



Acquisition Proposal

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I. Industry Trends

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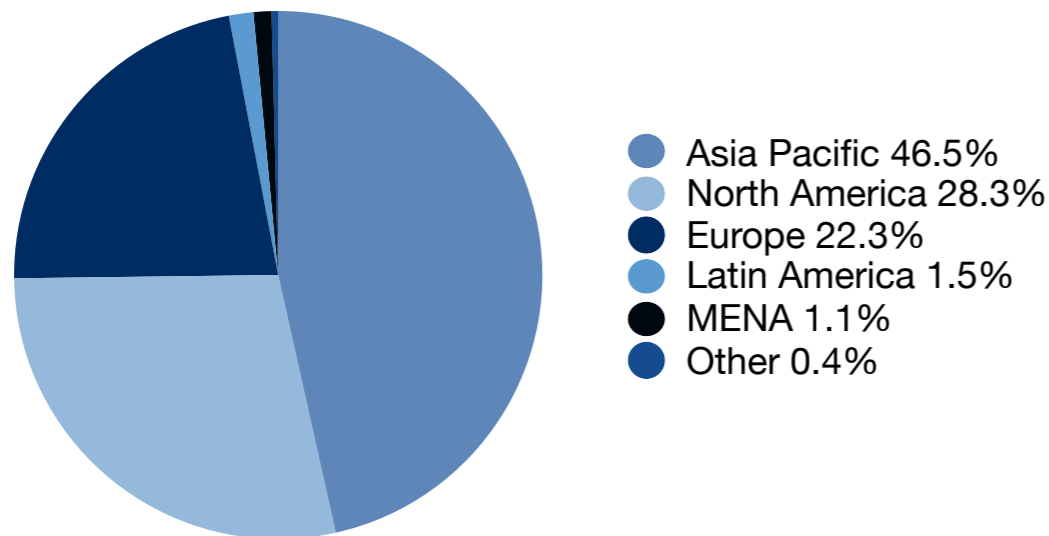
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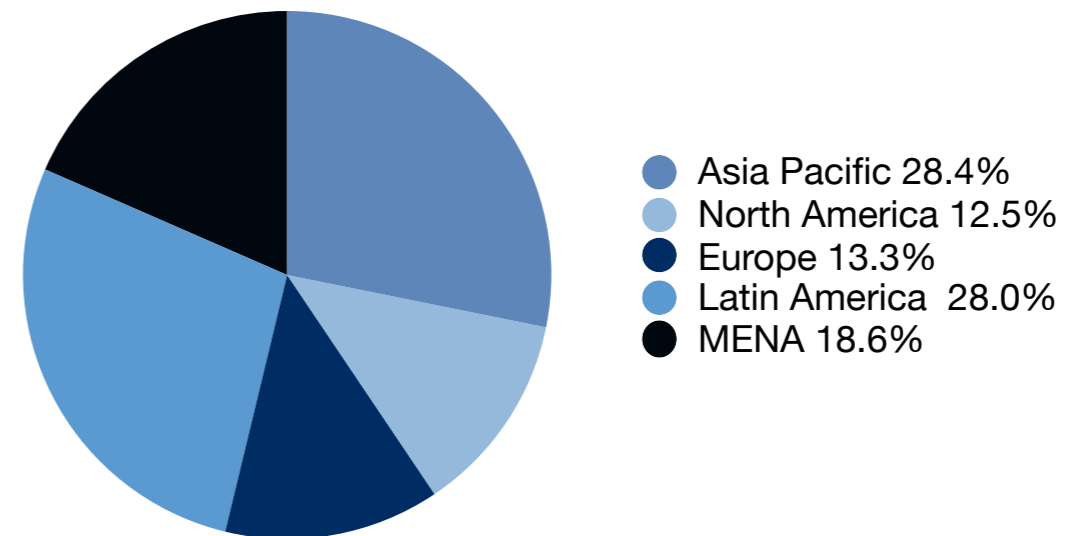
Industry Overview

- Globally e-commerce sales are expected to continue to rise 23.2% to \$2.290T in 2017
- China and the US will combine for \$1.584T in e-commerce sales this year, representing 69.1% of global e-commerce
- Latin America is the second fastest growing e-commerce market behind Asia-Pacific
- In 2017, mobile commerce will account for 70% of commerce sales in both China and India, 59% in South Korea, and approximately one third of sales in the UK, US and Germany.

Geographic Market Share



Geographic Growth



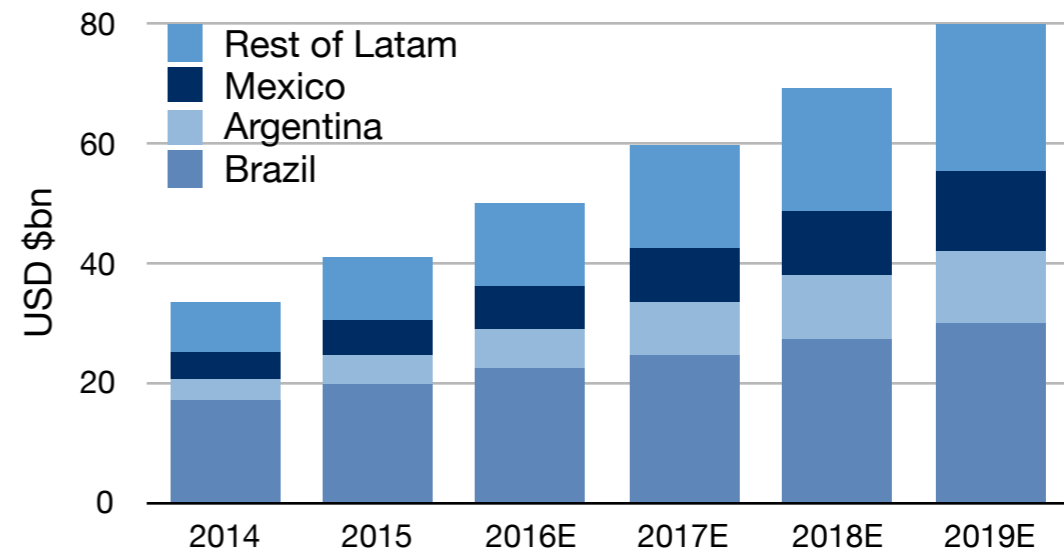
Industry Trends



Market Leading Companies

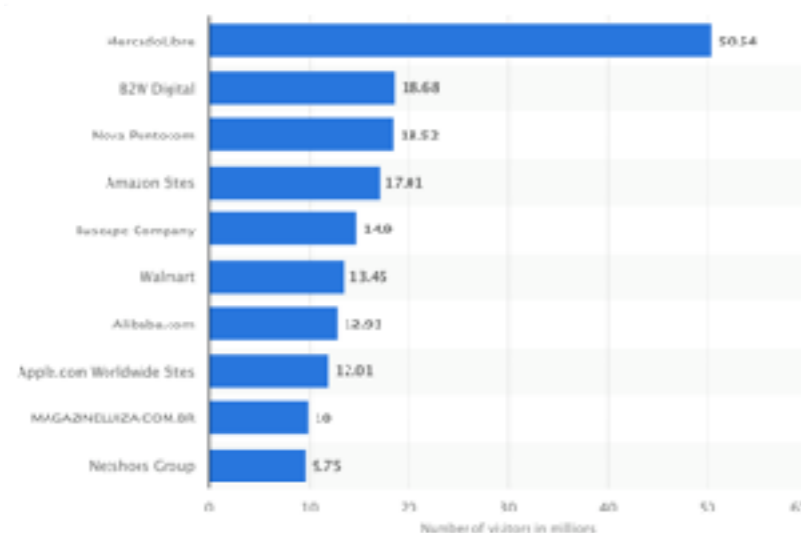
Company	Mkt Cap \$B	EV \$B	EV/TTM EBITDA	P/E
Mercado Libre	11.6	11.9	53.5x	79.5x
Ebay	37.1	41.1	14.1x	23.4x
JD.com	57.9	56.5	55.1x	3993.8x
Alibaba	474.6	465.5	44.1x	57.2x
Amazon	547.7	566.5	41.9x	288.0x
Vipshop	57.2	57.1	n/a	18.5x

Expected Growth In Latin America



e-Commerce Sites In Latin America

LATAM Market Analysis By Unique Number of Visitors



Challenges For The Future

- Increasing global competition, particularly from China through Alibaba and JD.com, both outperforming Amazon in terms of percentage growth (33% and 41% respectively)
- Alibaba increasing its global reach through acquisitions of Lazada in Singapore and Tokopedia in Indonesia.
- Lack of trust (perceived insecure payment, privacy issues, return options etc.)
- Political instability particularly in emerging and developing markets.

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Acquirer Overview

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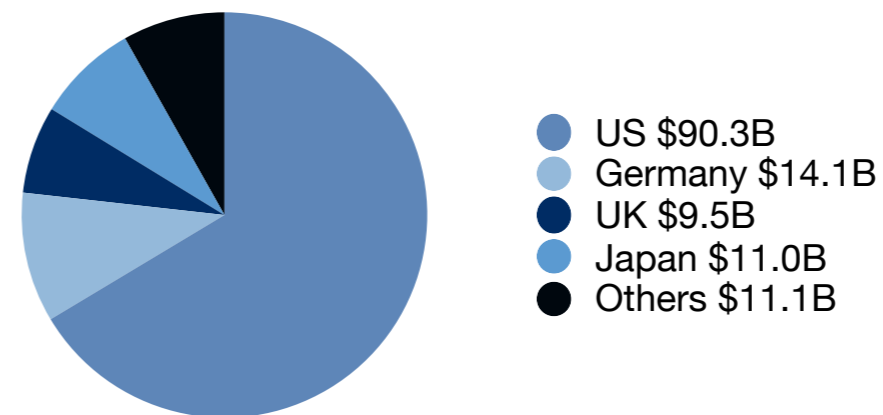
Acquirer Overview

Company Overview

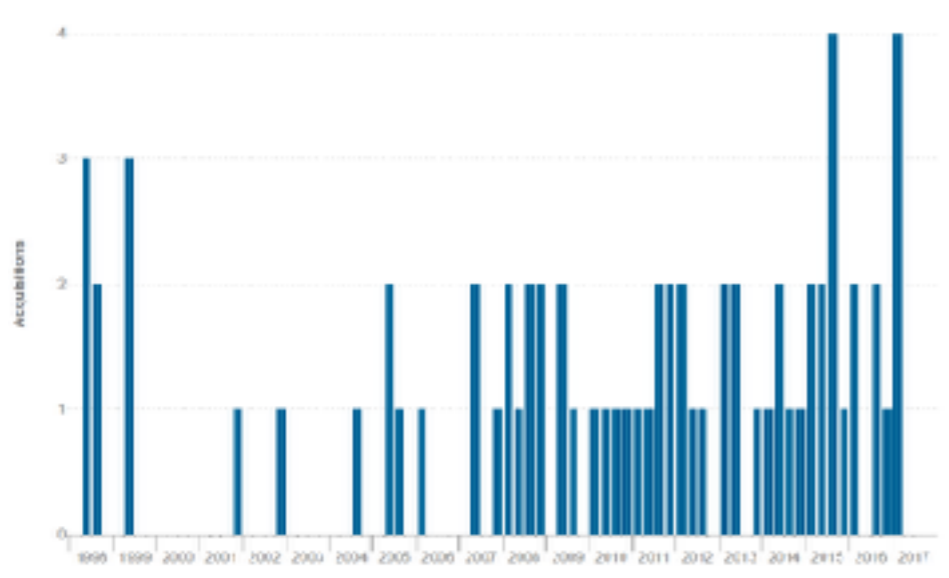
- Amazon is one of the largest companies in the world with a market cap. of \$547.7B & a revenue of \$136B in 2016
- Amazon is a dominant force across a range of industries notably: retail, logistics, consumer technology, cloud computing, and most recently, media and entertainment
- It is the largest online retailer in America, accounting for 5% of all its retail spending.

Geographic Segmentation

2016 Net Sales by Region



M&A History



- Amazon has historically been a conservative M&A player, but recently has shifted to a more proactive approach. In Q1'17 completing 4 deals matching the quarterly high set in Q3'15.
- Amazon has recently completed its most expensive acquisition, Whole Foods for \$13.7B
- Amazon has previously this year purchased [Souq.com](#) in order to expand into the e-commerce market in the Middle-East.
- Amazon has also been recently heavily investing in India, \$3B last year alone
- This all suggests Amazons recent strategy is to try and move into the growing markets across the globe.

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Target Overview

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Target Company History

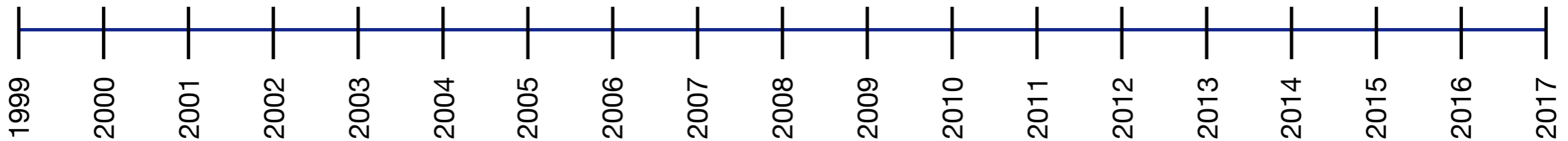


Founded in May 8 1999 by Marcos Galperin with Hernan Kazah, in Silicon Valley, as an eBay style site emphasising local content to out perform its competitors

It continued to **expand** eBay sellers into LATAM & gives Amazon access to a diversified seller base

In **2011**, MELI transitioned the platform to open source technology **enabling APIs** to expand the platform's solutions and services.

In **2014**, a Chilean classified ad website was acquired by MELI, **Metroscúbicos.com**, a Mexican real estate portal of the company Group Expansion.



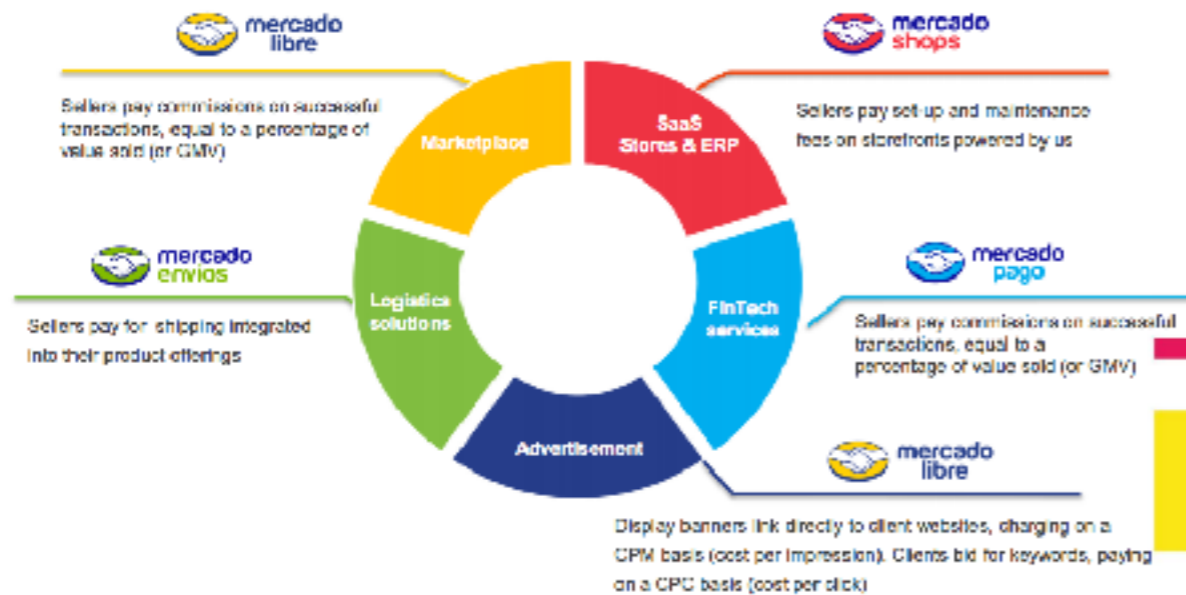
In **2001** eBay bought a **19.5%** stake in the company which it later sold in 2016

In **2007** it became the first LATAM technology company listed on **NASDAQ** under the ticker MELI

In **2013**, **MeLi Commerce Fund** dedicated to investing into tech startups that enable the creation of software using its API.

First Endeavour Latin American company to have an evaluation of **over \$10B**

Target Overview



Beginning as an internet auction site akin to eBay

A few key innovations through its history

Industrial-grade stack of Oracle Technologies (provided good user experience which facilitated growth and IPO in 2007). Broadly they aim to make inefficient markets more efficient. This makes the company more valuable to stock holders. It aims to foster entrepreneurship and social mobility. Buyers are given significant access to affordable products and services. Lower overall investment and costs than other offline LATAM markets

Now MELI has market dominance within LATAM and matches much of Amazons principal of providing cheap products

Monetisation Streams

Transactional Marketplace

1. Transaction Fees
2. Placement Fees

Payments Platform

1. Processing Fees
2. MPOS
3. Financial Spread
4. Credit Offering

Classifieds, Ad & Others

Diversified and fast growing revenue streams

ARGENTINA	BRAZIL	MEXICO
1) MERCADOLIBRE.COM.AR	1) MERCADOLIBRE.COM.BR	1) MELI.COM.MX
2) OLX.COM.AR	2) AMERICANAS.COM.BR	2) SEGUNDAHANDA.MX
3) GARRARINO.COM	3) OLX.COM.BR	3) LINIO.COM.MX
4) NETSHOES.COM.AR	4) CARARRAHIA.COM.BR	4) EBAY.COM
5) TRAVEGA.COM	5) BUSCAPE.COM.BR	5) ALIEXPRESS.COM
6) DAHILL.COM.AR	6) WALMART.COM.BR	6) VIVANUNCIOS.COM.MX
7) MERCADOPAGO.COM.AR	7) NETSHOES.COM.BR	7) APPLE.COM
8) MUSMUNDO.COM	8) EXTRA.COM.BR	8) AMAZON.COM
9) FALABELLA.COM.AR	9) SUPERMART.COM.BR	9) AMAZON.COM
10) ALIAMERICA.COM	10) CONTOTRIB.COM.BR	10) TROVIT.COM.MX

CHILE	COLOMBIA	VENEZUELA
1) MERCADOLIBRE.CL	1) MERCADOLIBRE.COM.CO	1) MERCADOLIBRE.COM.VE
2) FALABELLA.COM	2) OLX.COM.CO	2) AMAZON.COM
3) YAPOL.CL	3) LINIO.COM.CO	3) AMAZON.COM
4) SOTIMAC.Cl	4) MELI.COM.CO	4) TICARRO.COM.VE
5) RIPLEY.CL	5) AMAZON.COM	5) MERCADOLIBRE.COM
6) PARIS.CL	6) EXITO.COM	6) APPLE.COM
7) ALIEXPRESS.COM	7) TUCARRO.COM.CO	7) QUEBRATO.COM.VE
8) LINIO.CL	8) FALABELLA.COM.CO	8) CLASF.COM.VE
9) ASCOIN.CL	9) TROVIT.COM.CO	9) NEXLOCAL.COM.VE
10) FARY.Cl	10) TIFNDO.COM.CO	10) FRAY.COM

Source: ComScore October 2015 (Desktop only)

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Transaction Rationale



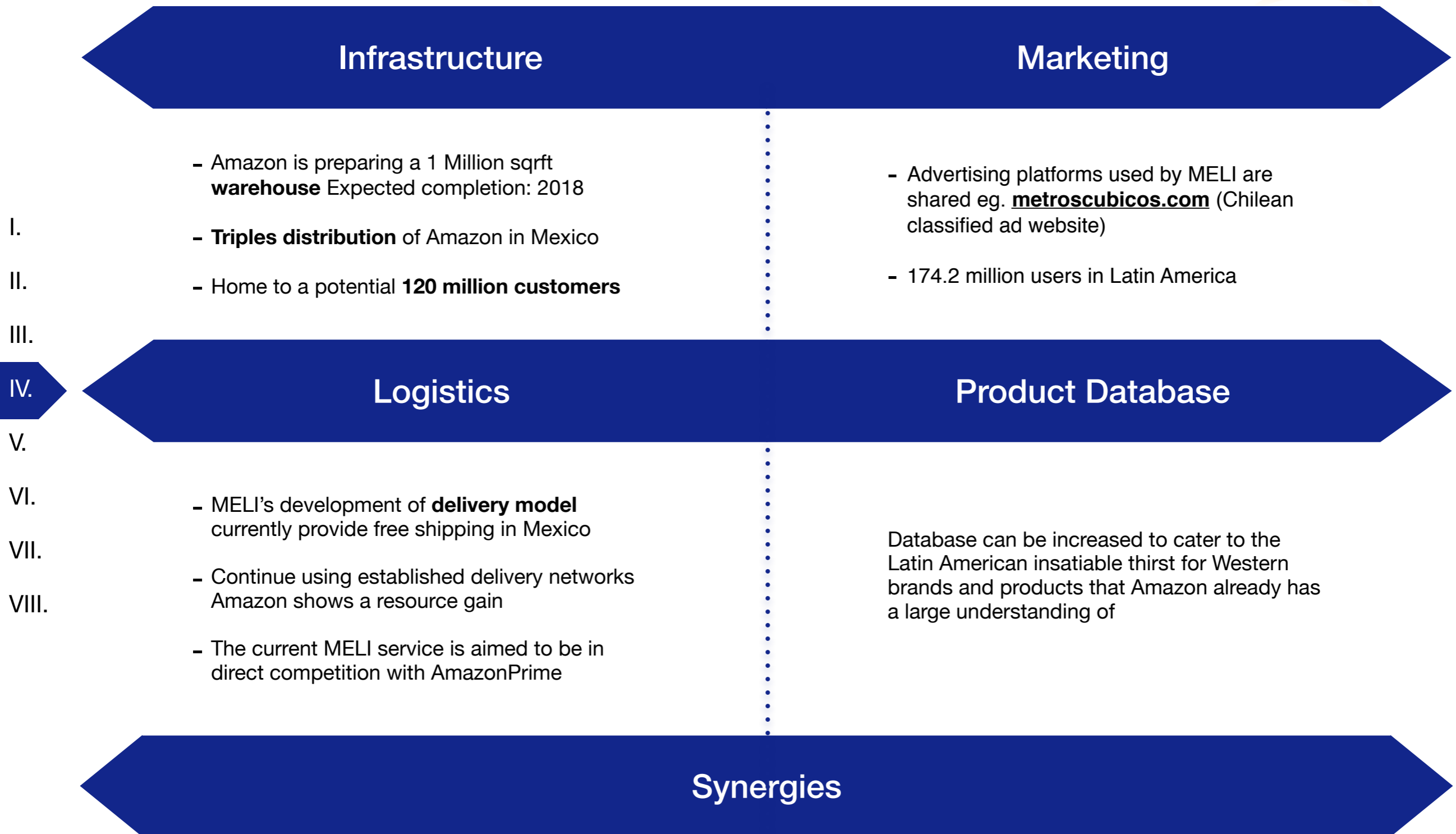
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Transaction Rationale





Data Mapping

- Database of **consumer trends** made faster
- Amazon commerce data retrieval more sophisticated than MELI's and so **compliments** in understand **consumer trends** faster using customer base
- Knowledge and **learning curve gains**

Consumer Power

- Strong **Network Effects**
- **Years of reviews** and executed transactions
- Amazon currently competes with MercadoLibre to go from a fifth market share to more
- Gains of **increased market size** and **succeeded market share**

Payment Methods

- Latin America has a **reliance on cash transactions** (~60%)
- Bank account penetration is a low 50%
- **Credit card** penetration (~20%)
- An inevitable mindset change benefits the acquisition
- Continued use of MercadoPago as a payment asset
- MercadoPago is currently the leading online payment solution in Latin America
- Amazons saves time and money that must be invested in establishing the trust of regional customers

Synergies

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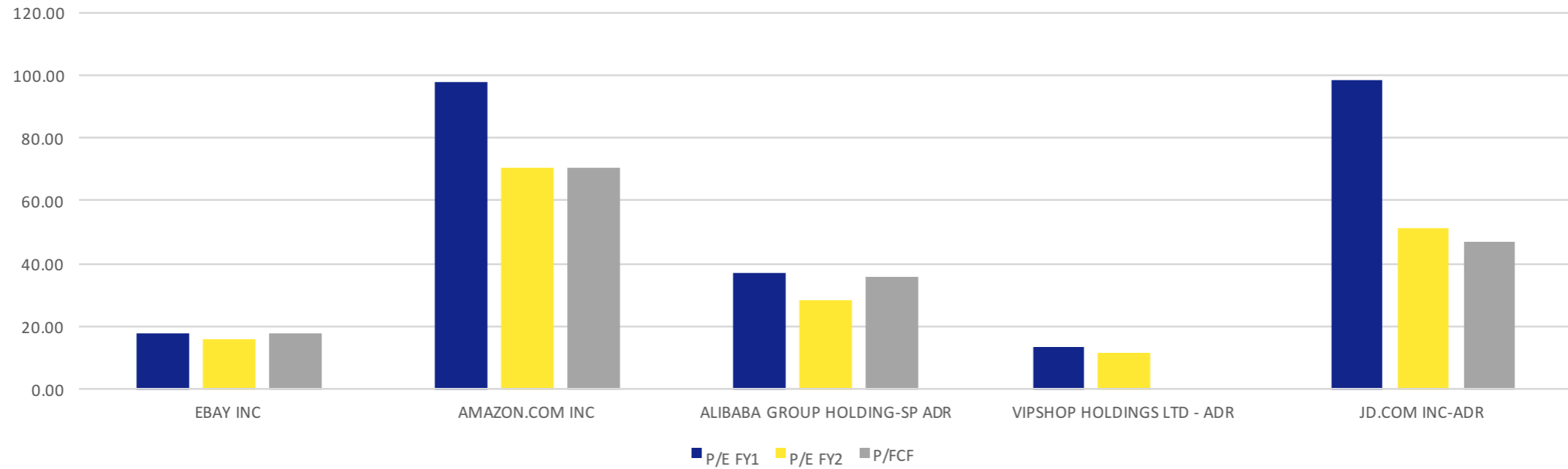
Valuation



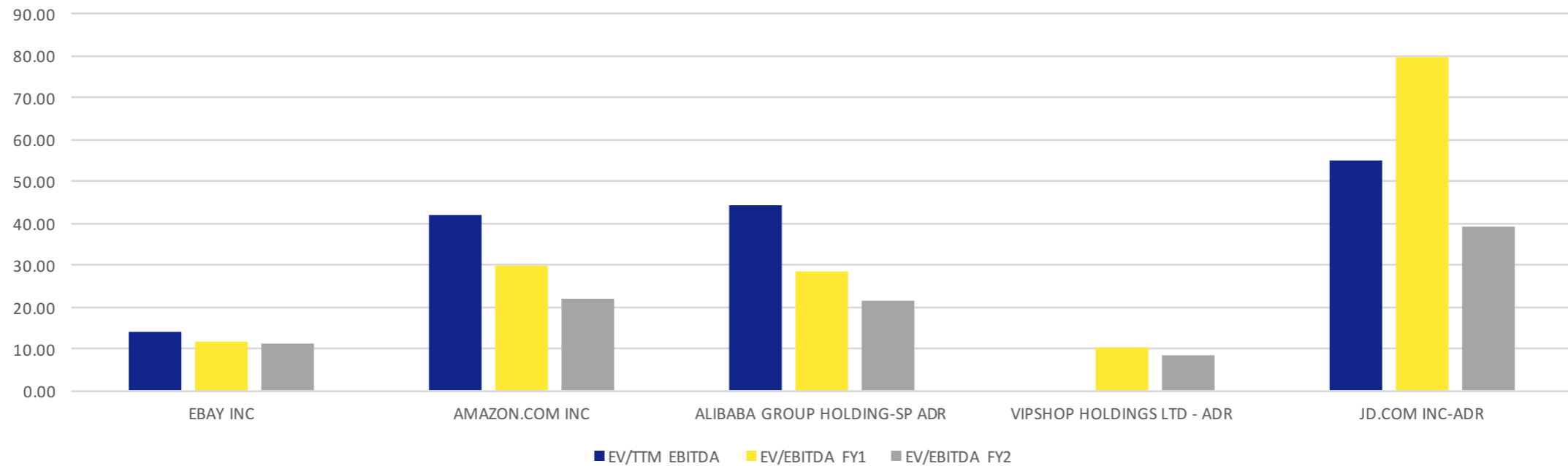
Comparable Companies



P/E Multiples



EBITDA Multiples



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Discounted Cash Flow (DCF) Model



DCF Model

	FY '16 A	FY '17 E	FY '18 E	FY '19 E	FY '20 E	FY '21 E	FY '22 E	FY '23 E	FY '24 E	FY '25 E	FY '26 E
Forward Year		1	2	3	4	5	6	7	8	9	10
NOPAT		98	99	176	300	410	579	632	696	753	927
Depreciation & Amortization		44	64	90	83	111	139	174	227	285	348
Non-cash Items		113	82	98	77	9	93	(101)	46	41	125
Stock Based Compensation											
Deferred Income Taxes											
Other Non-cash Adj											
Change in Working Capital		264	242	225	45	156	220	(757)	54	52	154
(Inc) Dec in Accts Receiv		(47)	(30)	(36)	(28)	(4)	(34)	37	(16)	(16)	(46)
(Inc) Dec in Inventories		0	(1)	(1)	0	0	(1)	2	0	0	(1)
Inc (Dec) in Accts Payable		311	273	262	74	160	255	(797)	71	68	201
Inc (Dec) in Other		0	(1)	(1)	0	0	(1)	2	0	0	(1)
Free Cash Flow to Firm Model											
Period Weight		12.1%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
year + weight + convention		0.06	0.62	1.62	2.62	3.62	4.62	5.62	6.62	7.62	8.62
WACC Discount Factor		1.00	0.95	0.88	0.81	0.75	0.69	0.64	0.59	0.54	0.50
PV of Free Cash Flow	3,479	448	367	397	264	378	559	(248)	384	397	532
PV of Free Cash Flow to Firm	3,479	448	367	397	264	378	559	(248)	384	397	532

DCF Model Assumptions

	Min	Max
WACC	7.33	8.93
LT Growth rate	1.68	2.28

Implied Share Value

Long-term Growth Rate

	1.68	1.83	1.98	2.13	2.28
7.73	654.52	672.36	691.12	710.89	731.75
7.88	638.50	655.50	673.36	692.15	711.95
8.03	623.24	639.46	656.48	674.36	693.18
8.18	608.69	624.17	640.41	657.45	675.36
8.33	594.78	609.59	625.10	641.36	658.43
8.48	581.50	595.67	610.50	626.03	642.32
8.63	568.78	582.37	596.56	611.41	626.97
8.78	556.61	569.63	583.23	597.45	612.32
8.93	544.93	557.44	570.48	584.10	598.34

Sensitivity Analysis



Enterprise Value Sensitivity

Long-term Growth Rate

		1.68	1.83	1.98	2.13	2.28
I.						
II.	7.73	29236.9	30024.4	30853.1	31726.1	32647.2
III.	7.88	28529.6	29280.0	30068.7	30898.5	31772.7
IV.	8.03	27855.6	28571.6	29323.2	30112.9	30943.8
V.	8.18	27212.8	27896.7	28613.7	29366.3	30157.1
VI.	8.33	26599.0	27253.0	27937.8	28655.8	29409.4
VII.	8.48	26012.2	26638.2	27293.1	27978.9	28697.9
VIII.	8.63	25450.8	26050.6	26677.5	27333.2	28020.0
	8.78	24913.1	25488.4	26089.0	26716.7	27373.4
	8.93	24397.7	24949.9	25525.9	26127.4	26755.9

Equity Value Sensitivity

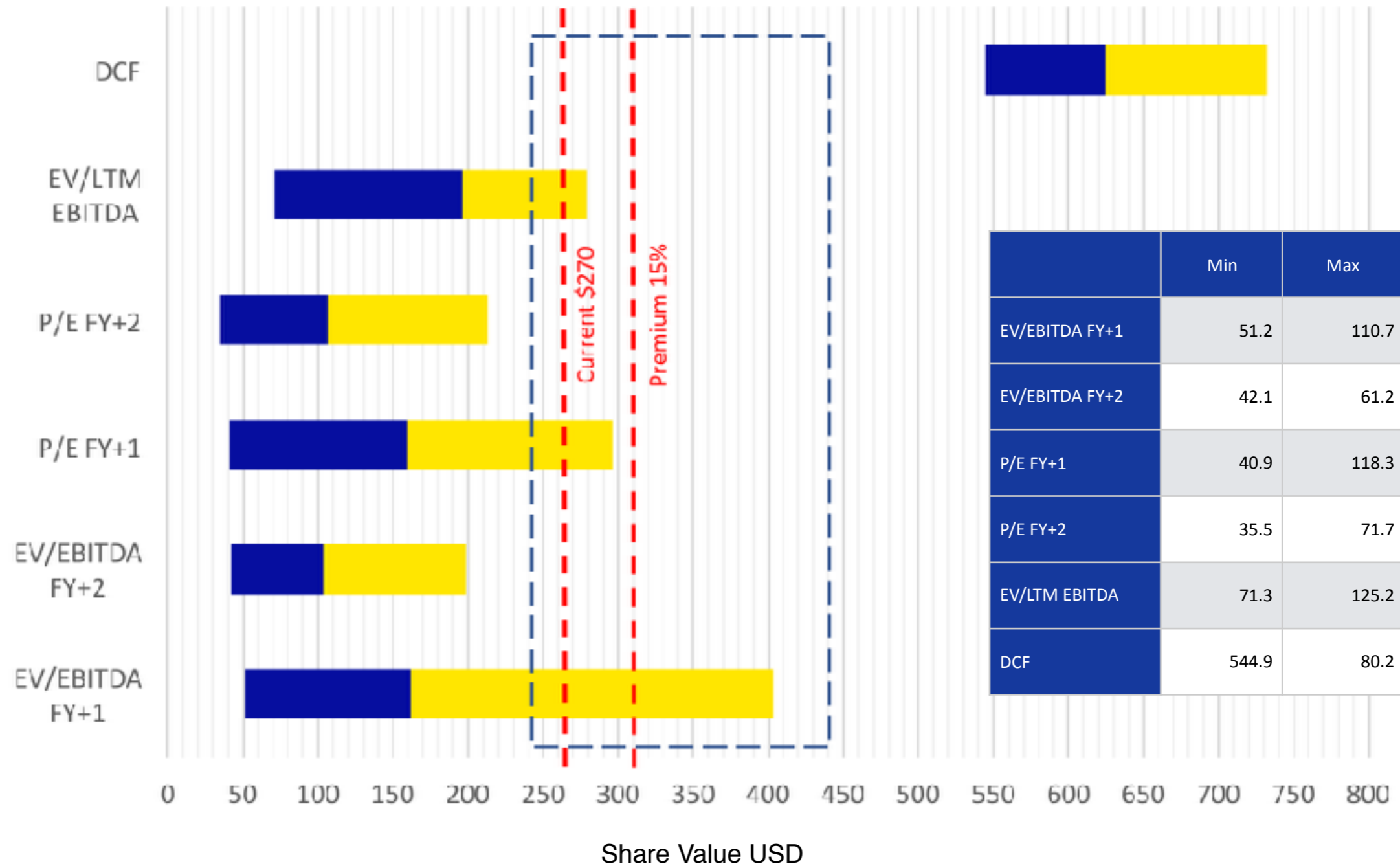
Long-term Growth Rate

		1.68	1.83	1.98	2.13	2.28
I.						
II.	7.73	28901.8	29689.3	30518.0	31391.0	32312.1
III.	7.88	28194.5	28944.9	29733.6	30563.4	31437.6
IV.	8.03	27520.5	28236.5	28988.1	29777.8	30608.7
V.	8.18	26877.7	27561.6	28278.6	29031.2	29822.0
VI.	8.33	26263.9	26917.9	27602.7	28320.7	29074.3
VII.	8.48	25677.1	26303.1	26958.0	27643.8	28362.8
VIII.	8.63	25115.7	25715.5	26342.4	26998.1	27684.9
	8.78	24578.0	25153.3	25753.9	26381.6	27038.3
	8.93	24062.6	24614.8	25190.8	25792.3	26420.8

Football Field Valuation



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	Min	Max	Mean
EV/EBITDA FY+1	51.2	110.7	241.7
EV/EBITDA FY+2	42.1	61.2	95.6
P/E FY+1	40.9	118.3	137.4
P/E FY+2	35.5	71.7	105.4
EV/LTM EBITDA	71.3	125.2	82.5
DCF	544.9	80.2	106.6

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Financing Options

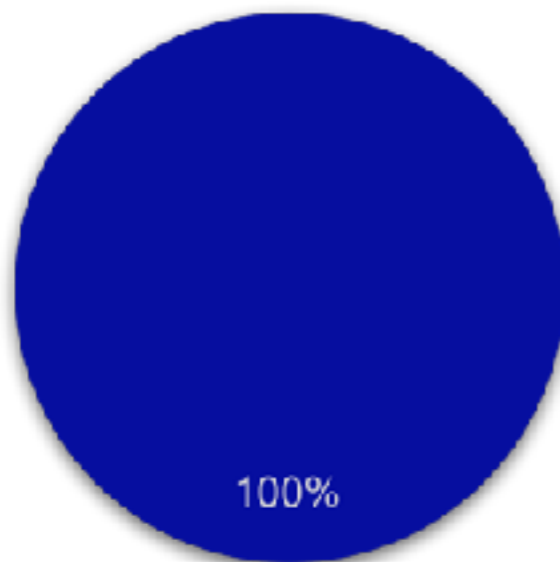


Assuming a full acquisition of MercadoLibre at an Enterprise Value of \$13.7B, which is inclusive of a 15% premium over the current share price.

Option A

I. All cash offer financed by syndicated loans, which
II. will be obtained at a low interest rate given
Amazon's current S&P credit rating of AA-.

III. This is our recommended option.

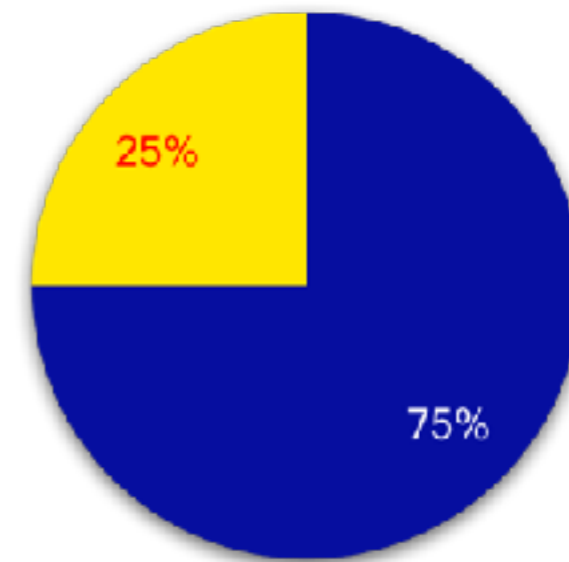


■ Cash ■ Equity

Option B

Offer composed of 25% equity and 75% cash.
Financed by issuing shares and syndicated loans,
which will be obtained at a low interest rate given
Amazon's current S&P credit rating of AA-.

III. This option has been included as an alternative in
the event option A is not pursued.



■ Cash ■ Equity

Financing Option A



Assuming a full acquisition of MercadoLibre at an Enterprise Value of \$13.7B, which is inclusive of a 15% premium over the current share price.

Major advantages relative to option B

Major disadvantages relative to Option B

- I. - Increased likelihood of the offer being accepted by MercadoLibre's shareholders, as a premium of 15% will be paid on the current share value
- II.
- III. - Prevents Amazon from over-paying in the likely event its share value rises after the acquisition
- IV. - As Amazon is an active acquirer, all cash offers will prevent dilution of shares and subsequently maintain growth in Amazon's share value. This is particularly favourable as stock performance differences between cash and equity transactions increase over time
- V.
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- VII.
- VIII. - In-line with Amazon's apparent acquisition strategy of non-equity financing

- Loss of Amazon's most liquid assets, potentially resulting in short-term cash flow issues
- May result in long- and/or short-term debt issues, given Amazon's debt-to-equity ratio of 1.0175 (current ratio 1.01) due to a large and recent debt offering to finance its acquisition of Whole Foods Market, which includes 3- to 40-year notes



Financing Option B



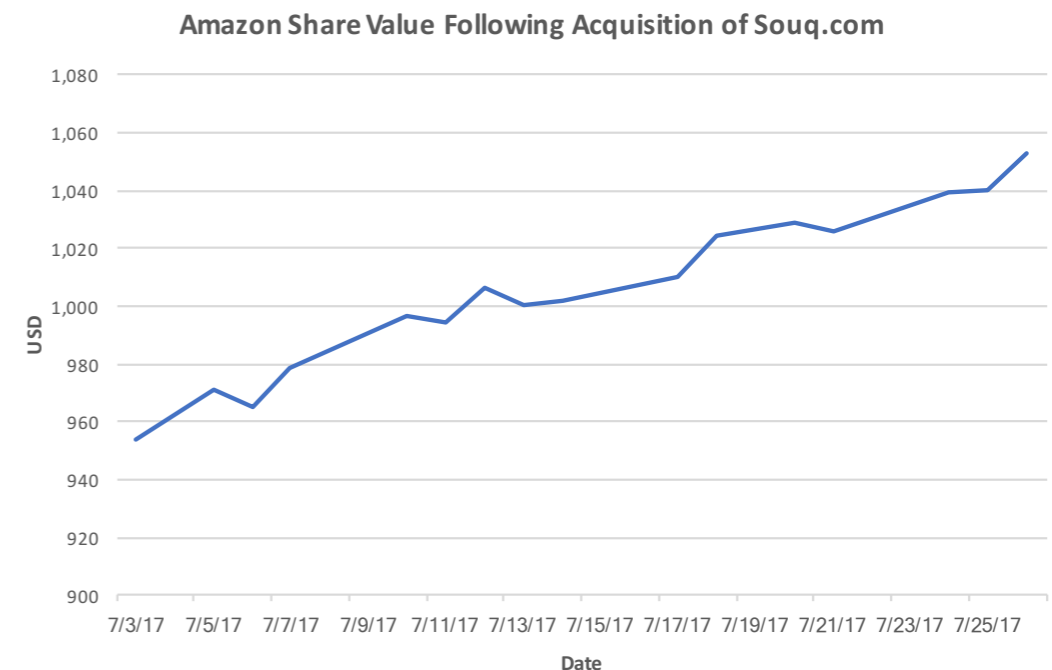
Assuming a full acquisition of MercadoLibre at an Enterprise Value of \$13.7B, which is inclusive of a 15% premium over the current share price.

Major advantages relative to option A

Major disadvantages relative to Option A

- I. - Increased likelihood of circumventing future debt issues
- II. - Decreased likelihood of Amazon's credit rating being negatively-adjusted, subsequently securing Amazon lower interest rates in any future debt offering
- III.
- IV.
- V. - Partially shared acquisition risk with MercadoLibre's shareholders
- VI. - Amazon will be liable for less net interest from syndicated loans
- VII.
- VIII. - Reduced potential offset of Amazon's opportunity cost of capital


- Not in-line with Amazon's apparent acquisition strategy of non-equity financing
- May result in Amazon overpaying, as its share value is likely to rise following the acquisition
- As issued shares will not be distributed on a pro-rata basis, this mode of financing will dilute Amazon's share value



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Contacts



Name Degree Title	Contact Details
I.	
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Appendix

Source: All values obtained from Bloomberg

Comparable Companies



Ticker	Name	Mkt Cap	EV	EV/TTM EBITDA	EV/EBITDA FY1	EV/EBITDA FY2	P/E	P/E FY1	P/E FY2	P/FCF	
Trading Comparables											
I.											
II.	EBAY US Equity	EBAY INC	37103.16693	41071.16693	14.08959414	11.83581875	11.09068148	23.44757234	17.7245509	15.92825112	17.68215652
III.	AMZN US Equity	AMAZON.COM INC	547652.5456	566528.5456	41.92780829	29.76770514	21.84221936	287.9655797	97.65509538	70.61261261	70.24305586
IV.	BABA US Equity	ALIBABA GROUP HOLDING-SP ADR	474633.063	465514.915	44.11955128	28.42954176	21.46646844	57.19149131	36.90006016	28.14893723	35.62023145
V.	VIPS US Equity	VIPSHOP HOLDINGS LTD - ADR	5723.903194	5709.170522		10.10866787	8.310864028	18.50628163	13.57630745	11.7777581	
VI.	JD US Equity	JD.COM INC-ADR	57905.48067	56483.39955	55.10674193	79.69659969	39.28489941	3993.768267	98.5197954	51.55061546	47.20689542
VII.											
VIII.	High		547652.5456	566528.5456	55.10674193	79.69659969	39.28489941	3993.768267	98.5197954	70.61261261	70.24305586
	Low		5723.903194	5709.170522	14.08959414	10.10866787	8.310864028	18.50628163	13.57630745	11.7777581	17.68215652
	Mean		224603.6319	227061.4395	38.81092391	31.96766664	20.39902654	876.1758385	52.87516186	35.60363491	42.68808481
	Median		57905.48067	56483.39955	43.02367978	28.42954176	21.46646844	57.19149131	36.90006016	28.14893723	41.41356344

WACC



Bloomberg

Company: MercadoLibre Inc

Weighted Average Cost of Capital

Ticker: MELI US Equity

Period: Current (2017 Q3)

Filing Status: Most Recent

Cost of Capital

	Weight	Cost	Weight x Cost
Equity	97.20%	8.50%	8.26%
Debt	2.00%	2.30%	0.10%
Preferred Equity	0.00%	0.00%	0.00%
WACC			8.30%

Capital Structure Graph

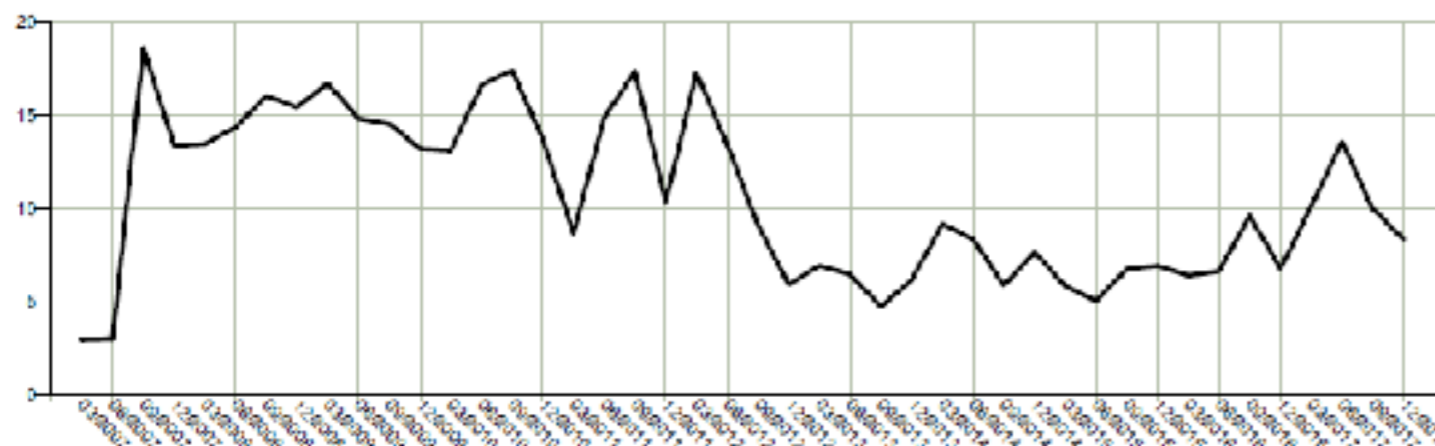


Market Capitalization
Short Term Debt
Long Term Debt

Capital Structure

	Millions of USD	
Market Capitalization	11,433.70	97.20%
Short Term Debt	21.70	0.20%
Long Term Debt	309.40	2.60%
Preferred Equity	0.00	0.00%
Total	11,767.80	100.00%

Historical Graph



Economic Value Added

	Millions of USD
Net Operating Profit	185.55
Cash Operating Taxes	61.60
NOPAT	123.95
Total Investment Capital	771.24
Capital Charge	64.26
Economic Value Added	59.69
ROIC	16.07%
EVA Spread	7.71%