AGENDA

- Current situation
- How the idea was born
- What is Despegar.com
- Strategy / business model
- Economic outlook for Latin America
- Competitive Environment
- Proposed Solution
The Vision

Be the leading provider of on-line travel services in Latin America.

Current Situation

...we are towards the end of 1999...
...the internet is changing the way business is done...

Five MBA graduates (3 from Fuqua) are developing a business plan for an on-line travel agency to serve Latin America.

Their objective?
To become one of the first Latin American e-ventures to be financed by US Venture Capitalists
E-TRAVEL: AN OPPORTUNITY IN LATIN AMERICA

- Successful business models
- Expected market growth (Internet, Tourism, LatAm)
- Industry structure:
  - Geographically disperse
  - Information intensive buying process
  - No dominant players
  - Substandard customer service
  - High transaction costs
  - Lack of transparency

E-TRAVEL IS THE MOST IMPORTANT ONLINE COMMERCE CATEGORY IN THE USA

Source: Morgan Stanley Dean Witter
Expected on-line travel market in Latin America

Expected on-line ticket sales in Latin America (in $ million)

- Brazil
  - 1999: $69
  - 2004: $405
- Mexico
  - 1999: $21
  - 2004: $294
- Argentina
  - 1999: $9
  - 2004: $145
- Chile
  - 1999: $13
  - 2004: $144
- Colombia
  - 1999: $9
  - 2004: $124
- Venezuela
  - 1999: $3
  - 2004: $85
- Peru
  - 1999: $20
  - 2004: $89
- Others
  - 1999: $10
  - 2004: $89
STRATEGY BASED ON 5 CONCEPTS

REGIONAL EXPANSION

NEW SEGMENTS

LOCAL PRESENCE

SERVICE OFFERING

BRAND AWARENESS

NEW SEGMENTS

REGIONAL EXPANSION ENABLES SCALE AND OPERATIONAL SYNERGIES...

Scale

• Access to 120 M consumers with buying power similar to USA/Europe
• 9 M internet users in Latin America in 1999
• Travel market worth over US$ 16 billion

Synergies

• Development of a brand with regional presence
• Cross selling of products between countries
• Regional alliances
• Larger base to support start-up costs
LOCAL PRESENCE PROVIDES COMPETITIVE ADVANTAGES

- Better understanding of the market
- Access to better fares
- Customer service
- Payment method adjusted to local regulations
- Content adjusted to local market requirements
- Increased control over operations

BRAND AWARENESS IS CRITICAL TO THE GENERATION OF TRAFFIC

- Online and Offline advertising campaigns
- Brand & Product
  - TV
  - Radio
  - Magazines and newspapers
  - Billboards
  - Banners
  - Links
- Public Relations
  - Press coverage
  - Special events
- Alliances
  - Travel suppliers
  - Internet sites
  - Co-branding promotions
ONE-STOP-SHOPPING LEADS TO INCREASED SALES AND CUSTOMER RETENTION

Service Offering

<table>
<thead>
<tr>
<th>Content</th>
<th>Community</th>
<th>Convenience</th>
<th>Customer Service</th>
<th>Commerce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel guides</td>
<td>Chat</td>
<td>Self service</td>
<td>Local 800 call center</td>
<td>Flight, hotel and car rental</td>
</tr>
<tr>
<td>Professional reviews</td>
<td>Bulletin</td>
<td>24 - 7</td>
<td>Fare alerts</td>
<td>Vacation and cruise packages</td>
</tr>
<tr>
<td>Weather</td>
<td>Travel log</td>
<td>Home delivery</td>
<td>Fare finder</td>
<td>Travel guides</td>
</tr>
<tr>
<td>Airport real time scheduling</td>
<td>Customer reviews</td>
<td>Pick-up locations</td>
<td>Trained travel agents</td>
<td>Insurance</td>
</tr>
<tr>
<td>Destination video clips</td>
<td>Photo Album</td>
<td>e-tickets</td>
<td>VOIP</td>
<td>Travel mall</td>
</tr>
<tr>
<td>Maps</td>
<td>Meeting Place</td>
<td>Quotes by request</td>
<td>Chat service</td>
<td>Travelers checks</td>
</tr>
</tbody>
</table>

... FOR THE DIFFERENT MARKET SEGMENTS

B2C (LEISURE)

- Potential markets: Spain, Brazil, Argentina, Mexico, Colombia, Chile, Venezuela and Uruguay; and US Hispanic
- Leading E-travel provider with a recognized brand, consumers’ top of mind
- Additional possible services: solutions for budget/young travelers (Despegar Joven), thematic solutions for special interest groups (ski, soccer, honeymoon, etc.); rich editorial content, planning tools, and community features

B2B (CORPORATE)

- Main target: small companies with limited travel sophistication
- Potential key partnerships: Accor Corporate Services and Carlson WagonLit Travel
Latin America: Positive outlook for 2000

Forecasted GDP growth: 4%

Positive factors
- Sound fiscal & monetary policies
- Low expected inflation (few double digit inflation rates)

Negative factors
- US economy growth is expected to slowdown
- Uncertainty on stability of economic policies

Economic indicators

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>GDP ($bn)</td>
<td>258.1</td>
<td>272.1</td>
<td>292.9</td>
<td>298.1</td>
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<td></td>
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<tr>
<td>GDP Growth (%)</td>
<td>-4.0</td>
<td>4.9</td>
<td>8.6</td>
<td>3.9</td>
<td>-3.8</td>
<td>2.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>3.4</td>
<td>0.2</td>
<td>0.5</td>
<td>0.9</td>
<td>-1.9</td>
<td>-0.3</td>
<td>0.2</td>
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<tr>
<td>Population (m)</td>
<td>34.8</td>
<td>35.2</td>
<td>36.7</td>
<td>36.1</td>
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<tr>
<td>External Debt ($bn)</td>
<td>93.9</td>
<td>105.2</td>
<td>123.2</td>
<td>138.9</td>
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<tr>
<td>Exch. Rate (avg./$)</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
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<tr>
<td>Country Rating</td>
<td>38.8</td>
<td>38.9</td>
<td>41.3</td>
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<td>42.4</td>
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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>GDP ($bn)</td>
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<td>GDP Growth (%)</td>
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<td>7.4</td>
<td>7.6</td>
<td>3.4</td>
<td>-0.7</td>
<td>4.8</td>
<td>5.6</td>
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<tr>
<td>Inflation (%)</td>
<td>8.7</td>
<td>7.0</td>
<td>6.5</td>
<td>5.3</td>
<td>2.5</td>
<td>3.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Population (m)</td>
<td>14.2</td>
<td>14.4</td>
<td>14.6</td>
<td>14.8</td>
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<tr>
<td>External Debt ($bn)</td>
<td>25.6</td>
<td>27.4</td>
<td>31.4</td>
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<tr>
<td>Exch. Rate (avg./$)</td>
<td>396.8</td>
<td>412.3</td>
<td>419.3</td>
<td>403.3</td>
<td>543.1</td>
<td>549.4</td>
<td>560.0</td>
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</table>

b: Estimates, except for Institutional Investor Country Rating
c: Institutional Investor Country Rating. September of each year.
Economic indicators

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<thead>
<tr>
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<tbody>
<tr>
<td>GDP ($ bn)</td>
<td>774.9</td>
<td>881.6</td>
<td>775.4</td>
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<td>GDP Growth (%)</td>
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<td>-5.1</td>
<td>0.2</td>
<td>9.0</td>
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<td>6.3</td>
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<tr>
<td>Inflation (%)</td>
<td>15.8</td>
<td>6.9</td>
<td>3.2</td>
<td>4.9</td>
<td>7.9</td>
<td>7.3</td>
<td>6.3</td>
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<tr>
<td>Population (m)</td>
<td>157.5</td>
<td>159.6</td>
<td>161.8</td>
<td>163.7</td>
<td>165.9</td>
<td>168.1</td>
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<tr>
<td>Exch. Rate (avg./$)</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.8</td>
<td>1.9</td>
<td>2.0</td>
<td>1.9</td>
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<tr>
<td>Country Rating</td>
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<td>68.3</td>
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<td>70.5</td>
<td>71.0</td>
<td>71.5</td>
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</table>

c: Institutional Investor Country Rating. September of each year.

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
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<td>GDP ($ bn)</td>
<td>286.1</td>
<td>329.5</td>
<td>401.4</td>
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<td>3.9</td>
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<tr>
<td>GDP Growth (%)</td>
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<td>5.2</td>
<td>6.8</td>
<td>4.8</td>
<td>3.4</td>
<td>3.9</td>
<td>4.4</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>35.0</td>
<td>34.4</td>
<td>20.6</td>
<td>15.9</td>
<td>13.1</td>
<td>10.9</td>
<td>10.1</td>
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<tr>
<td>Population (m)</td>
<td>91.2</td>
<td>92.9</td>
<td>94.7</td>
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<td>100.1</td>
<td>101.9</td>
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<tr>
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<td>38.1</td>
<td>36.5</td>
<td>36.5</td>
<td>36.5</td>
</tr>
</tbody>
</table>

c: Institutional Investor Country Rating. September of each year.

On-line competitors

- **Viajo.com**
  - Main on-line competitor in Latin America
  - Offers tickets, complete tourism packages, language translation, extensive travel content
  - Operates both on-line and off-line stores

- **Regional portals**
  - Terra and Star Media have entered alliances with agencies

- **US on-line travel agencies**
  - Expedia and Travelocity have launched sites for markets outside the US
The Threat & The Opportunity

THREAT

• Similar portals in development
• Viajo.com @ Mexico

OPPORTUNITY

• “Despegar Network” in place
• Simultaneous deployment in LatAm
• First-mover advantage

The Timing is NOW

The Venture Capital

Despegar.com needs 8 M$ to accomplish a Regional Roll-out

Despegar.com will be financed by 100% Equity (all VCs)

Management team is presenting its Business Plan to the 1st Round of US Institutional VC Investors
Questions ...

Case Key Learnings

1. Identify Project’s Risks
   - Affect Cash Flows
   - Affect the Cost of Capital

2. Set up Cash Flows

3. Sensitivity Analysis

4. Real Options
### Project’s Risks
#### Cash Flow Implications

<table>
<thead>
<tr>
<th>Pre-Completion</th>
<th>Risk</th>
<th>Cause</th>
<th>Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Availability</td>
<td>NO</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Technology</td>
<td>NO</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Timing Completion</td>
<td>HIGH</td>
<td>Strategic Advantage</td>
<td>Reduce Marketshare</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Post-Completion</th>
<th>Risk</th>
<th>Cause</th>
<th>Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>HIGH</td>
<td>Adoption rate &amp; Commissions</td>
<td>Reduce Web Adoption &amp; Comm.</td>
</tr>
<tr>
<td>Supply/Input</td>
<td>MEDIUM</td>
<td>Marketing &amp; Brand Issues</td>
<td>Reduce Marketshare</td>
</tr>
<tr>
<td>Throughput</td>
<td>MEDIUM</td>
<td>Technology Problems</td>
<td>Reduce Penetration Speed</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>MEDIUM</td>
<td>Lack of Experience</td>
<td>Increase Expected Oper. Costs</td>
</tr>
</tbody>
</table>

### Project’s Risks
#### Cost of Capital Implications

- **Calculator**
  - Brazil
  - Argentina
  - Mexico
  - Venezuela
  - Colombia
  - Chile

- **Adjustments**
  - Macroeconomics
  - Political/Legal
  - Force Majeure
  - Financial Risks

- **Cost of Capital Averaged**
  - Weighted
  - Per country
  - Gross booking
### Project's Risks
#### Cost of Capital Implications

<table>
<thead>
<tr>
<th>Cost of Equity Capital (&quot;calculator&quot;)</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
<th>Colombia</th>
<th>Mexico</th>
<th>Venezuela</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22.80%</td>
<td>25.45%</td>
<td>16.4%</td>
<td>22.10%</td>
<td>20.53%</td>
<td>26.81%</td>
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<tr>
<td>Industry beta adjustment</td>
<td>+0.41%</td>
<td>+0.41%</td>
<td>+0.41%</td>
<td>+0.41%</td>
<td>+0.41%</td>
<td>+0.41%</td>
</tr>
<tr>
<td><strong>Operational - Sovereign Risks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Macroeconomics</td>
<td>+1.67%</td>
<td>+0.00%</td>
<td>+0.00%</td>
<td>+2.23%</td>
<td>-2.78%</td>
<td>+2.78%</td>
</tr>
<tr>
<td>Political/Legal</td>
<td>+0.63%</td>
<td>+0.42%</td>
<td>+0.00%</td>
<td>+0.84%</td>
<td>+0.00%</td>
<td>+1.04%</td>
</tr>
<tr>
<td>Force Majeure</td>
<td>+0.00%</td>
<td>+0.00%</td>
<td>+0.49%</td>
<td>+0.00%</td>
<td>+0.35%</td>
<td></td>
</tr>
<tr>
<td>Financial Risks</td>
<td>-0.70%</td>
<td>-0.70%</td>
<td>-0.70%</td>
<td>-0.70%</td>
<td>-0.70%</td>
<td>-0.70%</td>
</tr>
<tr>
<td>Adj. Project Cost of Equity</td>
<td>24.81%</td>
<td>25.58%</td>
<td>16.07%</td>
<td>25.36%</td>
<td>17.46%</td>
<td>30.70%</td>
</tr>
</tbody>
</table>

(*) Industry Beta adjustment corresponds to Travel and Tourism, Internet effect is considered in Cash Flows.

---

### Project's Risks
#### Cost of Capital Implications

<table>
<thead>
<tr>
<th>Bookings</th>
<th>Cost of Equity</th>
<th>Weighted Ave.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>374,195</td>
<td>24.81%</td>
</tr>
<tr>
<td>Brazil</td>
<td>660,413</td>
<td>25.56%</td>
</tr>
<tr>
<td>Chile</td>
<td>178,400</td>
<td>16.07%</td>
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<tr>
<td>Colombia</td>
<td>488,729</td>
<td>25.36%</td>
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<tr>
<td>Mexico</td>
<td>383,247</td>
<td>17.48%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>57,144</td>
<td>30.70%</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>2,320,128</strong></td>
<td></td>
</tr>
</tbody>
</table>

Re = 23.47%

Despegar's Capital Structure: 100% Equity, no Debt
2 Cash flow Setup

POPULATION
- % Internet users
- % Online buyers
- Spending p/person

COUNTRY E-TICKETS BOOKINGS
- Share Of Travel
- Share Of eMarket
- Untapped Mkt

COMPANY E-TICKETS BOOKINGS

REVENUES
- Ticket Bookings Commissions
- Others: Rental Car + Hotels Advertising

Corporate Expenses
- IT
- Personnel
- Operations

Operating Countries Expenses
- Marketing Costs

NPV = $ 50 M
3 Sensitivity Analysis

- Spending per person ($) 67% → 125%
- Internet users (k) 67% → 125%
- % online ticket buyers 80% → 110%
- Share of e-market 85% → 105%
- % commission (paid to travel agents) 60% → 100%
- Media advertising 120% → 90%
- % growth (terminal value) 2.0% → 3.0%
- Personnel 120% → 80%
- IT / website 120% → 80%
- Operative 120% → 80%
- Untapped market potential 120% → 80%

Monte Carlo: Mean NPV = $25 M

4 Real Options

- **Delay** Option
- **Abandonment** Option
- **Expansion** Option
- **Brand or Knowledge** Building Option
Thank you !!