by tightening a little bit on the credit side. And moving on to the second part, which was the potential evolution of the credit card in Argentina, we expect this to be a very relevant card in the market. I would say that we have been learning. We first launched in Brazil. Then we were able to launch faster in Mexico. And I believe we have a very strong position in Argentina. And we would expect it to be interesting. Obviously, we will be cautious as we adapt the models to the local country. Each country is different. But we expect to be able to do that, to start issuing cards in the second half of the year.

Operator

The next question will come from Marvin Fong with BTIG. Please go ahead.

Marvin Fong

Great. Thanks for taking my questions. Congratulations on the quarter. I would just like to drill down, I think, on Mexico. You mentioned in the shareholder letter that there was one high ASP category that you saw a bit of softness on. I was just wondering if you could elaborate on that and what growth outside of that category looked like? Was the growth outside that category consistent with what we've seen in prior quarters in Mexico? And then just a quick question on NIMAL. I think you referenced the seasonality factor that the fourth quarter was unusually high because of the additional payment period. If we kind of normalize for all that, and I recognize all your commentary about the underlying strengths, and the credit card has gained share there. But at a headline level, would NIMAL have improved quarter over quarter without that seasonal factor or just kind of any visibility on when you think NIMAL at a consolidated level might turn, begin expanding quarter-over-quarter would be great? Thank you.

Ariel Szarfsztejn

Hey Marvin, Ariel here. Thanks for your question. So, we are very satisfied with the progress of our business in Mexico in general and during Q1 in particular. We continued compounding growth and value created for our millions of consumers, unique buyers, grew north of 25% and top line remain very solid. I would say we were still negatively impacted by a slower start of the year for our technology vertical.

It grew below the average of the rest of the marketplace. We basically saw more aggressive competition, both in terms of pricing and financing in this category. And in some cases, we lacked some of the selection that we needed to compete. We have clearly identified the issue and have several target initiatives to deal with this, such as some selected adjustments to our premium take rates, some rebates to improve price competitiveness, and some other things.

We are already seeing positive results coming from each of those. And by the way, the effect from technology was kind of isolated. Our overall GMB continued well ahead the market, and rest of the categories grew even further. I would say with the trend that we used to have in previous quarter, around 30% year-over-year in general terms, so very good momentum.

Martin de los Santos

And with regards to NIMAL, I would say that both in both sequentially and year-over-year, I would say part of the compression is due to the function of spreads and product and country mix. On the one hand, the mix, as I mentioned, is more towards credit cards. The share of credit cards increased by 8% of points over the year. And this is a structural product that has a lower NIMAL than consumer loans, for example. And then also, as we are moving that market, both in the consumer and merchant originations that also has an impact both on yield and in bad debt field, basically. So, it's safer, we have less default, but we have an impact in revenue yield and banded yield. And as for country mix, Argentina's share of the credit portfolio doubled year-over-year, and this partially compensates for the NIMAL compression because we have higher margins in Argentina.

Operator

The next question will come from Craig Maurer with FT Partners. Please go ahead.

Craig Maurer

Yes hi, thanks for taking the questions. I wanted to ask a bit more specifically about the fintech competition in Mexico. Your product offering is trending more toward what we see from the likes of new. And I was wondering if you can comment on how, you see that evolving over time. Secondly, with regards to the trade war dynamics that the US is propagating, we've been hearing that those e-com businesses that are getting shut out of the US market are redeploying resources to Latham. And I was wondering if you're seeing any change in behaviour from your competition, specifically from Asia in Latin America? Thanks.

Martin de los Santos

Hi Craig, let me take the first question. I'd say that definitely in Mexico, all over Latin America, what we want to be MercadoPago is on the one hand acquiring business, but on the other hand, we want to become the best and largest digital bank in the region. So definitely we'll be competing with the more traditional banks and with fintechs also, but also the digital banks.

And we are very excited by the growth we are seeing. We very excited by the net promoter score we are obtaining from our users, also from the frequency the users use MercadoPago, and also by the sheer growth of our user base in Mexico. I would say that the most relevant products for us have been the super yielding account and the credit card, and both of them are growing strongly. And so, I would say, yes. I think there is an opportunity in Mexico. We are seeing that what we saw happen in Brazil over the last 10 years in terms of increased use of financial services and in particular of digital financial services that is happening in Mexico right now and we want to seize that opportunity.

Company Representative

Yes, I think the second part of your question was regarding international competition and cross-border trading to Latin America. We have been operating in a very competitive environment. Many players come into the region, not only shipping from Asia, but also building their operations locally in the region.

So, we haven't seen a change in that pattern. We continue to compete with them and nothing really changed, at least in the short term because of tariffs. In fact, the other way around, there are certain tariffs that were imposed in Mexico and Brazil increasing the cost of shipping products into the country that diminished the rate of volume of cross-border trade into the region?

On the flip side, Argentina [indiscernible] and opened the market. So, there's more volume coming into Argentina. That represents an opportunity for us as well because we are shipping products from the US, while at the same time, some international players will come into Argentina, but we would much rather see an open market than an enclosed market. So, to summarize, I think for the most part, we haven't seen a big impact related to the tariffs in the US.

Operator

The next question will come from Deepak Mathivanan with Cantor Fitzgerald. Please go ahead.

Deepak Mathivanan

Hey guys. Thanks for taking the question. So, Martin, EBIT margin in 1Q is up 70 basis points year-on-year and you kind of have a relatively favorable comp in the next few quarters as some of the credit card portfolio headwinds stabilize. Argentina contribution margin trends have also been very good in 1Q. So, I guess the question is, should we still expect some of the investment plans that you have constrained of full year margin expansion? Can you give us an updated view on how you think about the margin trends?

And then second question, just double-click a little bit on ads. The penetration as a percent of GMV seems to have kind of gained a few more basis points quarter-on-quarter than we typically see. Can you expand how much is driven by ad units like display video versus some of the more traditional ad units? And can we expect this run rate of penetration gains to continue in the next few quarters? Thank you so much.

Martin de los Santos

Hi, Deepak. How are you? Yes, I mean, you're correct. I mean, margins, if you look at EBIT margin improved by 70 basis points year-on-year from 12.2% to 12.9%. And most of the expansion for that is country mix. Argentina, which by the way has a larger or a bigger margin than the other countries increased shares of revenues from 14% to 34%. So, that on itself helps us in terms of improving margins.

On the other hand, Argentina itself also improved margins as we discussed earlier today, so also helped in positive direction. And that more than compensated this quarter the investments that we continue to make in Brazil and Mexico, mainly in logistics and credit card and that generated some margin compression in Brazil and Mexico.

But I think obviously, we don't guide regarding margins, but we have been consistently saying that we don't manage the business to a short-term margin goal. What we want to make sure is that we do not miss the large opportunity of growth that we have ahead of us in commerce and Fintech. And if we need to invest behind those opportunities, we will continue to do so, even if it might make some short-term pressure on margins.

I think the example of last year where we had in 2024, we had margins slightly lower than 2023, but we delivered strong growth, and this is something that we want to continue to deliver because the opportunity continues to be enormous in Latin America. Only 15% of transactions

are done online and will play an important role of bringing more people online. Fintech adoption and financial inclusion is very low. Most of the region, particularly in Mexico as Osvaldo was mentioning. So, again, the focus is on growth, while at the same time managing for reasonable profitability, as we call it in MELI, grofit, balancing....finding the right balance between growth and profits.

Ariel Szarfsztejn

Hey, Deepak. Ariel here. So, to your question about that, we had a solid quarter, and we grew about 50% year-over-year of an FX-neutral basis with penetration going up in Brazil, Mexico and Argentina. And that's basically coming from an improvement in our product stack. We had a great quarter in brand ads, which is part of our search offering. So, although coming from a low base, we have seen a positive acceleration coming from the extension of the product to sellers.

So, it was previously only available for top brands and making it more widely available is paying off. Kind of the same thing happened with display. So, we grew this quarter above 100% year-over-year in display, similarly to brand ads coming from a widely available offer to more sellers and also coming from new features in the product like automatic generation of creativity for campaigns, better analytics, et cetera, but continues to do very well. So, we remain optimistic, right?

So, we have already a business that is a size of \$1 billion in revenues per year, but we think we are just getting started. And last but not least, the launch of Mercado Play on TV is another exciting step in the direction of expanding our inventory beyond the marketplace and it will definitely play a key role in our strategy in the long term.

Operator

The next question will come from Josh Beck with Raymond James. Please go ahead.

Josh Beck

Yes. Thank you so much for taking the question. I wanted to ask about the magnitude of short-term margin pressure that you're seeing from the strategic investments in shipping. So, just would like to understand that. And then a little bit of a follow on to I think Craig's question.

Are you seeing any impact from maybe higher ocean freight rates because there's certainly been such a slow down or maybe just kind of help us think through the sourcing of some of your goods, if you have any notable exposure to some of these ocean routes that all of a sudden have a lot less volume, would love an update there.

Ariel Szarfsztejn

Yes. I think -- as I mentioned earlier, right? When you look at the margins in the different countries and you can find this in our disclosures, the contribution margins in Argentina improved by 11 points compared to last year for the reason that I explained earlier, whereas on the opposite side, Mexico and Brazil compressed roughly 5 percentage points, both of them compared to last year. And the reason for that...the main reason for that, I would say...I would point out to three reasons.

Credit card continues to grow and putting some margin pressure in the short-term as we continue to improve the profitability of the credit card that might change, if we look at credit cards older than two years are already profitable. The logistic infrastructure...we'll continue to build our logistic infrastructure to try to increase the penetration of fulfilment in Brazil and keep

up with the levels that we have in Mexico, in a market that's growing 25% to 30% year-on-year. So, that requires investments.

And then lastly, I think if you look at year-over-year, both Mexico and Brazil were affected by devaluation. So, that also puts a little pressure on both the Mexico's contribution margins. So, then with the second part of your question, our CBT business is relatively small. It's mostly into Mexico, is nascent into Argentina over the past...this quarter and the previous quarter, we started delivering products into Argentina now that it's open.

But we plan to continue to invest and develop that business because we think that it's a good opportunity for as a business on itself, but also to complement the offering that we have within our marketplace to continue shipping products from Asia directly into Latin America and from the Texas operation that we have in the US.

Operator

The next question will come from James Friedman with Susquehanna. Please go ahead.

James Friedman

Hi. It's Jamie Friedman at Susquehanna. Thanks for taking my question. I was wondering if you could share any data that you might have on Credito the credit portfolio and its attached rate to the marketplace. So, in some markets, I think you've occasionally disclosed that, but what sort of accelerator do you enjoy as you originate and that attaches to purchasing in the broader marketplace ecosystem? Thank you.

Osvaldo Gimenez

So, I think that what we have disclosed in general is this what we call blue money, which covers on the one hand, credit, but also money that's already within the MercadoPago system and that is roughly in the order of...depending on the country on 20% to 30% of the GMV we process on the marketplace that has been trending up, as I mentioned, but continues to be within that range for the mainstream countries.

Operator

The next question will come from Dani Elgar with XP. Please go ahead.

Dani Elgar

Hi. Good evening. Thank you for taking my question. I have a quick one on competition. It's actually a follow-up. Regarding Brazil, if you could just update us on your view regarding the TikTok shop launch this month here, how do you see that in terms of maybe affecting you guys? And in Argentina, you mentioned about the increased interest. We even saw some news recently. If you could also share your view on the recent developments in terms of competition in Argentina, that would be interesting as well. Thank you.

Ariel Szarfsztejn

Hey Dani. How are you? Ariel here. So, on TikTok, I think it's still early days. So, they launched in Mexico a few months back. They are just launching in Brazil, so we don't have too much info to share with you. Of course, we are paranoid. So, we follow them closely, but there's not much to be shared.

In Mexico, they seemed...they seem to be focused on low-value items coming from domestic sellers, to be seen what their strategy is going to be in Brazil. Taking a step back, I would say that there seems to be a higher overlap in their value prop with some other platforms more than

with MercadoLibre. But again, time will tell, right? So, we will follow that one closely and decide how to respond.

To wrap this one up, I would say that typically, when there is a new entrant in the e-commerce space, particularly when they come with a different playbook, they tend to bring new users who used to shop offline into the online world and that will create another opportunity for us as well and we hope we can take advantage of that one.

In terms of Argentina, even more early. So, we saw interest and we know that Temu launched operations in the country. Amazon has also been shipping items from the US into Argentina, but not much to be said, right? There are no numbers or indications that they are getting progress that is calling our attention.

As Martin was saying before, this presents an opportunity for us as well. So, three weeks after the government opened the regulatory framework, we were live with our drop shipping from the US into Argentina. Now we are live with shipping items from our Texas inventory into Argentina as well, and we expect to continue expanding that selection to complement our local marketplace.

CONCLUSION

Operator

And this will conclude our question-and-answer session. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.