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Company

# MercadoLibre Inc.

Region • Industry • Sector

Latam • Internet • e-Commerce

Reuters | MELI.OQ

Bloomberg | MELI US

Nasdaq NMS Exchange | Ticker MELI

INITIATION REPORT

Recommendation

## Hold

Target Price

# US\$84.43

(11.9% increase)

Stock Data

US\$

|                                 |                          |
|---------------------------------|--------------------------|
| Last Price (as of Nov'16 2012): | 75.43                    |
| 52-week high   low              | 104.5   64.18            |
| ADTV (3m):                      | 550,000 shares 45.0mm    |
| Market cap:                     | 3,330.8mm                |
| Shares O/S (diluted):           | 44.2mm                   |
| Current P/E:                    | 35.9x                    |
| Float:                          | 70.8%                    |
| Last earnings reported:         | 3Q12 (Nov' 1 2012)       |
| Next earnings:                  | 4Q12 (est. Feb' 22 2013) |

Source: Bloomberg / Capital IQ

## Is past prologue? MercadoLibre to show first-mover advantage

We are giving MELI an initial Hold rating and a PT of US\$84.43. Despite macro headwinds and increasing competitive environment, MELI is by far the leading e-commerce marketplace in Latam, operating in 13 countries and fulfilling transactions for ~US\$5,700mm (2012E GMV), 1.7x its current market cap. A pioneer in internet retailing since '99, MELI managed to keep itself technologically updated to changing consumer habits and focused on consolidating market share. Given current levels of industry volatility and strong fundamentals, we believe that MELI's shares are fairly valued.

**Decelerating growth but still scratching the tip of the iceberg.** While on 3Q12 MELI reported a 6.5% yoy growth in GMV, far from LTM average of 39.7%, we estimate an annual CAGR of 13% for '12-'17 since there is substantial room to grow: only 10% of Latam population shops online and roughly 2% of overall retail is completed in the internet<sup>i</sup>. MELI's payment business MPago is growing steadily, being the share of MPago in marketplace increased by 30.3% yoy to 33.4% of GMV, and the use of MPago off-platform reaching ~10% of GMV<sup>ii</sup>. We project for TPV an annual CAGR of 29% for '12-'17 due to an increasing user base, a growing GMV and transactions with less frictions, while off-platform are expected to represent 37% of GMV share by 2015.

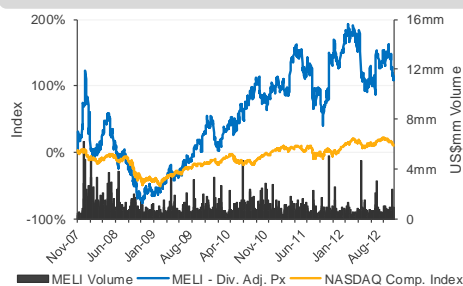
**A cash cow that could easily get fatter.** Based on robust fundamentals, MELI's revenues and EBITDA are expected to grow annually at 16% and 14% CAGR '12-'17, respectively. With no need to incur debt and Opex scaling structure, EBITDA is clean cash for MELI (2012E EBITDA margin of 36.1%), which conservatively is reinvested in financial markets and is ready for potential M&A opportunities, aggressive business development and dividends distribution.

**What's been lately on MELI.** Aiming at improving the user experience and a more efficient trading, management recently launched a beta version of shipping tracking service in Brazil. Also, MELI started a new customer service center in Uruguay and is allocating extensive R&D towards mobile business by opening the platform (API) to third parties. Hence, a growing number of developers will link up to the API and start building integration and customized apps for MELI's users.

**MELI's upside beats downside.** Growing synergies between business units, a scale advantage, and a compelling business model, MELI has proven to be more resilient than traditional retailing even in times of tougher macro context. To consolidate incumbent position, MELI is targeting to massive markets through verticalization and solving transactions frictions. Market leadership can be threatened by potential physical entering of Amazon and eBay's subsidiary competitiveness.

**Key points in our valuation.** We used a blended approach between a DCF with 12.8% WACC and 5% TV growth, 20.6x EV/EBITDA and 40.0x PER, resulting in US\$84.43 per share. At PT, MELI would trade 21.7x EV/2013E EBITDA, a 5% premium over its average industry peers.

Stock & Market Performance



| Performance (%) | 1m    | 3m    | YTD  | 5Y    |
|-----------------|-------|-------|------|-------|
| MELI            | -11.5 | -10.8 | -7.4 | 116.2 |
| Nasdaq Comp.    | -5.1  | -7.3  | 7.7  | 10.4  |

Source: Bloomberg / Capital IQ

Key Figures & Forecasts

| FY end Dec' 31                  | 2011A   | 2012E   | 2013E   | 2014E   |
|---------------------------------|---------|---------|---------|---------|
| GMV (US\$m)                     | 4,820.1 | 5,685.0 | 6,895.5 | 8,322.4 |
| TPV / GMV (%)                   | 27.2%   | 32.7%   | 47.7%   | 57.7%   |
| Reg. Users (mm)                 | 65.8    | 81.5    | 97.0    | 114.9   |
| Revenues (US\$m)                | 298.9   | 376.7   | 475.9   | 588.7   |
| EBITDA (US\$m)                  | 107.0   | 136.1   | 163.7   | 190.4   |
| Net Income (US\$m) <sup>1</sup> | 76.8    | 103.7   | 116.7   | 120.3   |
| EPS (diluted, US\$)             | 1.73    | 2.35    | 2.64    | 2.72    |
| Div. Payout (%)                 | 13.8%   | 17.3%   | 20.8%   | 23.2%   |
| P/E (x) <sup>2</sup>            | 43.6x   | 32.1x   | 28.5x   | 27.7x   |
| P/Tang. BV (x) <sup>2</sup>     | 22.1x   | 15.3x   | 11.8x   | 9.1x    |
| EV/EBITDA (x) <sup>2</sup>      | 29.3x   | 23.0x   | 19.1x   | 16.5x   |
| ROE (%)                         | 35.0%   | 36.0%   | 32.6%   | 27.0%   |
| ROIC (%)                        | 23.0%   | 29.8%   | 25.8%   | 20.7%   |
| Capex (US\$m)                   | (19.2)  | (16.2)  | (30.9)  | (37.1)  |
| FCF (US\$m)                     | 66.5    | 114.4   | 137.4   | 164.5   |
| Net Debt (US\$m)                | (142.0) | (206.5) | (272.1) | (368.6) |

<sup>1</sup>Att. to MELI. <sup>2</sup>Current price. Source: Company FS & Team estimates.



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This paper should be read in 20 minutes  
A glossary of terms is served at page 20

Fig. 1. Retail Worldwide Ranking

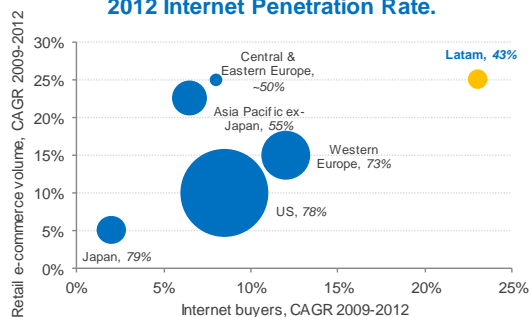
| #   | Company | Location   | UV (mm) |
|-----|---------|------------|---------|
| 1   | Amazon  | US & Int'l | 282     |
| 2   | eBay    | US & Int'l | 224     |
| 3   | Alibaba | China      | 157     |
| 4   | Apple   | US & Int'l | 134     |
| 5   | Rakuten | Japan      | 58      |
| 6   | Walmart | US         | 45      |
| 7   | HP      | US & Int'l | 38      |
| 8   | MELI    | Latam      | 37      |
| 9   | Otto    | Europe     | 32      |
| 10  | PPR     | Europe     | 32      |
| ... | BuscaPe | Latam      | 11      |

Source: MELI company presentations

## Investment Summary

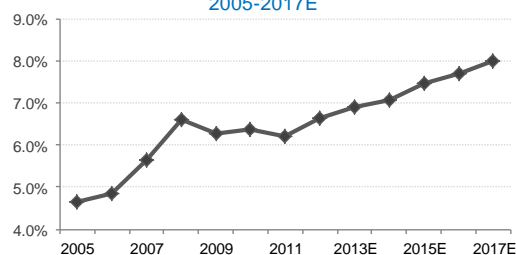
**Pioneer, incumbent and largest player in Latam's e-commerce, which nowadays stands as the most promising online market.** MELI is currently leader in e-marketplace and payments in the region, ranking 8<sup>th</sup> in worldwide retail outstanding traffic (Fig. 1), 3.2x to its closest regional competitor BuscaPe and a GMV of 1.7x its market cap. MELI's core businesses are focused on Latam, one of the fastest growing region in terms of e-commerce (Fig. 2), outpacing all other parts of the world, including Asia Pacific ex-Japan, which is similar in terms of demographic and economic patterns to Latam. In terms of internet users, Latam has doubled it since 2007<sup>iii</sup>, for which MELI estimates that 25% are registered on its platform. We expect to see a continued secular growth of 11% annual CAGR for '12-'17, since Latam is still a large and underpenetrated internet region (Fig. 2), with low conversion from offline to online retail (roughly 2%<sup>iv</sup>). Also, a change in consumer habits, affordable technology, rising mobile usage and social networking would increase e-commerce volume and amplify MELI's core businesses outreach. MELI has first-mover advantage –industry pioneer with strong reputation- and thus, could take an important share from this industry shift.

Fig. 2. Retail e-Commerce vs. Internet Buyers. 2012 Internet Penetration Rate.



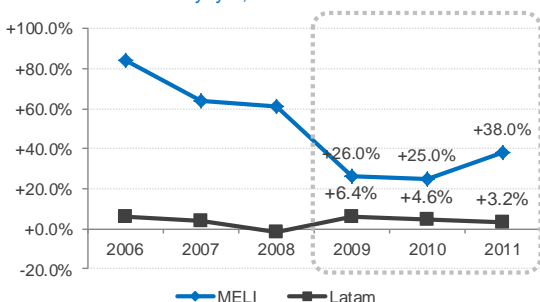
Source: MELI presentations and Internet World Stats.

Fig. 3. MELI's Take Rate 2005-2017E



Source: MELI financial statements and Team estimates

Fig. 4. Latam GDP vs. MELI Revenues' Growth yoy%, 2006-2011



Source: Capital IQ and MELI financial statements

**A complementing business-ecosystem, with aggressive strategy towards market share consolidation.** Growing synergies between business units gives MELI a great opportunity to consolidate market share, as its platform is positioned all along the e-commerce value-added chain: from products and services listings by sellers (marketplace), either from a e-Shop or not (MShops), using sophisticated marketing methods to reach potential buyers through advertising (MClics), and buyers paying / sellers collecting electronically, whether with financing options or being facilitated from transaction's frictions (MPago). MELI has begun to expand its businesses into verticalization, offering different options in one listing, mainly targeted to massive products such as fashion and apparel, and to higher prices such as real estate. Though massive products would decrease ASP, the quantity of merchandise traded in MELI's platform would increase accordingly at Latam's e-commerce pace, giving a strong rise in overall GMV. We estimate that GMV would increase annually at 13% CAGR for '12-'17, and ASP would get to half of current LTM ASP (US\$85.7) by 2017. Other GMV drivers are shipping and logistics (a beta version in Brazil is running, which is a tracking service to sold products in marketplace), proactive customer support, integration with social networks, among other strategic initiatives to incentive offline retailers to move to MELI's platform.

**Increase of take rate over time, thanks to off-platform MPago. Monetization to MELI's income statement.** Currently, MELI's take rate is ~6.5% (Fig. 3), due to its commercial strategy of bundling marketplace and MPago's on-platform fee. This stat falls short if it is compared to US Amazon or eBay's take rates (~12%). However, further adoption of MPago's off-platform version (3.0), similar to eBay's PayPal but not implemented into all MELI operating countries yet, would drive the take rate to higher percentages, since MELI could charge them a fee and also take fully advantage of buyer/seller-financing model, giving installments option payment to buyers and charging a spread interest rate fee. To avoid bad debt risks, MELI sells these receivables to banks at a discounted price. We estimate by year 2017 that off-platform GMV share would increase to ~37%, and take rate to ~8% from combined on and off platform activities. MPago also improves user experience and creates positive network externalities, providing reputation as an implicit entry barrier to Latam's e-commerce.

**MELI has proven itself to be much more resilient than traditional retailing even in times of tougher macro.** Growth rates for Latam and MELI are impressive, MELI performed steadily even through worldwide financial crisis, above 20% yoy growth, compared to Latam's soft landing growth rates (Fig. 4). In Argentina and Venezuela, where 37% of MELI's revenues are originated, over the last decade frequent political and economic volatility was observed, which negatively impacted over local economy, in particular offline retailing. However, marketplace continued to perform relatively better than the overall macro, since consumers start looking for selection in price more intensely when facing less favorable macro conditions. Moreover, in order to have a

Fig. 5.

| Company                       | Country    | Curr. EV/EBITDA |
|-------------------------------|------------|-----------------|
| MELI                          | Latam      | 24.6x           |
| eBay                          | US & Int'l | 14.9x           |
| Amazon                        | US & Int'l | 47.0x           |
| Netflix                       | US & Int'l | 12.1x           |
| Asos                          | UK         | 44.3x           |
| Car Sales                     | Australia  | 17.8x           |
| Liquidity Services            | US & Int'l | 12.5x           |
| B2W                           | Brazil     | 15.7x           |
| Lojas Americanas              | Brazil     | 15.4x           |
| Rakuten                       | Japan      | 5.7x            |
| <b>Industry peers average</b> |            | <b>20.6x</b>    |

Source: Bloomberg and Team estimates

positive administration recount, government's best interest is to keep consumer spending in high levels, therefore MELI could be a greatly beneficiary of that benchmark.

**Asset-light operating model, debt free.** As of 3Q12, MELI has total debt-to-equity of 0.0007x, a frequent parameter within the e-commerce sector, mainly due to low days of collection from its activities (historical average, 15 days). Thus, MELI has a strong capital structure and won't face financing issues if it decides to raise further capital to meet larger targets beyond its current cash stock. Compared to Amazon's business model, MELI's model does not involve large amounts of working capital related to inventory since it only provides third party services such as marketplace and electronic payment. Amazon is a first-party retailer through warehousing and fulfillment, which it does involve large working capital, capex and other intrinsic risks if it wants to replicate its business model in Latam.

#### Potential acquisition from main shareholder eBay, could add value to MELI.

Although eBay's Latam subsidiary, alaMaula, just started operations in the region<sup>v</sup>, they are marginal compared to MELI's operating and financial metrics, and their operations are only limited to classifieds marketplace. Nevertheless, if eBay wants to pursue a more aggressive strategy in Latam against Amazon, MELI could be a potential target to fulfill that strategy because of similar core businesses between both companies and MELI's local know-how. Therefore, investors could take an important drift in MELI's share price. In order to picture transaction comp ranges, the last and publicly recorded M&A transaction comparable was Yahoo-Alibaba, closed on Sept' 09, where the deal carried an implicit EV/EBITDA multiple of 66.7x<sup>vi</sup>. Moreover, currently selected industry peers' EV/EBITDA average is 20.6x (Fig. 5), below MELI's current multiple, which is 24.6x. eBay is MELI's largest shareholder holding 18.4% of share capital (Fig. 29), and as of 3Q12, held on balance sheet ~US\$9.1bn in cash and equivalents, enough to purchase MELI at aforementioned EV/EBITDA multiples range<sup>vii</sup>.

**Current price versus our valuation.** We expect a share upside of 11.9% for the next twelve months, resulting a share price of US\$84.43 (Fig. 6) and therefore an estimated enterprise value of US\$3,452mm<sup>viii</sup>. In the long-term, we estimate an annual CAGR increase of 10.4% for EPS '12-'17, driven by robust Latam e-commerce growth, consolidated market share position, strong growth in off-platform payments, scaling costs structure and continuing improvements for user experience.

Fig. 6.

| Current price                             |                |
|---|----------------|
| Share price as of Nov'16, 2012 (US\$)     | 75.43          |
| x Diluted Shares Outstanding (mm)         | 44.2           |
| <b>= Market Cap (US\$m)</b>               | <b>3,330.8</b> |
| + 3Q12 eop net debt (US\$m)               | (177.4)        |
| - Minority interest (US\$m)               | 4.0            |
| <b>= Current Enterprise Value (US\$m)</b> | <b>3,149.4</b> |
| <b>Upside from our valuation</b>          | <b>11.9%</b>   |

Source: MELI FS, Bloomberg &amp; Team estimates

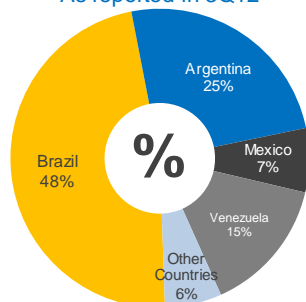
## Business Description

MELI is the leading e-commerce company of Latam, operating in 13 countries (Fig. 7), headquartered in Argentina and with commercial offices in Brazil, Colombia, Mexico and Uruguay. Founded by its current CEO Marcos Galperin in 1999 as an auction website, currently accounts with **four core businesses**:

◆ **MELI marketplace:** MELI's blockbuster business, it is an e-commerce platform where registered users can buy, sale, offer or demand an important range of products and services. MELI charges sellers a 5% average fee of the total amount collected for any fixed-price or auction-based transaction. These types' of deals take ~98% of GMV<sup>ix</sup>. The remaining share of such is composed by classifieds, where a fixed upfront fee is collected by MELI. The Marketplace platform, including classifieds, which is the main source of inflows and embodies ~80% of total revenues (Fig. 8), grew at annual 34% CAGR during '05-'11. Some relevant marketplace metrics:

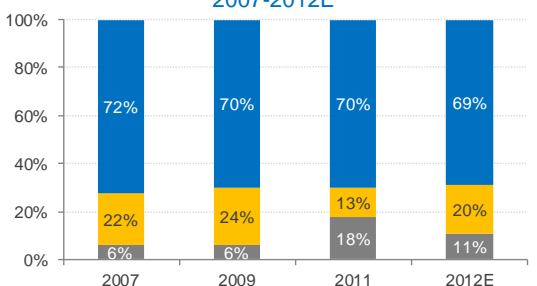
- ✓ During 3Q12, ASP was nearly US\$82 per item sold. We estimate this figure to decrease as a result of massive product targeting, reaching half its value by '17;
- ✓ Current marketplace product's mix is dominated by electronics products, which takes ~50% stake;
- ✓ ~80% of goods sold are first hand;

Fig. 7.  
Revenues by Country Source  
As reported in 3Q12



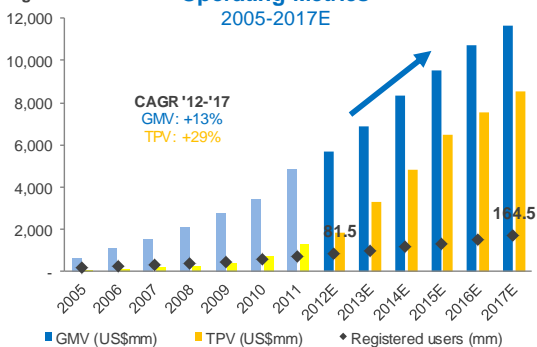
Source: MELI financial statements

Fig. 8. Source of Revenues by Business Unit 2007-2012E



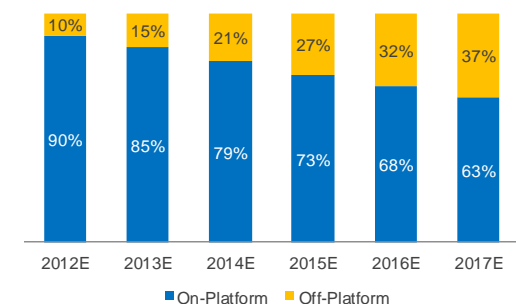
Source: MELI financial statements & Team estimates

Fig. 9. Operating Metrics 2005-2017E



Source: MELI financial statements & Team estimates

On vs. Off-Platform over GMV Share 2012E-2017E



Source: Team estimates

✓ ~70% of the merchants selling on MELI's marketplace are small-sized retailers, a segment for which addresses MPago strategy towards buyer/seller-financing and payments options.

On 3Q11 MELI launched a new technology marketplace platform, a milestone that triggered higher revenues, with an average growth of 33.6% yoy, but now started to slow down, because businesses' ecosystem has compensated the overall strength.

◆ **MercadoPago payment system (MPago):** It was launched in 2004 as a mechanism to facilitate users to send and receive payments either in the MELI marketplace or outside of it. MPago has become the second revenue generator and intends to provide an alternative solution to PayPal, eBay's payment system. It accounts ~20% of income share (Fig. 8), annual CAGR for TPV 'during '05-'11 was 65% and for the last five years an average of 20% of GMV was paid using MPago, still below PayPal's penetration of 80-90% in eBay's transactions. Latest MPago's release 3.0 includes off-platform payment, which is currently only available in Brazil, Argentina, Mexico, Colombia, Venezuela and Chile. Instead of acting as an escrow service<sup>x</sup>, it provides buyer/seller-financing upon transaction's closing, releasing funds to seller, charging a fee to buyer and bearing all transaction's risks. MELI's strategy to avoid bad debt from MPago is selling receivables to banks at discounted price. MPago 3.0 also provides wire money services to other MPago users. 3.0 release enables these users to achieve a higher transaction speed and enjoy simplified money transfers, since it is a good solution for individuals, small retailers and other businesses to reach a broader customer base and provide other financing options for their clients without being registered into MELI's marketplace. Some relevant metrics:

- ✓ Off-platform MPago currently is 10% of GMV; we estimate that could reach 37% of GMV by 2017 (Fig. 10);
- ✓ MPago's off-platform processing: Latam Groupon and PeixeUrbano, the largest couponing companies in Latam and particularly, strong presence in Brazil;
- ✓ 1 out 2 MPago transactions are being done through financing method;
- ✓ 25% of Brazil's marketplace transactions are being done through credit.

In the medium-term, it is expected big changes in the regulatory environment for payments in Brazil, presumably most favorable to MELI, but no further guidance was given. This matter will be developed in the 'Risk Factors' section.

◆ **MercadoClics advertising services (MClics):** Online advertising that offers users a way to promote their products inside MELI's platform, in a similar way as Google Adwords. Registered users access MClics on a cost per click basis in order to display advertisements of their merchandises in a distinguished way from other product search results. The revenue contribution from this core business to overall is still marginal, but in the last couple of quarters it was manifested through earnings calls and investors conferences that this unit is growing ~50% yoy, thanks to mobile development.

◆ **MercadoShops online store services (MShops):** Online web-store solution that allows individuals and businesses to build, host and manage their online stores using MELI's technology. Fees ranges from free to a fixed monthly fee, which makes this revenue contribution line marginal, since few people choose to pay. This service delivers also the possibility to integrate the webstore with other services of MELI and it is often strategically targeted as a brand loyalty maker.

**Smart money: know-how transfer.** In September 2001, eBay provided industry expertise and handed in then eBay's Brazilian subsidiary iBazar<sup>xi</sup>, in exchange of MELI's ~19% stake. The deal also included a non-compete agreement that permitted MELI to grow and develop its operations without any potential threat from eBay for the next 5 years. Since then, eBay became MELI's largest stockholder. In 2006, non-compete agreement expired and turned eBay into a potential competitor. Currently, eBay could be defined as a passive shareholder because does not hold any seat in the Board.

**Strategic acquisitions.** Since 2002, MELI has been acquiring several competitors such as Argentinean-headquartered DeRemate.com in 2008 (US\$22mm cash and financed with US\$18mm one-year bond issuance) and Mexico's CMG Classified Media Group Inc. in January 2008 (paid US\$19mm in cash), as important to name a few. These acquisitions allowed MELI to strengthen its market leadership position and to become one of the biggest e-commerce retailers with more than 80 million CRU.

## Industry Overview and Competitive Positioning

**E-commerce businesses have developed vertical product integration and customized their services.** Companies providing trading services over the internet started operations as selling web platforms with scarce transaction options. Industry rapidly evolved and nowadays firms are delivering a wide variety of services such as classifieds, online payments solutions, advertising, financing services and other online web solutions. In 1995 eBay was just an online auction website and today offers standard shopping, online classified advertisements, online event ticket trading and online money transfers (via its trademark PayPal). However, the highly competitive and rapidly changing e-commerce industry has also left behind many companies; only a few grew strong to survive. Failure cases are accounted mainly during 2000's dot com bubble crash<sup>xii</sup>, such as Webvan (raised US\$375mm during its IPO and only survived 2 years), Pets.com (raised US\$83mm to collapse only 9 months later), to name a few.

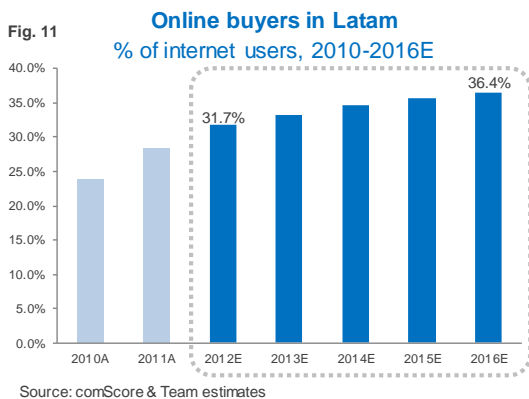
MELI remains as a solid player within Latam internet industry with strong growth potential nourished by an underpenetrated market (only 20% of Brazilian consumers and 32% of Argentine consumers make online purchases) and low competition levels. MELI direct competitors are Rakuten, BuscaPe.com and Lojas Americanas in Brazil and MasOportunidades.com in Argentina. The company also competes with brick-and-mortar online websites such as Falabella, Garbarino, Apple and Walmart.

**Brazil, Argentina and Mexico lead e-commerce industry in Latam.** It is expected that online business to commerce (known as B2C) to reach US\$36.8bn in sales by the end of 2012 and to continue growing in the upcoming future. Brazil, Latam largest economy, leads e-commerce industry as it absorbs more than a half of B2C online sales, followed by Mexico and Argentina with US\$5.0bn and US\$3.4bn, respectively<sup>xiii</sup>. It is estimated that these three countries will continue to lead e-commerce sales but online retailers in Argentina and Mexico will have to surpass delivery and payment options problems in order to stay competitive.

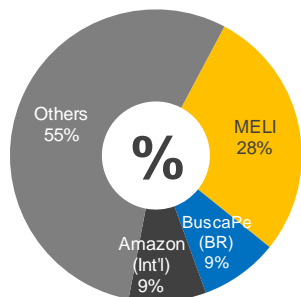
**Internet users in Latam grow at a steady pace.** In December 2011 online population reached to 129.3mm visitors. It is a 16% annual increase and the highest growth performed worldwide. The internet user penetration is nearly 42.6% of total population and experts estimate that it will grow to 53.4% in the next four years<sup>xiv</sup>. These facts indicate a strong growth potential for startups and other technology companies to expand.

**Small gadgets are replacing traditional devices.** Online users with mobile phones and tablets are increasing not only in Latam but all over the world. It is estimated that for the end of 2012 they will be approximately a 66.2% of mobile phone user's penetration<sup>xv</sup>. Smartphones diffusion still remains low but it is increasing at a fast pace. The mobile phenomenon makes internet accessible for a broader population because small gadgets are a cheaper and a continuous way to be connected to the web.

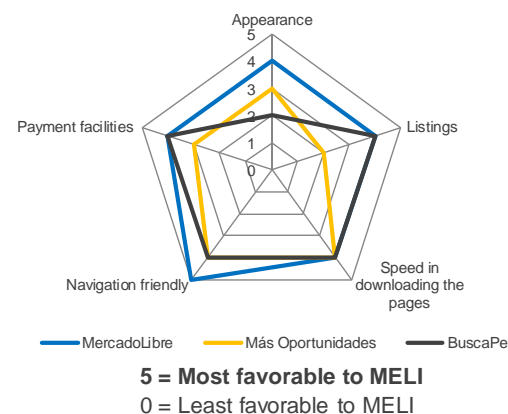
**Payments headache.** The lack of trust that users feel with online payment is a problem that remains unresolved. Unlike USA and Europe, in Latam region only a limited amount of internet users have credit card services and only a few of them use it for online purchases. Direct competitors such as DineroMail and PagosOnline are trying to tackle the problem by offering SMS paying systems or through a convenience store as intermediary, but success and profitability is yet to come. Nowadays, MPago is positioned as one of the leaders of online payments and the penetration of this service in the transactions of MELI's marketplace is increasing every year. In 2010,



**Fig. 12**  
**2010 MELI's Market Share in Latam**  
100% = 131.8mm UV



**Fig. 13**  
**Five Forces Model:**  
**Comparison of MELI to Local Peers**



approximately 87.4% of the MELI marketplace's listings accepted MPago as a paying alternative.

**E-commerce shipping services are not as well developed as in other regions.** It is a great challenge for the e-commerce community to develop secure and easily shipping options for their customers. MELI is actually testing these services in Brazil with a small user sample. MELI has not announced any plan to launch these services for the whole marketplace in the short term.

**Effects of seasonality are perceived in all operating countries.** The last quarter of the year is expected to represent almost 30% of 2012 revenues. This behavior was experienced in past calendar years because transactions increase in holiday's season. Different is the case of the first quarter, which represents the lowest period because of vacation time in Brazil, Argentina, Chile, Peru and Uruguay.

## Investment Risks

MELI is exposed to several risks that could threaten its business operations.

### Operational risks:

**Decrease in e-commerce acceptance and poor network infrastructure.** Potential consumer slowing interest in internet services and inadequate development of enabling technologies infrastructure by Latam governments may not be able to support continued growth of internet penetration (Fig. 15) and therefore limit new e-commerce users. These conditions could negatively affect MELI's operations and profitability.

**Fluctuations in consumer behavior and changing trends in internet industry.** E-commerce users may change their consumption patterns and decrease electronic devices purchases through MELI's marketplace and seek other commercial vehicles. In order to stay competitive, MELI may need to spend large amounts of resources in developing new technologies and consequently face operational and financial tightening. New products and services launched may not generate satisfactory revenues.

**Bias operational regulation.** Lack of suitable and compatible internet regulation in countries where the company operates brings judges to decide similar claims in different ways. A court may decide that internet service providers are liable to a prohibited item sold or responsible for an intellectual property violation, while other court may resolve that the duty lies on the user. Also, MELI is subject to new online retailing regulation, such as the expected in the medium-term regarding electronic payments in Brazil, presumably most favorable to MELI, but no further guidance was given. Regulation uncertainty could adversely affect MELI's business model and harm its reputation.

**Competition may intensify and squeeze margins.** MELI competes against a wide variety of companies, including sites dedicated to online auctions, internet stores, brick-and-mortar retailers and other online communities. These players could strengthen and intensify competition by developing new technologies and MELI may not be able to adapt operations to meet industry standards. Well-known and well-financed corporations such as Amazon and eBay may decide to enter the Latam e-commerce marketplace. It is uncertain how MELI would respond to this event.

◆ **Amazon:** In December 2011 Amazon launched AWS in Brazil, which reflects a clear interest from the world's largest online retailer to develop a position in the region. By Amazon establishing first in Brazil, MELI could be threatened since half of its revenues are originated in Brazil. Still, Amazon without physically establishing in Latam is a direct competitor of MELI, because subject to each country's customs, gives international shipping, and that is including Latam. Moreover, Amazon enjoys a unique technology capability and infrastructure that is difficult to compete at that scale.

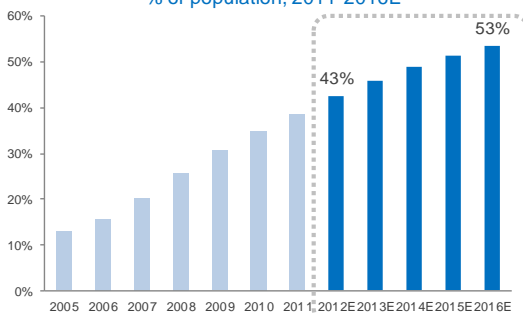
◆ **eBay:** The non-competition agreement between MELI and eBay expired in 2006, and currently eBay holds 18.4% of MELI's share capital. If eBay's subsidiary alaMaula starts to get increasing market share and aggressively compete with MELI, it

Fig. 14

### Risks at a glance:

| Operating                | Political & Economic       |
|--------------------------|----------------------------|
| - Consumer trends        | - Argentina & Venezuela    |
| - Network infrastructure | - FX                       |
| - Lack of regulation     | - Macro headwinds in Latam |
| - New tax schemes        |                            |
| - eBay & Amazon          |                            |

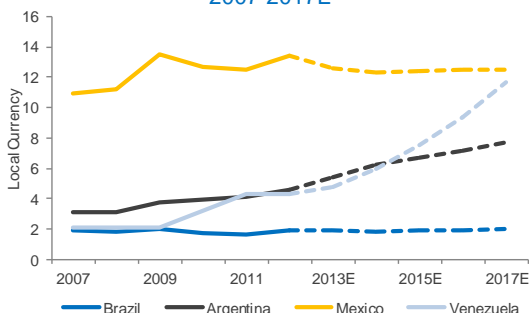
Fig. 15 Internet User Penetration In Latam  
% of population, 2011-2016E



Source: Internet World Stats

Fig. 16

### Average Nominal Exchange Rate to US\$ 2007-2017E

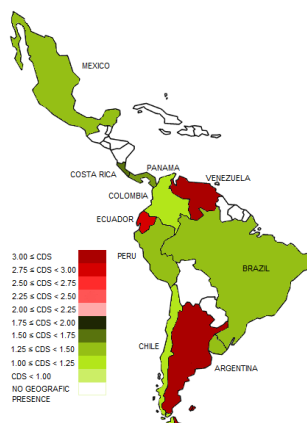


Note: Argentina and Venezuela's FX currently is fixed by Govt, not reflecting mark-to-market. We estimated FX according to future inflation expectations.

Source: Bloomberg, Capital IQ, World Bank, FMI

Fig. 17

## MELI's Exposure to Latam Sovereign Risk



Note 1: Sovereign CDS quote as of Oct' 6, 2012  
 Note 2: It was assigned an arbitrage CDS for Ecuador based in financial status.  
 Source: Bloomberg.

would have a material adverse effect in MELI's operational results and financial conditions. alaMaula's current commercial strategy resides in social network involving, mainly in association with Facebook. Still, alaMaula's operating metrics are marginal compared to MELI and if it keeps in this pace, there is a potential acquisition or shareholding extension by eBay in MELI.

**Governments may impose new internet tax legislation.** Given the lack of transparency on fiscal policy characterized by Latam governments, MELI may be subject to new tax burden if governments decide to impose value added or sales taxes to ecommerce. Argentine government may also cut tax benefits of 60% discount on mandatory Argentine labor taxes and 60% reduction of income tax. These measures could negatively affect MELI's operations and financial status.

#### Political and economic risks:

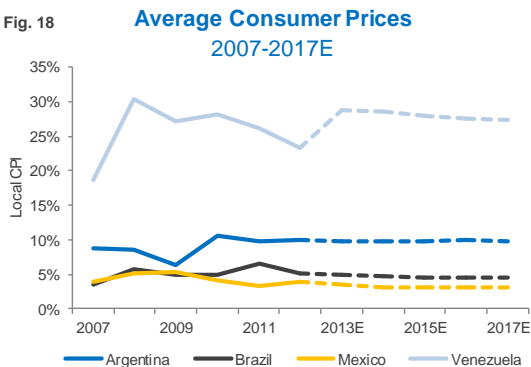
**Unstable economic and political conditions in Venezuela and Argentina.** Together both countries accounted for more than 37% of revenues. Unsteady political and economic circumstances may endanger MELI's business and financial status. See Fig. 17 to review Latam's CDS status, headed by Argentina, Ecuador and Venezuela, all countries where MELI has operations. It is set forth potential events that could make this possible:

◆ **Access to FX markets, off-shore payments and remittances:** both countries carry exchange regulations that limit companies and other entities to convert local currency into U.S. dollars at the official rate for a vast number of transactions such as dividend remittances. In order to slow cash accumulation within Argentina and Venezuela, MELI could purchase and sell securities denominated both in local currency and in U.S Dollars. This mechanism would force MELI to pay higher prices for US Dollars and therefore affect negatively the companies' US Dollar nominated revenues. If political uncertainty continues, MELI could face a material adverse effect on its business, operations and financial condition. Currently, we estimate that as a result of cash outflow restrictions, US\$25 million are held in Venezuela<sup>xvi</sup> and that figure is continuously accumulating cash since Venezuela's business margin is profitable. Dividend approval is pending of local fiscal authorities (CADIVI), but in the meantime MELI can smooth this inactive cash stock by declaring small monthly dividends of US\$350k. We estimate that Argentina may go in the same direction, but with less impact compared to Venezuela since MELI's headquarters are located in Argentina and indirect costs resulting from holding operations can be set-off. See Fig. 16 for more guidance.

◆ **Inflation:** both economies go through highly inflationary pressures and it is foreseeable that MELI could experience squeezing margins in the future. Argentina and Venezuela, which both account 37% of share revenues, are highly inflationary countries with yearly CPI ~30% yoy. See Fig. 18 for more guidance.

**Strengthening of the US Dollar relative to Latam currencies may reduce US Dollar denominated revenues.** A potential depreciation of the Brazilian Real, Argentinian Peso, Mexican Peso, or any of the other currencies can adversely affect MELI's financial projections.

**Regional macroeconomic fundamentals remain volatile.** Latam countries have historically experienced uneven periods of economic growth coupled with periods of high inflation and economic instability. Furthermore, the region is highly vulnerable to the Eurozone sovereign debt-crisis undertakings. These two conditions could adversely affect MELI's long-term growth.



Note: Argentina's inflation according to independent observers reports around 25%

Source: FMI

## Valuation

**Valuation of MELI mainly based on fair value DCF, complemented by PER and EV/EBITDA.** We have taken a blended methodology of valuation using DCF and Multiples Analysis. Since MELI has marginal financial debt and it is targeted to bear zero debt as its industry peers, our DCF from the FCFF plus PER and EV/EBITDA are the most appropriate approaches to MELI's intrinsic value. FCFF considers MELI's past financial figures to project its future and long-term cash flows, while multiples PER and EV/EBITDA incorporates the mark-to-market appreciation (Fig. 19).

**Fair value DCF Approach.** As MELI carries almost-zero amount of debt and its core businesses are placed in a high growth with huge upside potential sector such as e-commerce, FCFF is suitable since it captures time-value of money and brings a present value of long-term cash flows. The fair value share price outcome is US\$80.54 (Fig. 20).

**Main FCFF assumptions: WACC, terminal value and years of projection.** MELI operates in markets catalogued as *emerging* (Brazil, Mexico) and *frontier* (Argentina, Venezuela), thus we added to the risk-free rate the sovereign premium of each MELI's operating countries, weighted by its revenues share. The WACC resulting is 12.8%, almost 300 bps higher than eBay's calculated WACC 6.9% (Fig. 21). It has to be taken into consideration that current risk-free rate, using the US 10-year T-Bond, is on its historical low, thus improving cost of equity. TV growth rate expectation is set to 5%, reasonable to a highly growing industry, especially in Latam where penetration rate is only 43%<sup>xvii</sup>. Related to the latter relies the assumption of 10-year cash-flow projection, since it takes at least 10 periods to stabilize the funds flow in order to make a proper valuation.

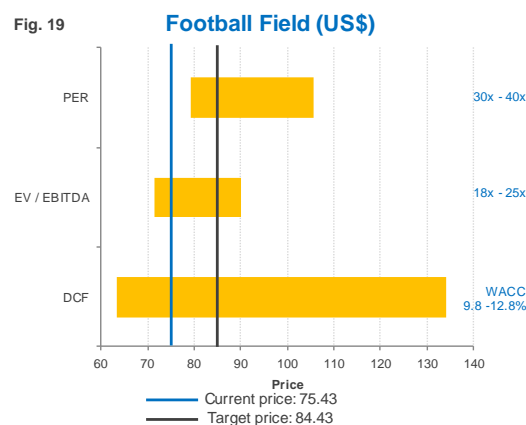
**Revenues forecast.** As seen in Fig. 22, The 10-year projected cash-flows are mainly resulting from increasing revenues, given by: (i) growing market share as MELI's platform gets continuous improvements (verticalization, mobile platform) and positive externalities from already registered users; (ii) increase in number of listings as a result of sold items diversification to massive products (mainly fashion & apparel); (iii) more and more usage of MPago as online payment, especially off-platform, where MELI can collect a financing fee free of bad debt risks, since MELI sells it to credit cards companies; and (iv) developing Latam e-commerce penetration to offline retail, according to industry experts will grow at an annual CAGR of 11% for the period of 2012-2017<sup>xviii</sup>. Growth during projection years is expected to be at annual CAGR of 14%, slowing down from 2016.

**Economies of scale for revenues and SG&A costs.** As MELI gradually diversifies its income mix and focuses to massive products, it also takes advantage of its cost structure, which grows at slower pace than revenues and has a fixed threshold that can give support to growing activity, especially from marketplace. R&D expenses are not taken into account because they are an implicit way of capex, but due to accounting standards, they are registered under R&D costs.

**EBITDA margin.** We expect that will decrease from 2012E's 36.1% to 31.1% in 2017, because of higher inflation and FX depreciations in Latam region, as well as growing costs derived from R&D due to lack of computer programming talent, a problem that MELI is constantly aiming at, investing in human capital through university research (this is why MELI gets a benefit from Argentina's income tax until Sept' 14). Holding structure is aim to stabilize to 20% share of revenues.

**Capex.** We only model recurrent capital expenditures, which are mainly derived from R&D activity and can be amortized for more than one year. Under accounting standards, R&D expenses that last less than a year cannot be registered as capex. We estimate a share on revenues of ~5%, including intangibles purchases.

Fig. 19



Source: Team analysis

Fig. 20

| DCF                                    |                |
|--|----------------|
| NPV of Unlevered FCF (US\$mm)          | 1,476.7        |
| + PV of TV (US\$mm)                    | 1,869.0        |
| <b>= Enterprise Value (US\$mm)</b>     | <b>3,345.7</b> |
| - 2012 eop net debt (US\$mm)           | (206.5)        |
| Debt (US\$mm)                          | 0.2            |
| Cash & equivalents (US\$mm)            | 206.7          |
| + Minority interest (US\$mm)           | 4.0            |
| <b>= Equity Value (US\$mm)</b>         | <b>3,556.2</b> |
| / Diluted Shares Outstanding (mm)      | 44.2           |
| <b>= Equity Value per Share (US\$)</b> | <b>80.54</b>   |
| Implied EV / EBITDA 2013E              | 20.4x          |

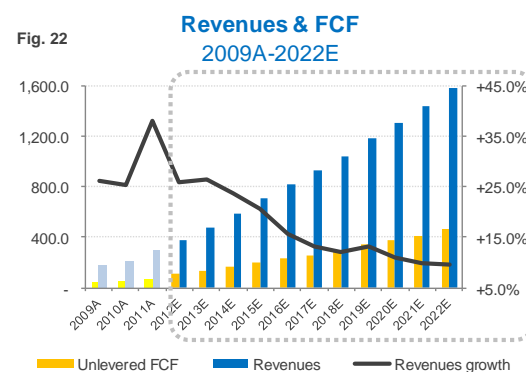
Source: Team estimates

Fig. 21

| Cost of Equity                    |              |
|-----------------------------------|--------------|
| LTM ave. 10-Yr T-Bond = Risk-free | 1.8%         |
| Adjusted 2Y Levered Beta          | 1.29         |
| Equity Risk Premium               | 5.5%         |
| LTM ave. Latam Risk Premium       | 3.9%         |
| <b>Cost of Equity</b>             | <b>12.8%</b> |

Source: Team estimates

Fig. 22



Source: MELI financial statements and Team estimates

Fig. 23

| EV / EBITDA Multiple Valuation         |                |
|--|----------------|
| EBITDA 2013E (US\$mm)                  | 163.7          |
| x Industry Peers Average EV / EBITDA   | 20.6x          |
| <b>= Enterprise Value (EV)</b>         | <b>3,371.2</b> |
| - 2012 eop net debt (US\$mm)           | (206.5)        |
| + Minority interest (US\$mm)           | 4.0            |
| <b>= Equity Value (US\$mm)</b>         | <b>3,581.7</b> |
| / Diluted Shares Outstanding (mm)      | 44.2           |
| <b>= Equity Value per Share (US\$)</b> | <b>81.12</b>   |

Source: Bloomberg and Team estimates

Fig. 24

| P / E Multiple Valuation                       |               |
|--|---------------|
| EPS 2013E (US\$)                               | 2.64          |
| x MELI last 6m average                         | 40.00         |
| <b>= Implied Stock Price on Fwd EPS (US\$)</b> | <b>105.69</b> |

Source: Team estimates

Fig. 25

| Blended Valuation                     | Share Price  | Weight      |
|---------------------------------------|--------------|-------------|
| DCF @ WACC=12.8% & g=5%               | 80.54        | 65%         |
| EV / EBITDA @ 20.6x                   | 81.12        | 20%         |
| P / E @ 35.0x                         | 105.69       | 15%         |
| <b>Synthetic Value - Target Price</b> | <b>84.43</b> | <b>100%</b> |

Source: Team estimates

**Multiples valuation, 1: EV/EBITDA.** From a market and short-term view, Multiples Analysis is the best to capture investors' future expectations. We calculate industry's EV/EBITDA, selecting the most representative companies which fit MELI's core businesses. Currently MELI is trading at 24.9x EV/LTM EBITDA (See Fig. 23), while selected industry peers are at an average of 20.6x. We project that MELI is going to move towards industry peers, as implied EV/2013E EBITDA arrived on DCF approach, which is around 20.4x. The result is a share price of US\$81.12.

**Multiples valuation, 2: PER.** Since PER has reverse to media, we value MELI using its last six months average PER of 40.0x. We do not use LTM since we see a structural change in May 2012, where average PER of 55.0x went down abruptly to 40.0x, showing a clear change of scenario (refer to Fig. 41 on Appendix 6 for further details). With this method, we arrived at a price of MELI of US\$105.69 (Fig. 24).

**PT: mixing the three approaches.** The valuation based on the fundamentals is most impartial and relevant than market-based approaches, especially in current context after Facebook IPO, when market started to behave bearish on internet equities. Thus, DCF is preferred to multiples analysis and therefore, assigned a larger weight –in MELI's case, a 65%. The remaining 35% is breakdown between EV/EBITDA for 20%, where we considered that this approach still relies on technical business fundamentals, and 15% assigned to PER valuation. The target price we obtain is US\$84.43 (Fig. 25).

## Financial Analysis

### Income Statement

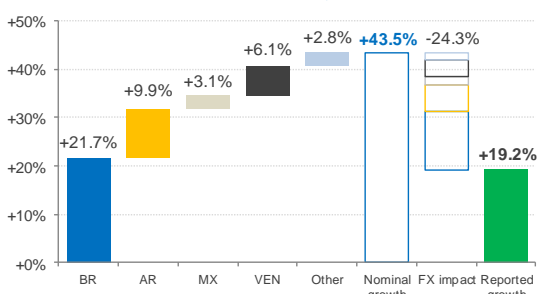
**A compelled business model with multiple revenue mix, but distorted by FX.** Since 2005 to 2011, MELI's revenues consistently grew at an annual 40.1% CAGR, above e-commerce market's 33.0%, as well as a continued rise of 16.3% CAGR is expected for 2012-2017. Although, MELI operates in 13 countries in Latam and therefore FX impact is considered, since local currencies are highly volatile and depreciations/appreciations are a frequent issue, especially in Argentina and Venezuela where MELI's 37% of revenues share is generated and FX are subject to government intervention. For LTM revenues as of 3Q12, reported growth was weaker compared qoq due to its US\$ measure, but in local currencies growth is higher, mainly caused by FX depreciations and inflation. See Figure 26 for further details.

**Revenue drivers.** Identified business metrics help to understand revenues generation: (i) units successfully sold; (ii) GMV; (iii) TPV and MPago off-platform usage; (iv) total number of listings and categories of products and services offered; and (v) mass of buyers and sellers, meaning, confirmed registered users. From GMV, TPV and MPago off-platform, it can be calculated MELI's take rate as the share of revenues over overall monetary transactions. Take rate is good measurement of MELI's fee collection, which is currently around 6.8%, far from eBay's ~13%. MPago is bundled in marketplace fee, which is around 5%. We estimate a growing usage of off-platform MPago (37% of GMV by 2015), and then take rate will increase to ~10%.

**A controlled cost structure to support intensive activity.** MELI's overhead has been shrinking in relation to its revenues, showing a clear economy of scale which in the future is expected to capitalize, gaining larger business margins (See Fig. 27). Inside overhead accounts MELI's headquarters expenses are from Argentina, where costs are relatively low in terms of quality-price, and takes ~20% of total costs of MELI (known as indirect costs). Costs of sales are increasing but slowly compared to revenues growth, currently reaching to a 26.4% share of revenues.

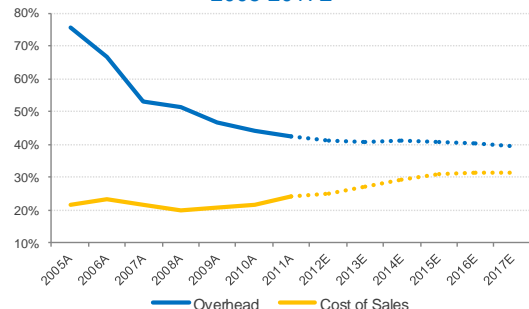
**Due date for Argentina's income tax benefit.** By September 2014 a 60% benefit for Argentina's corporate tax (statutory 35%) is set to expire. We estimate that a renewal won't occur, since it was extended once before, which it would impact MELI's net income from 2015 and on. MELI's current blended tax rate stands on 27.5%.

Fig. 26 Revenues' Growth, Real &amp; Nominal LTM as of 3Q12



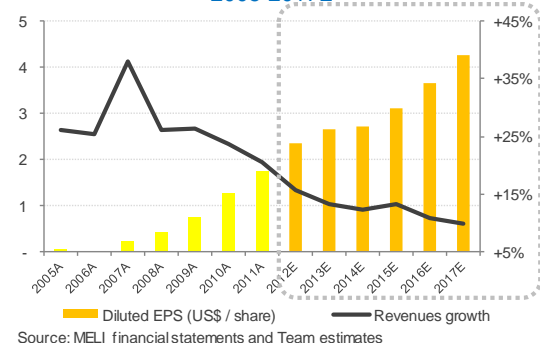
Source: MELI financial statements and Team estimates

Fig. 27 Costs as % of Revenues 2005-2017E



Source: MELI financial statements and Team estimates

Fig. 28 Diluted EPS & Revenues Growth 2005-2017E



**Bottom line: earnings going hand in hand with growth.** We expect increasing diluted EPS at annual 10.4% CAGR during '12-'17 periods, as converting it to FCFF.

**Cash Flow**

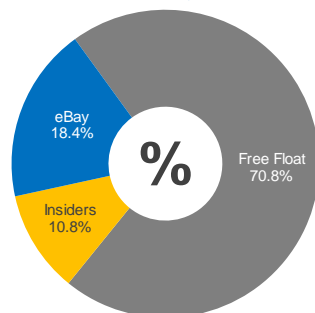
As we mentioned above, MELI is a cash cow with no need of large capital expenditure as hard industries have. MELI's working capital is mainly composed by funds from MPago business circuit, which are funds payable deposited by customers in MELI's platform, acting as an escrow account. The amounts are saved in each origin country in local currency to avoid FX risks, and are backed up with short-term investments. MELI started to pay dividends in 2011, as a consequence of excess of cash holdings. The dividend policy is set in 25% of last year's net income, paid in quarterly installments. The payout ratio is forecasted to be around 21% for '12-'22.

**Balance Sheet**

**Asset-light model: growing cash, no debt.** MELI has a sound financial position, with cash and equivalents balance of 66% of equity BV and virtually no financial debt, which is a benchmark in e-commerce industry. In the one hand, debt is no need to be incurred since MELI can use its internally-generated funds to finance capex, new or current business developments, fulfillment partnerships and potential M&A opportunities. In case of having a more ambitious business target and cash stocks are not enough, with current financial metrics MELI can easily face a financing round through capital markets. On the other hand, MELI has a volatile cash generating business, thus debt repayment –especially for a medium/highly levered capital structure- could be at risk.

**Two types of cash buckets have to be differentiated:** One is funds payable to MPago accounts, as explained in cash flow, which is on average ~50%, less than the cash equivalents and investments on the balance sheet, are located in country originated in order to match the funds payable to the customer with MELI's cash reserve. The cash or cash equivalents which are actually registered in balance sheet, are deposited in the US or in US\$ denominated instruments.

Fig. 29 MELI's Ownership Structure As of 3Q12



Source: SEC filings, Bloomberg, Capital IQ

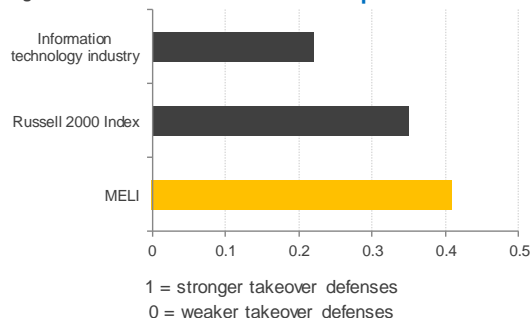
**Company Brief Description & Analysis**

**Almost all free float is held by institutional stakeholders.** Traditional funds take 95% of institutional investors' universe which offers a mix of liquidity and certainty in the long-term. Institutions are followed by eBay's 18.4% of share participation. Insiders complete the list with 10.8% ownership. No public sector investor is observed (See Fig. 29). Notice that MELI's daily volume is to Buenos Aires Stock Exchange ~7.5x.

**Strong head start and management expertise to withstand existing and potential competition.** MELI capitalized first-mover advantage by gaining size, technology leadership and recruiting high quality management. Despite of low barriers, MELI's large scale, cost-efficient operations and reputation create difficulties to new firms to compete and increase market share. MELI's commitment to innovate its technology platform to take the user experience to maximum level has helped it to oust competitors such as B2W, the Brazilian listed online retailer, and Argentinean MasOportunidades.com, a subsidiary of Grupo Clarín, the largest media group in Argentina, both amid consumer complaints and several fraud claims.

**Corporate governance.** MELI is incorporated under rules of Delaware, USA. Only one class of stock, with one voting right each. To carry out Bylaws amendments, the State Law requires a Supermajority approval, defined as at least 67% of votes. In an event of a hostile takeover, as defense it is required the approval of the Board and a Supermajority. Moreover, in an event of follow-on offering, there are no preemptive rights for shareholders. On Fig. 30 it is shown a comparison between MELI and companies from information technology industry, and companies which participates in Nasdaq's Russell 2000 Index, showing stronger takeover defenses in comparison to these two benchmarks.

Fig. 30 Defense Takeovers Comparison



Source: Capital IQ

## Appendix

### 1. Rating Definition

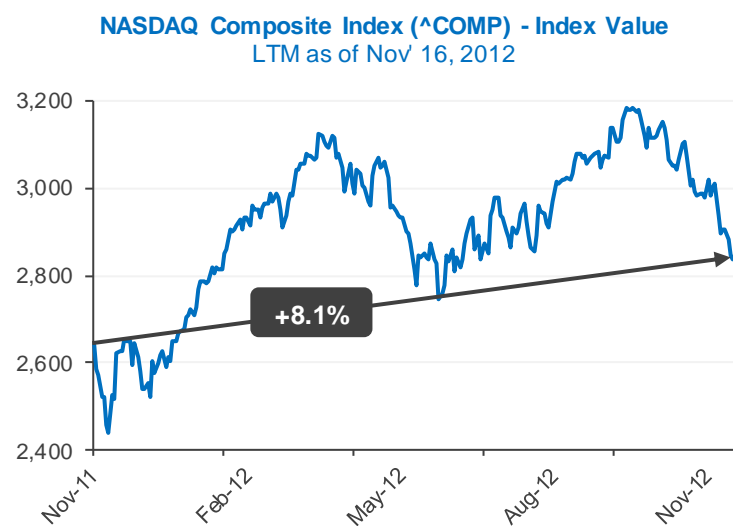
The following table describes our rating criteria.

Fig. 31

| Rating | Criteria  |
|--------|---|
| Buy    | Security is expected to deliver absolute returns greater than 15% over the next twelve-month period   |
| Hold   | Security is expected to deliver absolute returns below 15% over the next twelve-month period. Returns are in line with underlying market performance (LTM Nasdaq Composite) |
| Sell   | Security is expected not to deliver returns over the next twelve-month period   |

### 2. LTM Nasdaq Composite Performance

Fig. 32



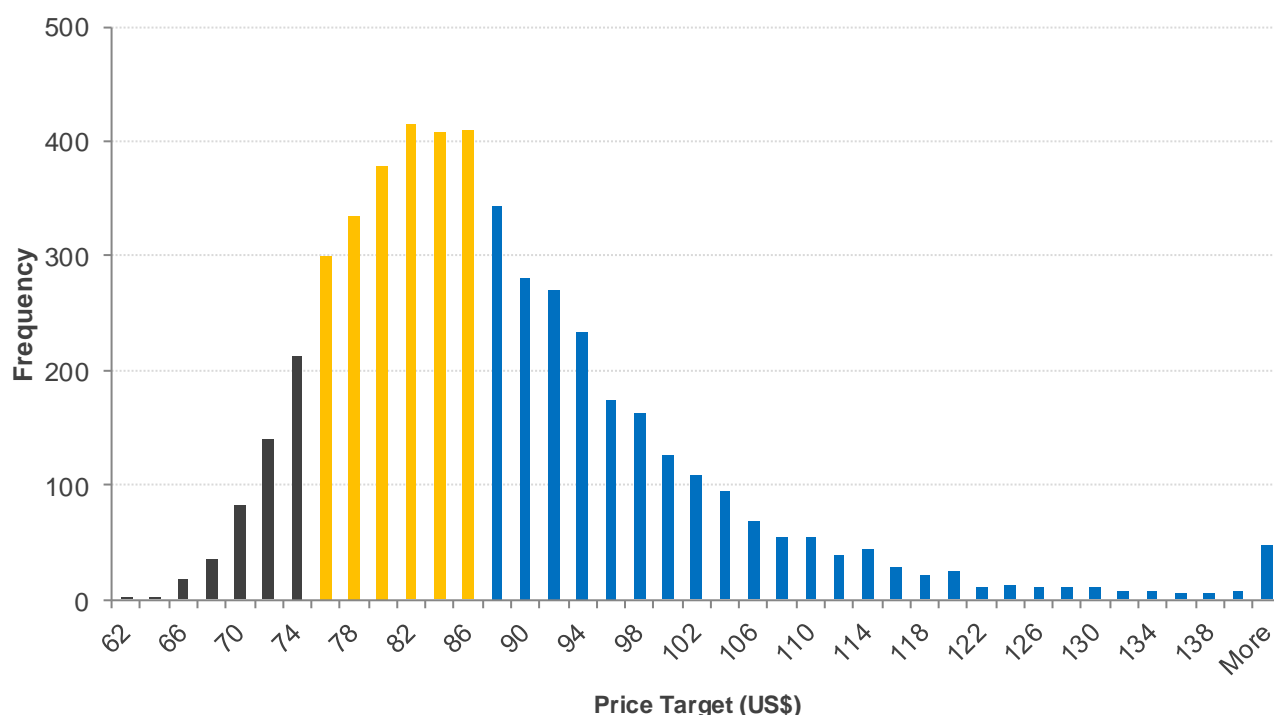
Source: Bloomberg

## Appendix

### 3. Monte Carlo Simulation for Target Price Using Cost of Equity and Terminal Value Growth Rate as the Sensitive Variables

Fig. 33

| Rating      | Sell  | Hold  | Buy   |
|-------------|-------|-------|-------|
| Probability | 14.1% | 43.4% | 42.5% |



Source: Team estimates

#### Analysis

We wanted to test how much cost of equity and terminal value growth rate could influence in our Price Target and thus, in our rating to MELI. We ran a Monte Carlo simulation assuming these two variables as essential to PT formation, because cost of equity is highly influenced by Latam volatility and terminal value constitutes an important share in our DCF model (56% of EV), therefore perpetual growth rate is another key variable in our PT formation. We assume that cost of equity is log-normally distributed, with 1.3% per year of standard deviation derived from CDS for Latam series. Growth rate is assumed to be normally distributed using a 1.5% standard deviation.

We have considered other factors such as industry average EV/EBITDA and MELI's historical PER, however we think both variables are implied in the cost of equity through MELI's beta, thus there is no need to consider in our sensitivity test.

The Monte Carlo simulation resulted that we would determine a sell rating to MELI security with a 14.1% probability, significantly below buy rating probability of 42.5%.

## Appendix

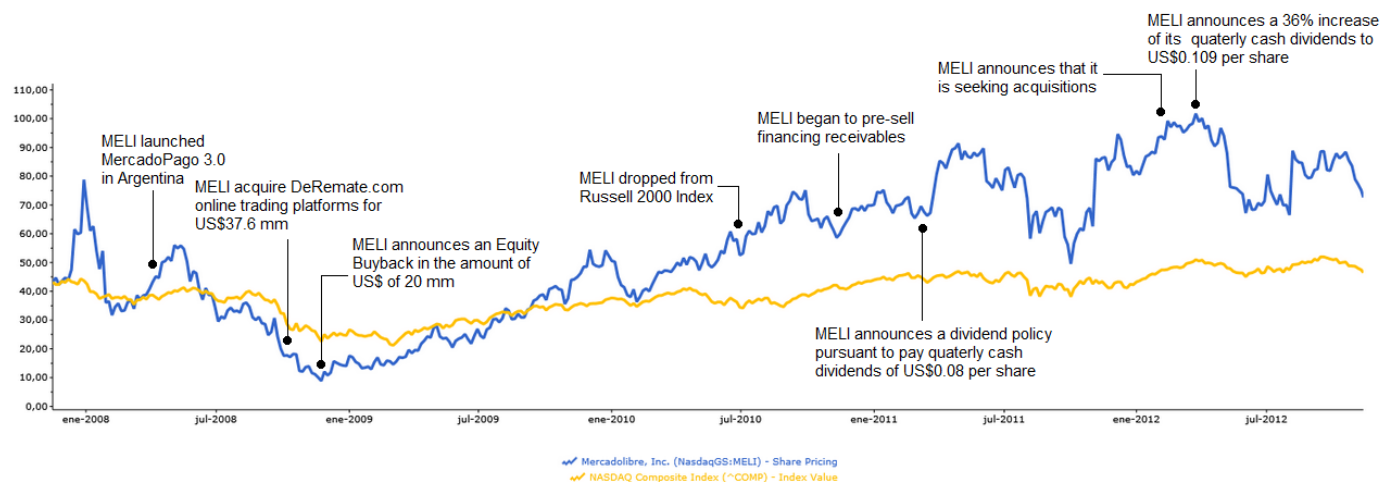
### 4. MELI's Operations and Key Metrics

Fig. 34. MELI's Geographic Presence in Latam



Source: Company information.

Fig. 35. MELI's Timeline



Source: Company information and Team analysis.

## Appendix

### 5. Financial Statements

Fig. 36. Income Statement (in US\$ millions)

| FY end Dec' 31                         | 2009A        | 2010A        | 2011A        | 2012E        | 2013E        | 2014E        | 2015E        | 2016E        | 2017E        | 2018E        | 2019E        | 2020E        | 2021E        | 2022E          |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| Net revenues                           | 172.8        | 216.7        | 298.9        | 376.7        | 475.9        | 588.7        | 709.9        | 821.9        | 930.4        | 1,043.6      | 1,182.0      | 1,310.5      | 1,439.5      | 1,576.8        |
| <i>growth yoy</i>                      | +26.1%       | +25.4%       | +37.9%       | +26.0%       | +26.3%       | +23.7%       | +20.6%       | +15.8%       | +13.2%       | +12.2%       | +13.3%       | +10.9%       | +9.8%        | +9.5%          |
| Cost of net revenues                   | (36.0)       | (46.5)       | (72.1)       | (94.6)       | (129.1)      | (171.4)      | (220.9)      | (256.6)      | (291.4)      | (327.9)      | (372.5)      | (414.3)      | (456.6)      | (501.7)        |
| <b>Gross profit</b>                    | <b>136.9</b> | <b>170.2</b> | <b>226.9</b> | <b>282.1</b> | <b>346.9</b> | <b>417.3</b> | <b>489.0</b> | <b>565.3</b> | <b>639.0</b> | <b>715.7</b> | <b>809.5</b> | <b>896.2</b> | <b>982.9</b> | <b>1,075.1</b> |
| Opex                                   | (80.9)       | (95.6)       | (127.1)      | (154.7)      | (194.5)      | (241.2)      | (288.3)      | (330.1)      | (368.4)      | (413.2)      | (468.0)      | (518.9)      | (558.8)      | (607.4)        |
| <b>EBIT</b>                            | <b>56.0</b>  | <b>74.6</b>  | <b>99.8</b>  | <b>127.4</b> | <b>152.4</b> | <b>176.1</b> | <b>200.7</b> | <b>235.3</b> | <b>270.6</b> | <b>302.5</b> | <b>341.4</b> | <b>377.3</b> | <b>424.1</b> | <b>467.7</b>   |
| <b>EBITDA</b>                          | <b>59.9</b>  | <b>79.5</b>  | <b>107.0</b> | <b>136.1</b> | <b>163.7</b> | <b>190.4</b> | <b>218.2</b> | <b>256.0</b> | <b>294.4</b> | <b>329.6</b> | <b>372.4</b> | <b>411.8</b> | <b>462.3</b> | <b>509.9</b>   |
| <i>EBITDA margin</i>                   | 34.7%        | 36.7%        | 35.8%        | 36.1%        | 34.4%        | 32.3%        | 30.7%        | 31.1%        | 31.6%        | 31.6%        | 31.5%        | 31.4%        | 32.1%        | 32.3%          |
| <i>growth yoy</i>                      | +46.7%       | +32.7%       | +34.6%       | +27.2%       | +20.2%       | +16.3%       | +14.6%       | +17.3%       | +15.0%       | +12.0%       | +13.0%       | +10.6%       | +12.3%       | +10.3%         |
| Net interests                          | (10.7)       | (2.7)        | 6.3          | 16.3         | 4.9          | 7.2          | 8.4          | 10.6         | 15.9         | 21.2         | 24.4         | 23.6         | 27.7         | 35.5           |
| Other net income                       | (2.7)        | (0.1)        | 2.4          | (0.7)        | -            | -            | -            | -            | -            | -            | -            | -            | -            | -              |
| Income / asset tax expense             | (9.5)        | (15.8)       | (31.7)       | (39.3)       | (40.6)       | (63.0)       | (71.9)       | (84.5)       | (98.4)       | (111.0)      | (125.4)      | (137.3)      | (154.7)      | (172.1)        |
| <b>Net income</b>                      | <b>33.2</b>  | <b>56.0</b>  | <b>76.8</b>  | <b>103.7</b> | <b>116.7</b> | <b>120.3</b> | <b>137.2</b> | <b>161.4</b> | <b>188.2</b> | <b>212.6</b> | <b>240.4</b> | <b>263.5</b> | <b>297.2</b> | <b>331.1</b>   |
| Net Income to Noncontrolling Interest  | -            | -            | (0.0)        | (0.0)        | -            | -            | -            | -            | -            | -            | -            | -            | -            | -              |
| <b>Net income attributable to MELI</b> | <b>33.2</b>  | <b>56.0</b>  | <b>76.8</b>  | <b>103.7</b> | <b>116.7</b> | <b>120.3</b> | <b>137.2</b> | <b>161.4</b> | <b>188.2</b> | <b>212.6</b> | <b>240.4</b> | <b>263.5</b> | <b>297.2</b> | <b>331.1</b>   |
| Diluted EPS (US\$ / share)             | 0.75         | 1.27         | 1.73         | 2.35         | 2.64         | 2.72         | 3.11         | 3.66         | 4.26         | 4.81         | 5.44         | 5.97         | 6.73         | 7.50           |
| Weighted average shares, in millions   | 44.1         | 44.1         | 44.2         | 44.2         | 44.2         | 44.2         | 44.2         | 44.2         | 44.2         | 44.2         | 44.2         | 44.2         | 44.2         | 44.2           |

Source: Team estimates and Company Financial Statements

Fig. 37. Revenues Breakdown by Countries

| FY end Dec' 31        | 2009A         | 2010A         | 2011A         | 2012E         | 2013E         | 2014E         | 2015E         | 2016E         | 2017E         | 2018E         | 2019E         | 2020E         | 2021E         | 2022E         |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Brazil                | 53.9%         | 56.7%         | 55.5%         | 49.4%         | 49.5%         | 49.7%         | 49.8%         | 49.7%         | 49.5%         | 49.4%         | 49.2%         | 49.1%         | 48.9%         | 48.8%         |
| Argentina             | 15.5%         | 18.4%         | 19.0%         | 23.1%         | 24.1%         | 25.1%         | 25.2%         | 25.3%         | 25.4%         | 25.5%         | 25.6%         | 25.7%         | 25.8%         | 25.9%         |
| Mexico                | 8.9%          | 8.7%          | 7.5%          | 7.2%          | 6.1%          | 5.0%          | 4.8%          | 4.9%          | 5.1%          | 5.2%          | 5.3%          | 5.4%          | 5.5%          | 5.7%          |
| Venezuela             | 15.8%         | 9.6%          | 11.7%         | 14.0%         | 13.8%         | 13.7%         | 13.5%         | 13.4%         | 13.2%         | 13.1%         | 12.9%         | 12.8%         | 12.6%         | 12.5%         |
| Other Countries       | 6.0%          | 6.5%          | 6.4%          | 6.4%          | 6.5%          | 6.5%          | 6.6%          | 6.7%          | 6.8%          | 6.9%          | 6.9%          | 7.0%          | 7.1%          | 7.2%          |
| <b>Total Revenues</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |

Source: Team estimates and Company Financial Statements

Fig. 38. Operating Data

| FY end Dec' 31             | 2009A   | 2010A   | 2011A   | 2012E   | 2013E   | 2014E   | 2015E   | 2016E    | 2017E    | 2018E    | 2019E    | 2020E    | 2021E    | 2022E    |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|----------|----------|----------|
| GMV (US\$mm)               | 2,750.7 | 3,405.9 | 4,820.1 | 5,685.0 | 6,895.5 | 8,322.4 | 9,532.6 | 10,707.1 | 11,620.2 | 12,516.4 | 13,477.9 | 14,396.4 | 15,253.0 | 16,135.4 |
| <i>Take rate (%)</i>       | 6.3%    | 6.4%    | 6.2%    | 6.6%    | 6.9%    | 7.1%    | 7.4%    | 7.7%     | 8.0%     | 8.3%     | 8.8%     | 9.1%     | 9.4%     | 9.8%     |
| TPV (US\$mm)               | 382.6   | 697.6   | 1,311.8 | 1,858.4 | 3,288.4 | 4,801.2 | 6,452.6 | 7,568.8  | 8,562.9  | 9,348.5  | 10,201.4 | 11,040.6 | 11,850.0 | 12,696.9 |
| <i>TPV/GMV</i>             | 13.9%   | 20.5%   | 27.2%   | 32.7%   | 47.7%   | 57.7%   | 67.7%   | 70.7%    | 73.7%    | 74.7%    | 75.7%    | 76.7%    | 77.7%    | 78.7%    |
| CRU (mm)                   | 42.6    | 52.9    | 65.8    | 81.5    | 97.0    | 114.9   | 129.5   | 145.2    | 164.5    | 182.9    | 201.5    | 222.0    | 242.2    | 264.2    |
| <i>New CRU</i>             | +8.8    | +10.3   | +12.9   | +15.7   | +15.4   | +17.9   | +14.6   | +15.7    | +19.3    | +18.5    | +18.6    | +20.5    | +20.2    | +22.0    |
| Number of listings (mm)    | 4.4     | 7.9     | 10.9    | 15.0    | 19.0    | 24.2    | 28.7    | 33.2     | 38.5     | 44.6     | 51.6     | 59.4     | 68.0     | 78.2     |
| Items sold (mm)            | 29.5    | 39.2    | 52.8    | 68.4    | 88.0    | 115.0   | 149.1   | 191.8    | 244.8    | 310.0    | 389.5    | 485.4    | 600.1    | 736.0    |
| Payments transactions (mm) | 382.6   | 697.6   | 1,311.8 | 1,858.4 | 3,288.4 | 4,801.2 | 6,452.6 | 7,568.8  | 8,562.9  | 9,348.5  | 10,201.4 | 11,040.6 | 11,850.0 | 12,696.9 |
| ASP (US\$)                 | 93.2    | 86.9    | 91.3    | 83.1    | 78.3    | 72.4    | 63.9    | 55.8     | 47.5     | 40.4     | 34.6     | 29.7     | 25.4     | 21.9     |

Source: Team estimates and Company Financial Statements

## Appendix

### 5. Financial Statements

Fig. 39. Balance Sheet (in US\$ millions)

| FY end Dec' 31  | 2009A        | 2010A        | 2011A        | 2012E        | 2013E        | 2014E        | 2015E        | 2016E          | 2017E          | 2018E          | 2019E          | 2020E          | 2021E          | 2022E          |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Assets</b>   |              |              |              |              |              |              |              |                |                |                |                |                |                |                |
| Cash and cash equivalents                                     | 49.8         | 56.8         | 67.4         | 123.0        | 172.5        | 254.6        | 388.7        | 514.3          | 626.7          | 821.2          | 976.0          | 1,069.1        | 1,257.6        | 1,403.4        |
| Short-term investments  | 14.6         | 5.3          | 74.9         | 83.7         | 99.6         | 114.0        | 116.8        | 118.5          | 119.0          | 118.3          | 117.5          | 116.6          | 115.6          | 114.5          |
| Accounts receivable, net                                      | 4.9          | 12.6         | 16.8         | 18.1         | 24.2         | 31.6         | 36.1         | 39.6           | 46.1           | 53.1           | 61.8           | 68.5           | 75.2           | 82.4           |
| Credits Cards Receivables                                     | 3.8          | 6.2          | 23.9         | 37.3         | 48.4         | 61.5         | 72.2         | 81.3           | 93.3           | 106.1          | 121.8          | 135.0          | 148.3          | 162.4          |
| Prepaid expenses  | 0.5          | 0.9          | 1.3          | 2.3          | 4.2          | 6.8          | 6.3          | 5.0            | 6.9            | 9.2            | 12.1           | 13.4           | 14.7           | 16.1           |
| Deferred tax assets   | 5.5          | 12.9         | 9.1          | 11.3         | 14.3         | 17.6         | 21.3         | 24.6           | 27.9           | 31.3           | 35.4           | 39.3           | 43.1           | 47.2           |
| Other assets  | 3.1          | 6.9          | 6.9          | 8.5          | 10.7         | 13.3         | 16.0         | 18.5           | 21.0           | 23.5           | 26.6           | 29.5           | 32.4           | 35.5           |
| <b>Total Current Assets</b>                                   | <b>82.1</b>  | <b>101.6</b> | <b>200.2</b> | <b>284.2</b> | <b>373.9</b> | <b>499.4</b> | <b>657.2</b> | <b>801.8</b>   | <b>940.8</b>   | <b>1,162.6</b> | <b>1,351.2</b> | <b>1,471.4</b> | <b>1,686.9</b> | <b>1,861.6</b> |
| Long-term investments   | 26.6         | 78.8         | 43.9         | 61.5         | 68.1         | 72.5         | 74.2         | 72.9           | 68.9           | 62.4           | 56.3           | 50.7           | 45.4           | 40.4           |
| PPE & Intangible assets, net                                  | 5.9          | 25.0         | 37.4         | 43.6         | 65.8         | 91.6         | 120.7        | 151.7          | 184.0          | 217.6          | 249.6          | 284.2          | 321.6          | 362.2          |
| Goodwill  | 64.3         | 60.5         | 62.1         | 61.4         | 61.4         | 61.4         | 61.4         | 61.4           | 61.4           | 61.4           | 61.4           | 61.4           | 61.4           | 61.4           |
| Deferred tax assets   | 2.9          | 3.0          | 6.5          | 8.0          | 10.1         | 12.5         | 15.1         | 17.5           | 19.8           | 22.2           | 25.2           | 27.9           | 30.7           | 33.6           |
| Other assets  | 0.7          | 0.8          | 5.8          | 6.0          | 6.0          | 6.0          | 6.0          | 6.0            | 6.0            | 6.0            | 6.0            | 6.0            | 6.0            | 6.0            |
| <b>Total Non-Current Assets</b>                               | <b>100.5</b> | <b>168.0</b> | <b>155.7</b> | <b>180.6</b> | <b>211.5</b> | <b>244.1</b> | <b>277.4</b> | <b>309.5</b>   | <b>340.1</b>   | <b>369.7</b>   | <b>398.6</b>   | <b>430.2</b>   | <b>465.0</b>   | <b>503.7</b>   |
| <b>Total Assets</b>   | <b>182.6</b> | <b>269.7</b> | <b>355.9</b> | <b>464.7</b> | <b>585.4</b> | <b>743.5</b> | <b>934.7</b> | <b>1,111.3</b> | <b>1,280.9</b> | <b>1,532.3</b> | <b>1,749.7</b> | <b>1,901.6</b> | <b>2,152.0</b> | <b>2,365.2</b> |
| <b>Liabilities</b>  |              |              |              |              |              |              |              |                |                |                |                |                |                |                |
| Accounts payable and accrued expenses                         | 11.6         | 17.2         | 20.3         | 26.8         | 41.2         | 56.7         | 75.0         | 92.3           | 110.4          | 131.4          | 157.4          | 184.1          | 210.5          | 241.0          |
| Funds payable to customers                                    | 31.5         | 48.8         | 69.2         | 92.0         | 112.9        | 148.1        | 187.9        | 222.4          | 256.7          | 295.7          | 343.8          | 391.1          | 435.6          | 486.9          |
| Salaries and social security payable                          | 7.4          | 10.8         | 13.5         | 19.8         | 25.8         | 32.8         | 40.5         | 46.7           | 52.5           | 59.0           | 66.9           | 74.3           | 80.8           | 88.3           |
| Taxes payable   | 6.8          | 11.5         | 11.6         | 13.9         | 21.2         | 31.2         | 43.6         | 56.1           | 56.5           | 56.1           | 55.2           | 70.6           | 87.0           | 106.1          |
| Loans payable and other financial liabilities                 | 3.2          | 0.1          | 0.1          | 0.1          | -            | -            | -            | -              | -              | -              | -              | -              | -              | -              |
| Dividends payable   | -            | -            | 3.5          | 4.8          | 6.5          | 7.3          | 7.5          | 8.6            | 10.1           | 11.8           | 13.3           | 15.0           | 16.5           | 18.6           |
| Provisions  | -            | -            | -            | -            | -            | -            | -            | -              | -              | -              | -              | -              | -              | -              |
| <b>Total Current Liabilities</b>                              | <b>60.5</b>  | <b>88.4</b>  | <b>118.3</b> | <b>157.4</b> | <b>207.6</b> | <b>276.1</b> | <b>354.6</b> | <b>426.0</b>   | <b>486.2</b>   | <b>553.9</b>   | <b>636.6</b>   | <b>735.1</b>   | <b>830.4</b>   | <b>940.9</b>   |
| Salaries and social security payable                          | 1.4          | 2.6          | 3.8          | 4.6          | 5.9          | 7.5          | 9.3          | 10.7           | 12.1           | 13.5           | 15.4           | 17.1           | 18.6           | 20.3           |
| Loans payable and other financial liabilities                 | -            | 0.2          | 0.1          | 0.1          | -            | -            | -            | -              | -              | -              | -              | -              | -              | -              |
| Deferred tax liabilities                                      | 5.2          | 5.2          | 8.7          | 8.4          | 7.7          | 7.0          | 6.4          | 5.9            | 5.4            | 4.9            | 4.5            | 4.1            | 3.8            | 3.5            |
| Other liabilities   | 1.4          | 1.7          | 1.8          | 2.5          | 2.5          | 2.5          | 2.5          | 2.5            | 2.5            | 2.5            | 2.5            | 2.5            | 2.5            | 2.5            |
| <b>Total Non-Current Liabilities</b>                          | <b>7.9</b>   | <b>9.6</b>   | <b>14.4</b>  | <b>15.5</b>  | <b>16.1</b>  | <b>17.1</b>  | <b>18.2</b>  | <b>19.1</b>    | <b>20.0</b>    | <b>21.0</b>    | <b>22.4</b>    | <b>23.7</b>    | <b>24.9</b>    | <b>26.3</b>    |
| Noncontrolling interest                                       | -            | -            | 4.0          | 4.0          | 4.0          | 4.0          | 4.0          | 4.0            | 4.0            | 4.0            | 4.0            | 4.0            | 4.0            | 4.0            |
| <b>Shareholder's Equity</b>                                   |              |              |              |              |              |              |              |                |                |                |                |                |                |                |
| Common stock, \$0.001 par value                               | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Additional paid-in capital                                    | 120.3        | 120.4        | 120.5        | 120.5        | 120.5        | 120.5        | 120.5        | 120.5          | 120.5          | 120.5          | 120.5          | 120.5          | 120.5          | 120.5          |
| Retained earnings   | 17.7         | 73.7         | 135.7        | 225.3        | 342.0        | 462.3        | 599.4        | 760.9          | 949.0          | 1,161.6        | 1,402.1        | 1,665.6        | 1,962.7        | 2,293.8        |
| Accumulated other comprehensive loss                          | (23.8)       | (22.4)       | (37.0)       | (58.0)       | (104.8)      | (136.5)      | (162.1)      | (219.2)        | (298.7)        | (328.7)        | (435.9)        | (647.3)        | (790.5)        | (1,020.2)      |
| <b>Total Equity</b>   | <b>114.2</b> | <b>171.7</b> | <b>219.2</b> | <b>287.8</b> | <b>357.7</b> | <b>446.3</b> | <b>557.8</b> | <b>662.2</b>   | <b>770.8</b>   | <b>953.4</b>   | <b>1,086.7</b> | <b>1,138.7</b> | <b>1,292.7</b> | <b>1,394.1</b> |
| <b>Total Liabilities, Noncontrolling Interests and Equity</b> | <b>182.6</b> | <b>269.7</b> | <b>355.9</b> | <b>464.7</b> | <b>585.4</b> | <b>743.5</b> | <b>934.7</b> | <b>1,111.3</b> | <b>1,280.9</b> | <b>1,532.3</b> | <b>1,749.7</b> | <b>1,901.6</b> | <b>2,152.0</b> | <b>2,365.2</b> |

Source: Team estimates and Company Financial Statements

## Appendix

### 5. Financial Statements

Fig. 40. Cash Flow Statement (in US\$ millions)

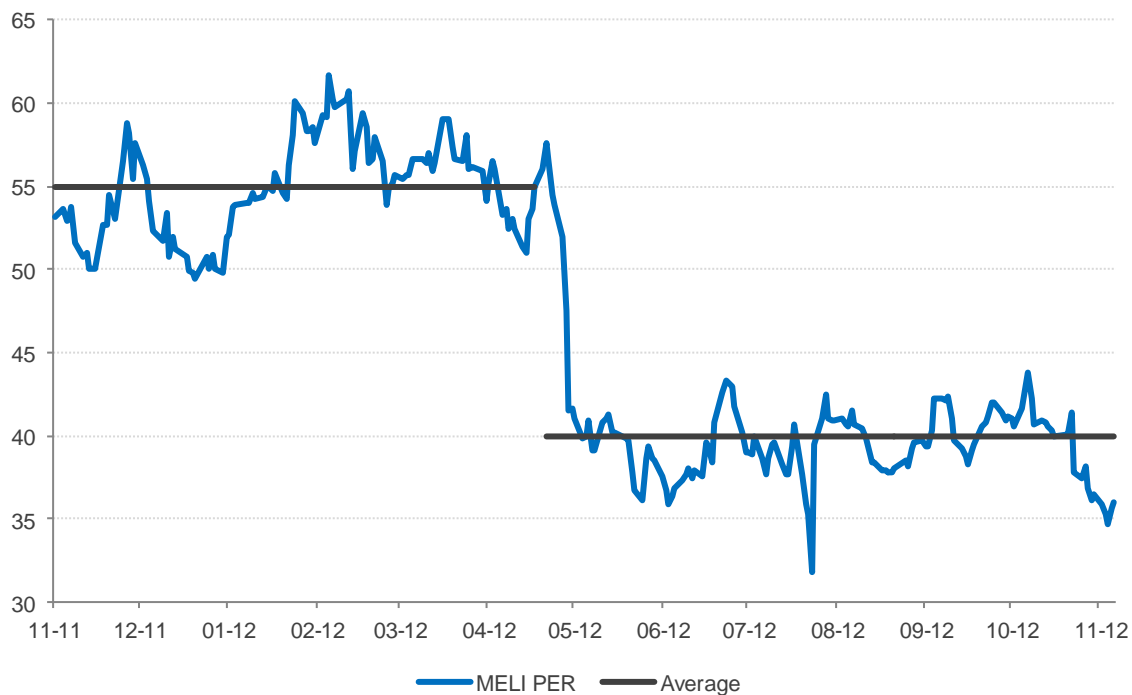
| FY end Dec' 31                               | 2009A         | 2010A         | 2011A         | 2012E         | 2013E         | 2014E         | 2015E         | 2016E         | 2017E         | 2018E         | 2019E         | 2020E          | 2021E          | 2022E          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| <b>Cash Flow from Operations</b>             |               |               |               |               |               |               |               |               |               |               |               |                |                |                |
| Net income                                   | 33.2          | 56.0          | 76.8          | 103.7         | 116.7         | 120.3         | 137.2         | 161.4         | 188.2         | 212.6         | 240.4         | 263.5          | 297.2          | 331.1          |
| Depreciation and amortization                | 3.9           | 4.9           | 7.3           | 8.8           | 8.7           | 11.3          | 14.2          | 17.5          | 20.7          | 23.8          | 27.1          | 30.9           | 34.6           | 38.2           |
| Other non-cash adjustments                   | (1.3)         | (4.0)         | 1.9           | (7.3)         | (1.3)         | (3.4)         | (4.0)         | (5.4)         | (9.8)         | (14.2)        | (16.5)        | (15.0)         | (18.1)         | (24.7)         |
| Δ in working capital                         | 13.9          | 11.0          | 3.4           | 17.4          | 14.0          | 25.1          | 40.7          | 37.9          | 29.5          | 35.4          | 43.8          | 49.8           | 46.7           | 56.0           |
| <b>Net cash from operating activities</b>    | <b>49.7</b>   | <b>67.9</b>   | <b>89.4</b>   | <b>122.6</b>  | <b>138.1</b>  | <b>153.3</b>  | <b>188.1</b>  | <b>211.4</b>  | <b>228.6</b>  | <b>257.6</b>  | <b>294.8</b>  | <b>329.3</b>   | <b>360.3</b>   | <b>400.6</b>   |
| <b>Cash Flow from Investments</b>            |               |               |               |               |               |               |               |               |               |               |               |                |                |                |
| Capex  | (4.8)         | (13.6)        | (19.2)        | (16.2)        | (30.9)        | (37.1)        | (43.3)        | (48.5)        | (53.0)        | (57.4)        | (59.1)        | (65.5)         | (72.0)         | (78.8)         |
| Net investments                              | 1.7           | (45.2)        | (42.2)        | (30.4)        | (33.1)        | (6.1)         | 18.8          | (4.1)         | (24.6)        | 39.1          | (29.8)        | (112.8)        | (36.0)         | (104.2)        |
| Payment for acquired businesses, net         | -             | -             | (5.5)         | -             | -             | -             | -             | -             | -             | -             | -             | -              | -              | -              |
| <b>Net cash used in investing activities</b> | <b>(3.1)</b>  | <b>(58.8)</b> | <b>(66.9)</b> | <b>(46.6)</b> | <b>(64.1)</b> | <b>(43.2)</b> | <b>(24.5)</b> | <b>(52.6)</b> | <b>(77.6)</b> | <b>(18.3)</b> | <b>(88.9)</b> | <b>(178.4)</b> | <b>(108.0)</b> | <b>(183.1)</b> |
| <b>Cash flows from Financing</b>             |               |               |               |               |               |               |               |               |               |               |               |                |                |                |
| Δ of debt                                    | (15.3)        | (3.0)         | -             | -             | (0.2)         | -             | -             | -             | -             | -             | -             | -              | -              | -              |
| Dividends paid                               | -             | -             | (10.6)        | (18.0)        | (24.3)        | (27.9)        | (29.5)        | (33.1)        | (38.5)        | (44.9)        | (51.1)        | (57.9)         | (63.9)         | (71.7)         |
| Other  | 0.0           | 0.0           | 0.0           | 0.0           | -             | -             | -             | -             | -             | -             | -             | -              | -              | -              |
| <b>Net cash used in financing activities</b> | <b>(15.3)</b> | <b>(3.0)</b>  | <b>(10.6)</b> | <b>(18.0)</b> | <b>(24.5)</b> | <b>(27.9)</b> | <b>(29.5)</b> | <b>(33.1)</b> | <b>(38.5)</b> | <b>(44.9)</b> | <b>(51.1)</b> | <b>(57.9)</b>  | <b>(63.9)</b>  | <b>(71.7)</b>  |
| FX effect                                    | 1.0           | 0.9           | (1.4)         | (2.4)         | -             | -             | -             | -             | -             | -             | -             | -              | -              | -              |
| <b>Net change in cash</b>                    | <b>32.3</b>   | <b>7.0</b>    | <b>10.6</b>   | <b>55.6</b>   | <b>49.5</b>   | <b>82.1</b>   | <b>134.0</b>  | <b>125.6</b>  | <b>112.4</b>  | <b>194.4</b>  | <b>154.9</b>  | <b>93.1</b>    | <b>188.5</b>   | <b>145.8</b>   |
| Cash @ beginning of period                   | 17.5          | 49.8          | 56.8          | 67.4          | 123.0         | 172.5         | 254.6         | 388.7         | 514.3         | 626.7         | 821.2         | 976.0          | 1,069.1        | 1,257.6        |
| Cash @ end of period                         | 49.8          | 56.8          | 67.4          | 123.0         | 172.5         | 254.6         | 388.7         | 514.3         | 626.7         | 821.2         | 976.0         | 1,069.1        | 1,257.6        | 1,403.4        |

Source: Team estimates and Company Financial Statements

## Appendix

### 6. Valuation

Fig. 41. PER Evolution, Year to Date as of Nov' 16, 2012



Source: Bloomberg and Capital IQ

## Appendix

## 6. Valuation

|                                | 2009A  | 2010A  | 2011A  | 2012E  | 2013E  | 2014E  | 2015E  | 2016E  | 2017E  | 2018E  | 2019E  | 2020E  | 2021E  | 2022E   | CAGR<br>'12-'22 |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|-----------------|
| Cost of Equity                 |        |        |        |        |        |        |        |        |        |        |        |        |        |         |                 |
| Terminal value growth rate     |        |        |        |        |        |        |        |        |        |        |        |        |        |         |                 |
| Month of valuation             |        |        |        |        |        |        |        |        |        |        |        |        |        |         |                 |
| EBITDA                         | 59.9   | 79.5   | 107.0  | 136.1  | 163.7  | 190.4  | 218.2  | 256.0  | 294.4  | 329.6  | 372.4  | 411.8  | 462.3  | 509.9   | 12.8%           |
| - Net interests expenses       | (10.7) | (2.7)  | 6.3    | 16.3   | 4.9    | 7.2    | 8.4    | 10.6   | 15.9   | 21.2   | 24.4   | 23.6   | 27.7   | 35.5    | 7.4%            |
| - Taxes                        | (11.7) | (22.3) | (31.1) | (39.1) | (14.3) | (21.0) | (24.0) | (28.2) | (32.8) | (37.0) | (41.8) | (45.8) | (51.6) | (57.4)  | 3.5%            |
| - Working capital              | 13.9   | 11.0   | 3.4    | 17.4   | 14.0   | 25.1   | 40.7   | 37.9   | 29.5   | 35.4   | 43.8   | 49.8   | 46.7   | 56.0    | 11.2%           |
| = Unlevered Cash Flows         | 51.5   | 65.6   | 85.7   | 130.6  | 168.3  | 201.6  | 243.3  | 276.3  | 307.1  | 349.2  | 398.8  | 439.4  | 485.2  | 544.0   | 13.8%           |
| - Capex                        | (4.8)  | (13.6) | (19.2) | (16.2) | (30.9) | (37.1) | (43.3) | (48.5) | (53.0) | (57.4) | (59.1) | (65.5) | (72.0) | (78.8)  | 15.5%           |
| = Unlevered FCF                | 46.8   | 52.0   | 66.5   | 114.4  | 137.4  | 164.5  | 200.0  | 227.8  | 254.0  | 291.8  | 339.7  | 373.9  | 413.2  | 465.2   | 13.6%           |
| Month of valuation discount    |        |        |        | 0.1    | 1.1    | 2.1    | 3.1    | 4.1    | 5.1    | 6.1    | 7.1    | 8.1    | 9.1    | 10.1    |                 |
| Discount factor                |        |        |        | 1.0    | 0.9    | 0.8    | 0.7    | 0.6    | 0.5    | 0.5    | 0.4    | 0.4    | 0.3    | 0.3     |                 |
| Terminal value (TV)            |        |        |        |        |        |        |        |        |        |        |        |        |        |         | 6,296.1         |
| Implied TV EBITDA '22 multiple |        |        |        |        |        |        |        |        |        |        |        |        |        |         | 12.3x           |
| Total Cash Flows               |        |        |        | 114.4  | 137.4  | 164.5  | 200.0  | 227.8  | 254.0  | 291.8  | 339.7  | 373.9  | 413.2  | 6,761.3 |                 |
| NPV of Cash Flows              |        |        |        | 112.9  | 120.1  | 127.6  | 137.6  | 139.0  | 137.5  | 140.0  | 144.6  | 141.1  | 138.3  | 2,007.1 |                 |

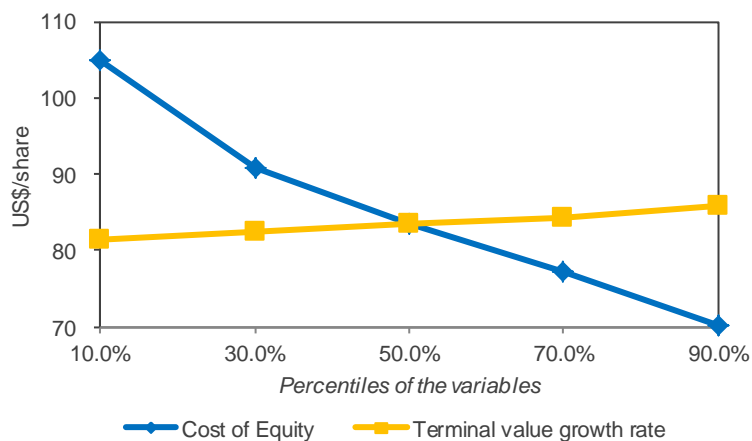
## Appendix

### 6. Valuation

Fig. 43. Sensitivity Table for MELI's DCF Share Price

| MELI's DCF Share Price |       |             |       |       |       |       |
|------------------------|-------|-------------|-------|-------|-------|-------|
|                        |       | Growth rate |       |       |       |       |
|                        |       | 4.0%        | 4.5%  | 5.0%  | 5.5%  | 6.0%  |
| Cost of Equity         | 80.5  | 4.0%        | 4.5%  | 5.0%  | 5.5%  | 6.0%  |
|                        | 9.8%  | 117.7       | 125.1 | 134.1 | 145.3 | 159.4 |
|                        | 10.8% | 99.3        | 104.2 | 109.9 | 116.8 | 125.1 |
|                        | 11.8% | 85.7        | 89.1  | 93.0  | 97.5  | 102.8 |
|                        | 12.8% | 75.4        | 77.8  | 80.5  | 83.7  | 87.3  |
|                        | 13.8% | 67.2        | 69.0  | 71.0  | 73.2  | 75.8  |
|                        | 14.8% | 60.6        | 62.0  | 63.5  | 65.1  | 67.0  |

### PT Sensitivity



Source: Team estimates

## Appendix

### 7. Glossary

#### A

ADTV = Average Daily Trading Volume.

API = Application Programming Interface.

Apps = Applications (whether mobile or personal computer).

ASP = Average Selling Price. Total GMV divided to Items sold.

AWS = Amazon Web Services, a subsidiary of Amazon.com Inc. which offers infrastructure and application services for online businesses.

#### B

B2C = Business-to-Commerce, the term refers to companies whose businesses are in contact with consumers.

Beta Version: A pre-release of a service that is given out to a large group of users to try under real conditions.

Brick and mortar = A traditional 'street-side' business that deals with its costumers face to face in an office or store that the business owns or rent. It is increasingly common for brick and mortar companies to also have an online presence.

BV = Book Value.

#### C

CADIVI = 'Comisión de Administración de Divisas', the Venezuelan Government FX control unit.

CAGR = Compounded annual growth rate.

Capex = Capital Expenditure.

CRU = Confirmed registered users: measure of the cumulative number of users registered on MELI's marketplace (including MPago) and confirmed their registration.

#### D

DCF = Discounted Cash Flow.

#### E

E-commerce = Electronic commerce, it is the buying and selling of product or service over electronic systems such as the internet and other computer networks.

EBIT = Earnings Before Interests and Taxes.

EBITDA = Earnings Before Interests, Taxes, Depreciations and Amortizations.

EPS = Earnings Per Share.

EV = Enterprise Value.

#### F

FCF = Free Cash Flow, or Unlevered FCF, defined as cash from EBITDA less net interest expenses, taxes and working capital.

FCFF = Free Cash Flow to the Firm.

FX = Foreign Exchange.

FY = Fiscal Year.

#### G

GMV = Gross merchandise volume: measure in US\$ of the total transactions completed through MELI's marketplace, excluding items such as motor vehicles, vessels, aircraft, real estate, and services.

#### I

IPO = Initial Public Offering.

Items sold: measure of the number of items sold or purchased through MELI's marketplace.

## L

Latam = Latin America.

LTM = Last Twelve Months.

## M

MClics = MercadoClics, MELI's advertising business (See Business Description).

MELI = MercadoLibre, Inc.

MM = Million

MPago = MercadoPago, MELI's electronic payment solution (See Business Description).

MPago off-platform: the term refers to the transactions which are made through MPago outside the MELI's webpage (See Business Description).

MShops = MercadoShops, MELI's online webstore services (See Business Description).

M&A = Mergers and Acquisitions.

## N

NPV = Net Present Value.

## O

OpEx = Operational expenditure.

## P

PER = Price to Earnings Ratio.

PT = Price Target.

## Q

QoQ = Quarter over Quarter.

## R

R&D: Research and development.

ROE = Return on Equity.

ROIC = Return on Invested Capital.

## T

Take rate: Revenues divided to GMV.

TPT = Total payment transactions: measure of the number of all payment completed transactions using MPago.

TPV = Total payment volume: measure in US\$ of total transactions paid using MPago.

TV = Terminal Value.

## V

Verticalization: style of management control where multiple parts of a supply chain belongs to a common owner.

## W

WACC = Weighted Average Cost of Capital.

## Y

YoY = Year over Year.

## Endnotes

- 
- i Source: IDC, Euromonitor and MELI estimates
  - ii GMV does not include off-platform MPago activity. No statistics offered by MELI. Team estimations.
  - iii Source: Internet World Stats.
  - iv IDC, Euromonitor and MELI estimates from company presentations.
  - v alaMaula was acquired by eBay on June 2011, by an undisclosed amount.
  - vi Source: Capital IQ M&A.
  - vii At MELI's 2012E EBITDA of ~US\$130mm, the enterprise value range from US\$3.1bn (at current market value) to US\$8.7bn.
  - viii Calculated with net debt eop Dec' 13
  - ix Source: Deutsche Bank dbAccess 2012 Technology Conference.
  - x Escrow service MPago type is referring to version 2.0, where transactions are supported by the sell side: a buyer pays with MPago upon transaction's closing, seller sends the acquired product and once received by buyer, and funds are released to the seller.
  - xi Pre-money not disclosed.
  - xii Source: CNET Top 10 dot-com flops. [http://www.cnet.com/1990-11136\\_1-6278387-1.html](http://www.cnet.com/1990-11136_1-6278387-1.html)
  - xiii Source: eMarketer (September 2012).
  - xiv Source: eMarketer (July 2012).
  - xv Source: eMarketer (March 2011).
  - xvi Estimated from MELI's financial statements and earnings call transcript.
  - xvii Source: Internet World Stats.
  - xviii Source: Internet World Stats.

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