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CTRP - Q2 2012 Ctrip.com International, Ltd. Earnings Conference Call

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OVERVIEW:

CTRP reported 2Q12 total net revenues of CNY974m, net income attributable to Co.'s shareholders of CNY120m, and diluted earnings per ADS of CNY0.81. Expects 3Q12 net revenue to grow approx. 15-20% YonY.



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Chenyi Lu *Cowen and Company - Analyst*

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Q2 2012 Ctrip.com International Ltd. earnings call. My name is Carla and I'll be your operator for today. At this time all participants' lines are muted. Later, we will conduct a question and answer session. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Ms Michelle Qi, IR Manager of Ctrip. Please proceed.

Michelle Qi - *Ctrip.com International, Ltd. - IR Manager*

Thanks Carla. Thank you for attending Ctrip's second quarter 2012 earnings conference call. Joining me on the call today we have Mr James Liang, Chairman of the Board, Mr Min Fan, President and Chief Executive Officer, Ms Jane Sun, Chief Operating Officer and Ms Jenny Wu, Chief Financial Officer.

We may during this call, discuss our future outlook and performance, which are forward looking statements made under the Safe Harbor Provision of the US Private Securities Litigation Reform Act of 1995. Forward looking statements involve inherent risks and uncertainties. As such, our results maybe materially different from the views expressed today. A number of potential risks and uncertainties are outlined in future public filings with



the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward looking statements, except as required under applicable law.

Min, Jane, James and Jenny will share our business update operating highlights, industry outlooks and financial performance for the second quarter of 2012, as well as an outlook for the third quarter of 2012. We will also have a Q&A session towards the end of this call. With that, I will turn to Min for our business update.

Min Fan - *Ctrip.com International, Ltd. - President & CEO*

Thanks Michelle and thank you to everyone for joining us on the call today. In the second quarter of 2012, Ctrip delivered solidly well. Net revenues grew by 17% year-over-year, within the range of our guidance as 15% to 20% year-over-year. Net income decreased by 55% year-over-year, mainly due to the intensified investment in product development and marketing campaigns. As well as the withholding tax related to the \$300 million stock buy back plan announced in June.

China Travel markets enjoys explosive growth. Yet, the competition is still intensified, particularly in the lower-end leisure travel market. Today, I would like to take this opportunity to share with you Ctrip's strategy to win over the competition and enhance our leadership.

Ctrip aims to build our business for the long term. We will strive to create most compelling value for customers and partners. We will achieve our goals through comprehensive offerings, convenient customer experience, competitive pricing and confidence in Ctrip.

We are investing heavily in product development this year. From comprehensiveness to diversity, we are very creative in new models and consistently improving our platforms faster than ever before. Our Smart Choice hotels, new international air ticketing platform, luxury travel sites, HH Travel, Tujia vacation rentals and (inaudible) hotel booking have all planted a seed for the future growth and for long term success. We are continuing to improve our customer online experience. Beyond efficient online transactions, we also strive to provide the latest travel information available.

Our team has made great effort to enhance the edited content and pictures. The number of reviews posted by travelers has increased significantly. In addition to the online website, mobile platform is a clear priority in future (inaudible -- technical difficulty) business development.

All these investments fuel the increase in online transactions. By the end of the second quarter, hotel online transactions exceeded 50% of total bookings. Our average online transactions accounted for about 45% of Ctrip's total bookings.

Offers [obviously] are still one of our core competencies that win our high customer loyalty. We uphold a high level of service quality and strive for continuous improvement. Competitive pricing is important to enhance Ctrip's leadership.

(Inaudible) price advantages have to be [coupled] with strong products and services. By strengthening our existing advantages, we join the competition defensively. In July, our long term, more aggressive marketing campaign with a series of comparing low price products across all business lines. This will accelerate our penetration into price sensitive market.

With 12 years in the market, Ctrip is by far the most well known travel brand in China. Based on service quality, sale ability and integrity combined. Yet China's travel market is fragmented and our market share is still very small. We have increased our investment in online marketing and actively explore all channels, such as search engine optimization, social media, online radio, web partnerships and other effective online platforms.

By the end of the second quarter of 2012 our cumulative numbers of customers have increased to 17.4 million compared to 13.5 million at the same time in 2011. We will continue to improve our marketing efficiencies and take open minded approach to enhance the Ctrip brand awareness.

Our company always takes prudent steps to carefully evaluate the return on investment, timing and priorities for each investment. We are very excited about our future growth. Our team will focus on execution, monitoring the key investors and delivering the best possible results. We are confident that our investments will ensure Ctrip's success in the coming decade.

Now, I will turn to Jane for the operating highlights.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Thanks Min. Thanks everyone. I would like to share with you the recent operating highlights.

We accelerate the speed of our hotel network expansion. By the end of the second quarter of 2012 our hotel supplier network covered over 39,000 hotels, compared with 19,200 hotels a year ago. While maintaining a dominant coverage of high star hotels, we are glad to see the fast penetration into the low star hotels. We've strengthened our offers for competitive hotel prices in the market, especially towards the budget-oriented segment. The (inaudible) promotions incentivized economy customers to book low star hotels through Ctrip.

The new hotel products have made significant progress. (Inaudible).com expanded its network. Tujia won at the China Hotel Charisma Awards as the best travel service provider early this quarter. Our air ticket volume outgrew the industry average during the second quarter. The international ticket volume grew over 45% year-over-year in the second quarter. The air ticketing team fortified the product design forces to offer more variety of product and to enhance the cross-sell with the other travel products. Meanwhile, the team has continuously improved operational efficiency to make Ctrip the most efficient sales channel for our airline partners.

Ctrip's packaged-tour business delivered another strong quarter with the revenue growth from mainland China reaching over 40% year-over-year. Outbound travel is growing even faster, aided by enriched product offerings, RMB appreciation and the relaxed visa restrictions. In Q2 of 2012 Ctrip won the Best Seller Award from the Hawaii Tourism Authority. For the fourth time Travel Weekly China named Ctrip the best online travel agency of the year.

High end customers have expressed strong interest in our new luxurious range, HH Travel. Trip TM, which is part of the HH Travel, won Travel Weekly's award for best high end oriented travel club of the year in May 2012. Ctrip's corporate travel service helped customers to save travel costs more efficiently in a challenging macro economy. We continue to gain market share and expand our customer base.

Our Ctrip team is excited about the new (inaudible) in every aspect of the business. We will continue to focus our execution and to work hard to deliver solid results towards the right direction.

Now, I will turn to James for industry outlook.

James Jianzhang Liang - *Ctrip.com International, Ltd. - Chairman of the Board*

Thanks Jane. The travel market is growing rapidly. The competition in the mid to high end travel market focuses on service and branding and Ctrip continues to enjoy a solid, dominant position in the segment.

In the price sensitive segment, Ctrip is very determined to fight off any competition and to keep our leadership position by leveraging our effective strategies dedicating a strong balance sheet. We believe the investment making today will ensure us to realize long term values for our customers and our shareholders. Now, I will turn to Jenny for financial updates.

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Thanks James. I'm pleased to report solid results for the second quarter 2012. For the second quarter 2012 Ctrip's total net revenues were RMB9074 million, up 70% year-on-year and 7% quarter-on-quarter.

For hotel -- our hotel reservation revenues amounted to RMB410 million for the second quarter, up 12% year-on-year, primarily driven by an increase of 20% in hotel reservation volume and partially offset by 7% decrease in commission per room night. The decrease of commission per room night was mainly due to promotional activities. Hotel reservation revenues increased by 12% quarter-on-quarter, largely due to seasonality.

Air ticket booking revenues for the second quarter were RMB404 million, up 16% year-on-year, mainly driven by an increase in air ticketing sales volume. Air ticket booking revenues increased 12% quarter-on-quarter, primarily driven by seasonality.

Packed-tour revenues for the second quarter were RMB134 million, up 24% year-on-year, due to the increase of leisure travel volume. Packaged-tour revenues decreased 20% quarter-on-quarter, mainly due to seasonality.

Corporate travel revenues for the second quarter were RMB49 million, up 25% year-on-year, mainly driven by the increased corporate travel demand from business activities. Corporate travel revenues increased 27% quarter-on-quarter, primarily due to seasonality.

Gross margin was 75% in the second quarter 2012, compared to 77% in the same period last year and 75% in the previous quarter.

Product development expenses for the second quarter were RMB208 million, up 52% year-on-year and 6% quarter-on-quarter, primarily due to an increase in product development personnel related expenses and share-based compensation charges. Excluding share-based compensation charges, product development expenses accounted for 18% of total net revenue, increased from 14% in the same period last year and remain flattish quarter-on-quarter.

Sales and marketing expenses for the second quarter were RMB217 million, up 54% year-on-year and 18% quarter-on-quarter, primarily due to an increase in sales and marketing related activities and the personnel related expenses as a result of our recently launched intensified marketing campaigns, as well as our efforts to expand in the leisure travel market. Excluding share-based compensation charges, sales and marketing expenses accounted for 21% of net revenues, increased from 16% in the same period last year and 19% in the previous quarter.

General and administration expenses for the second quarter were RMB139 million, up 44% year-on-year and 8% quarter on quarter, mainly due to an increase in administrative personnel, share-based compensation charges and incremental turnover tax due to the newly launched value-added tax reform. Excluding share-based compensation charges, general and administrative expenses accounted for 8% of net revenues, increased from 5% in the same period last year and remained consistent quarter-on-quarter.

Income from operations for the second quarter were RMB168 million, a decrease of 37% year-on-year and 5% quarter on quarter. Excluding share-based compensation charges, income from operations was RMB227 million, decreasing 22% year-on-year and remain flattish quarter-on-quarter.

Operating margin was 17% in the second quarter, compared to 32% in the same period last year and 19% in the previous quarter. Excluding share-based compensation charges, operating margin was 28%, decreasing from 43% in the same period last year and 30% in the previous quarter.

The effective tax rate for the second quarter was 45%, increased from 16% in the same period last year and 28% in the previous quarter, primarily due to the provision of 5% PRC withholding tax related to the dividends that our PRC subsidiaries will pay to our Hong Kong subsidiary to fund the recently announced share repurchase program, which was partially offset by the preferential tax treatment of two PRC consolidated entities. These two entities were approved to apply the preferential tax rate of 15% under the Corporate Income Tax Preferential Policies for China's Western Region. This preferential status is effective retroactively as of January 1st 2011.

Before the company obtained the official approval for the preferential tax treatment, these two entities applied a statutory tax rate of 25% for 2011 and the first quarter this year. Net income attributable to Ctrip's shareholders for the second quarter was RMB120 million, representing a decrease of 50% from the same period last year and a 29% from the previous quarter. Including share-based compensation charges, net income attributable to Ctrip's shareholders was RMB228 million, representing a decrease of 35% from the same period last year and a 15% from the previous quarter.

Diluted earnings per ADS were RMB0.81 for the second quarter. Excluding share-based compensation charges, diluted earnings per ADS were RMB1.56 for the second quarter or \$0.24. As of June 30 this year, the balance of cash and cash equivalent, restricted cash and short-term investment was RMB5.3 billion.



Now turning to the business outlook. For the first quarter -- for the first quarter this year, Ctrip expects net revenue to grow approximately 15% to 20% year-on-year. This forecast reflects Ctrip's current and preliminary view, which is subject to change. Finally, I would like to give you an update on Ctrip's share repurchase program. As of July 24 this year, Ctrip's cumulatively purchased approximately 11.3 million ADSs with a total consideration of \$202 million from open market under three existing share repurchase plans adopted in 2008, 2011 and in 2012. With that, Operator, we're opening the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operations Instructions). Our first question comes from the line of Richard Ji with Morgan Stanley. Please proceed.

Richard Ji - Morgan Stanley - Analyst

Thank you. Min, James, Jane and Jenny, good morning and thanks for taking my call.

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Thank you.

Richard Ji - Morgan Stanley - Analyst

Let me start with two question and the first is regarding your hotel operation and so for the past quarter and we saw hotel commissions (inaudible). Can you provide us with more granularity about the impact from coupon program versus the organic commission rate -- commission rate. Also, so far -- and what are the feedback from your hotel partners regarding your ongoing coupon program? Thank you.

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Thanks, Richard for your question. For the first question, hotel commission per room night, for second quarter, our commission per room night declined. It's really for several reasons. Firstly, for the hotel pricing is largely declined by 1% year-on-year. The nominal commission rate is still very flattish and currently, we obtain about 14% to 15% commission rate from the hotel, which is still very sustainable. But our various kind of promotional activities, largely this coupon impact our effective tax rate and that's the -- mainly the key reason. Going forward, we still foresee this, for the pricing wise, because we are become more aggressive in penetrating into those (inaudible) hotels and, you know, in the western areas, so just on a blended basis averaging pricing will see the downward trend, but on the other hand, for our existing hotels, especially for the four star and five star hotels, the room rate, you have the upward trend. Largely due to the inflation, so on a blended basis, we will see -- there will be a slightly downward trend for the pricing of per room, but for the nominal commission rate, our best visibility so far is still very sustainable. About 14% to 15%. Then on the second question, as for the hotel partners, we can turn to Jane for the answer.

Jane Jie Sun - Ctrip.com International, Ltd. - COO

Sure. I think -- the hotels, I think, as long as we bring quality customers to the hotels during the seasons that hotels relatively have fewer people, our hotel partners welcome the volume, so we work very hard to drive customer volumes to our hotel partners.



Richard Ji - Morgan Stanley - Analyst

Also, we observe an increase of your cost in the past quarter. Can you give us a little more color on your [head count] target for the year and how should we be looking at an emerging trend and where should we expect there to be stabilized? Thank you.

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Yes. For the -- indeed, when you see the cost and total cost and expansion is climbing up on a year-on-year basis. For the full year, on the -- head count-wise, we are still very (inaudible). We're not allowed head count gross to exceed the top line gross and -- but this year, we have already communicated with -- in (inaudible) community that this year, our margin were on the downward trend and previously, we are talking about for the full year, the opening margin will be largely around the 30%, which imply about a 10 percentage point drop.

The fall in percentage is related to the new business development and a 4% is due to sales and marketing, largely due to the e-coupon program and the 2% is due to the labor costs and since late part of second quarter, we launched a more aggressive sales and marketing campaign, where our (inaudible -- technical difficulty) to utilize those kinds of efforts, in terms of product offering, sales and marketing and internal operations is the efficiency to continue to expand our latest leadership. So as a result, we will -- we foresee to incur additional expansion (inaudible) sales and marketing, so for the second quarter and -- we will see properly the OP margin will be lower than second quarter, so it will be, I think, probably around the 25% to 27%.

This additional decline in margins will naturally be due to the additional sales and marketing expenses and the -- which is -- 50% is largely for the (inaudible) and the rest half is for the -- the half -- the rest is for our normal -- the normal advertising efforts. For the full year, I think, for the fourth quarter, seasonality wise, it will have a lower margin than 3Q, but for the full year on our best judgment, so far, (inaudible) it was still around 25% to 30% range.

Richard Ji - Morgan Stanley - Analyst

Thank you. That's helpful.

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Thanks.

Operator

Our next question comes from the line of Jin Yoon with Nomura. Please proceed.

Jin Yoon - Nomura Holdings Inc - Analyst

Hi, good morning, everyone. Thanks for taking my question. So I guess my question is regarding the dividend. You talk about buying back stock on three different tranches over the last few years. Can you just talk about how -- where we are in the process in terms of the last couple of tranches that you talked about? Are we completely gone with that? Are we going into the reasons we had \$1 million round that you just launched? Can you kind of divide that up for us, in terms of where we are in the process for the dividend? I have one more follow up question regarding the margin. Thanks.



Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Okay, thank you. Yes, we have three share buyback programs adopted in 2008, 2011, 2012 and so far, we are already pretty much [utilized] all the quotas under the first two programs and for the (inaudible) announced share buyback program, we (inaudible) into buyback around \$300 million shares and as of July 24, we already used about close to \$100 million for this new program. We are -- we believe, our management team believe, our -- the current stock price particularly (inaudible) Ctrip's value. So we will be very -- we will continue to buyback (inaudible).

Jin Yoon - *Nomura Holdings Inc - Analyst*

Perfect. Just going back to margins. I may have missed it. You said your margin target for the year now is 25% to 30% and so, if that's the -- if that's the, the kind of, the new range now, what should we -- where should margins fall, assuming that, you know, the top line is, in second half of the year isn't as strong as what we've seen in the first half of the year and, in given the fact that your cost structure continues to go up, should we assume that you probably come to that, the 25%, if we don't see the top line leverage that we should expect in the second half of the year?

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Personally, for the third quarter, for the top line we guided, top -- top revenues will grow 15% to 20% in year-on-year, and we believe our guide is prudent and also, realistic, because first, the way you see, currently, although the visibility is still limited for the second half this year, the lower economy is still more likely to happen. In our business, especially, this is the trouble (inaudible) part is quite a (inaudible) and it will be impacted. On the other hand (inaudible) the industry has been (inaudible) uncertainties and risks, such as weather conditions. For us, our Ctrip -- Ctrip team always try our best and (inaudible) so far we can continue to (inaudible) on the market, but indeed, there is a lot of uncertainties.

On the other -- meanwhile, we also put a lot of effort in building the new products and in [acquiring] new orders and every effort that we put into so far, it's -- it still takes some time for them to see the full-fledged result. So we still believe there should -- intended -- inherited the operating leverage (inaudible) our model, but it took some time. For the last (inaudible) year, we have the way -- we have no guidance for the top line gross and we believe if it were marginally -- it depends on the market in response to our marketing campaign and also, our internal execution.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Jin, just to add Jenny's comments, our top line, the revenue growth is guided at 15% to 20%, but if you break down to volume versus revenue, volume growth will be stronger. For hotel, I think the volume growth will be at 20% to 30%, which will be accelerating from the current level due to our investment in the sales and marketing, but on the revenue side, the revenue will be partially offset by the e-coupon program, so that's what you see in the blended revenue growth, but you rating to two parts, I think availability is accelerating.

Jin Yoon - *Nomura Holdings Inc - Analyst*

Perfect, okay. Thanks, guys.

Operator

Our next question is coming from Chenyi Lu with Cowen and Company. Please proceed.

Chenyi Lu - *Cowen and Company - Analyst*

Thank you. I have two questions, the first question regarding the (inaudible) agenda. Could you just give us a little bit of detail about the hotel volume growth. Can you guys just -- I know you already give a little, I just wanted to see the whole picture as to what airline volume commission, and also hotel. (inaudible) follow up that.



Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Chen, for sure, and the top line growth as we mentioned it will be 15% to 20% year-on-year and breakdown will be on a year-on-year basis. In the first place for hotel, we forecast the revenue will grow by 10% to 15% year-on-year. As Jane mentioned, we see a very strong volume growth which will be around 20% to 30% year on year, but the commission per room night were largely -- were trending down by 10% to 15% which is mainly due to our promotional activities such as e-coupon and [the group] buying. In the -- for airline ticketing costs total annual growth will be around 15% to 20% year on year, which is largely driven by the volume growth which is also 15% to 20%. Commission particularly it will be flattish year on year. For the packaged tour revenue growth will be around 20% to 30% and the (inaudible) organic part the growth will be around the 30% to 40%, and therefore the corporate travel revenue will be around 15% to 20%.

Chenyi Lu - *Cowen and Company - Analyst*

Okay great, thank you, and then one more question regarding the hotel business. I think the volume pretty much can be enough with the (inaudible) but the commission rate actually declined faster than the last time when (inaudible). Can you give us a view as to why the commission actually declined faster because the company opened more coupons, or just because the whole market was softening that the hotel (inaudible) try to attract the customers? And also can you give us a view of overall hotel business as to which segment is doing better? Is the economical hotel doing better or is the higher star hotels doing better? Thank you.

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Okay, thank you. For the commission rate I believe you referred to the effective commission rate, which is commission per room night. It is combined by three elements. First one is the price for the room night which is largely flattish or will be flattish in third quarter, and the second element is nominal commission rate, which (inaudible) was still flattish as we talked at the beginning of this call and we still see 14% to 15% commission rate will be attributable in the coming years, and for the last component is promotional impact, which is largely from the e-coupon and the globe buying, and it will impact our growth by 10% to 15% and we believe this -- we noticed intensified industry competition and also the (inaudible) from the (inaudible) travel markets, where our team is very (inaudible) to be in the competition and to gain market share for the (inaudible) travel part. So I think we were very committed on that and it will impact our commission -- effective commission rate for a (inaudible) period of time. But over the long run we believe industry will go back to the very [rational] level. I'm sorry, I forgot the second question.

Chenyi Lu - *Cowen and Company - Analyst*

The second question is, let's break the hotel business into two, one is economic hotel, one is [upper]. Which one gets the -- actually which one has better growth compared amongst the two?

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

We have seen the economic hotel and (inaudible) the higher hotel all growing healthily in the market, although the whole market is influenced by the GDP growth rate. But I think 7% or 8% GDP growth rate still enabled the hotel to grow at a very reasonable level from all perspectives.

Chenyi Lu - *Cowen and Company - Analyst*

Okay, thank you.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Thanks.



Operator

Our next question comes from the line of Alex Yao with Deutsche Bank. Please proceed.

Alex Yao - Deutsche Bank - Analyst

Good morning everyone and thank you very much for taking my call. I have two questions. The first one is about your MA strategy. In the past when you guys talk about the MA target you guys mentioned you will be vertical leaders in several related areas but not necessarily overlapping to your core OTA business. Now, given that the competition in the online travel agent market is intensifying, would you consider leverage the capital resource to consolidate the market, which means that you buy the similar business model companies? And second question is regarding the e-coupon program. Can you share with us the progress and achievement of the program and also using what metrics do you evaluate the effectiveness of the program, if possible at all would you be able to share with us any relevant operating matrix, for instance the percentage of redemption rate, percentage of redemption treated as operating [stance] versus (inaudible) revenue et cetera? Thank you.

Jane Jie Sun - Ctrip.com International, Ltd. - COO

Sure. Shall I walk you through these two questions? First of all our M&A strategy, Ctrip historically has been very disciplined in terms of keeping up with another company, so we mainly have three type of goals. The first one is if the company can extend our product line into the market we'll be very interested in talking with them. Secondly if a company can speed up our penetration into a market that we do not have presently, we will be very interested also.

Thirdly it's a very long term investment that will extend our leadership in the long term and normally the teams that we team up with are very strong in execution and share the same philosophy with (inaudible) team, only if these criteria are meant then we will make a move. So we will keep up with our discipline philosophy in executing our M&A strategy. So that's the first thing.

The second thing is under e-coupon, I think first of all we very much like to maintain a very healthy eco environment, however if the competition becomes a little bit irrational we reserve our available funds to strengthen ourselves in the marketing campaign. Right now, as we disclosed, we have \$800 million on the balance sheet. \$300 million is allocated for our buyback program. More than \$500 million available funds is available for ourselves in the marketing activity and other operational activities. Whatever extends our leadership into the markets we will successfully do it.

So for each of our programs it is an example for us to extend our leadership into the market share. The [PPL]we are looking at is the bottom growth into the market and market share gain. So a comparison between us and the other players in the market is being very carefully monitored and we will keep up with our efforts to make sure our presence into the high end, as well as the low end customers, is strengthened.

Alex Yao - Deutsche Bank - Analyst

That's very helpful, thank you very much.

Jane Jie Sun - Ctrip.com International, Ltd. - COO

Thanks.

Operator

The next question comes from the line of Eddie Leung with Merrill Lynch. Please proceed.

Eddie Leung - *Merrill Lynch - Analyst*

Hi, good morning. Thank you for taking my questions. Just a follow up to Alex's question. I wonder if you guys can share with us any rough proportions of the (inaudible) related to the so-called promotional programs including e-coupons (inaudible). Then my second question is about the ASD trend of air tickets. You guys mentioned the ASD trend for hotels, I'm just wondering how things are going on for air tickets? Thank you.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Yeah. It (inaudible -- technical difficulty) -- sure, for the hotel growth I think the e-coupon program influence the budget customer more than the high end customer. So for high end customers the growth is still very healthy. I think that they will book it with or without e-coupons. For the low end customer in the budget segment our customer redemption rate for the e-coupon is much higher and we are very glad to see the redemption rate is keeping up with our expectation which means that we're winning over the customers through our campaign and market share is being extended. The 20% volume growth for the first quarter reflects the accelerated volume growth from the previous year.

The eTicket is 16% year-over-year, mainly driven by the volume. The other elements remain fairly steady.

Eddie Leung - *Merrill Lynch - Analyst*

Thanks.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Thanks.

Operator

The next question comes from the line of Jiong Shao with Macquarie. Please proceed. Hello, your line is open, you may proceed with your question.

Jiong Shao - *Macquarie - Analyst*

Sorry, I was mute. Can you hear me now?

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Yes.

Jiong Shao - *Macquarie - Analyst*

Hello.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Hi.



Jiong Shao - *Macquarie - Analyst*

Hello.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

We can hear you.

Jiong Shao - *Macquarie - Analyst*

All right, sorry, I was on mute. Thanks for taking my questions. I have a couple of questions. First on the margins again. I've heard you saying 25% to 27% operating margin. Was that for the second half or was that just for Q3 and the follow up on that is that the (inaudible) it previously was roughly say around 30% but the other -- how much of the (inaudible) is going to be on sales marketing and where exactly the pressure points are coming from in terms of the competition? Is it coming from your (inaudible) or is it coming from wholesalers? Where exactly are the biggest of pressure points? This is my first question, thank you.

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Okay. Sure. I will talk about the margin, the Jane can elaborate on the competition part. Firstly, yeah Jiong thanks for the question. For the 25% to 27% OP margin guidance is actually for Q3 and for the fourth quarter, you know, seasonality wise 4Q will have a lower margin than Q3. So on the blended base for the three year we forecast about a 25% to 30% for 2012 and this additional data, as you mentioned, compared with our previous target is mainly linked to our more aggressive coupon program and the sales and marketing campaigns.

Compared with our previous profit of about 30% we have additional 3% to 5% [spending] which is -- should be attributed to the promotional activities and 50% of that can be attributed to the e-coupon and the rest for the additional sales and marketing and advertisement efforts.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Your question, the second part, where is the competition pressure coming from, I think we monitor the market very carefully, to an extent if it is underpriced we will make sure we invest our money very wisely to make sure we do not have any price differentiation and make future products very competitive in terms of pricing. In terms of sales and marketing I think we need to penetrate into the lower end cities. These are the cities that enjoy fast growth in its GDP growth rate and we will penetrate into these markets.

Jiong Shao - *Macquarie - Analyst*

Thanks, Jane and Jenny. My second question is on the whole sort of cloud over the Chinese ADR soliciting the States and all the concerns around the VIE. I was just wondering firstly do you have plans in the pipeline to reschedule the VIE and secondly given the low multiples, you know, (inaudible) when other Chinese ADR seems to be trading at, have you thought about potentially do a listing in Hong Kong perhaps?

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Our VIE structure is very common and consistent with the VIE structures Chinese companies adopted which are listed on the US market and we have disclosed the (inaudible) 20-F for related information. Regarding the listing we don't have any plan in the foreseeable future to do that.

Jiong Shao - *Macquarie - Analyst*

Okay. Thank you, guys.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Thanks.

Operator

The next question comes from the line of Andy Yueng with Oppenheimer. Please proceed.

Andy Yueng - *Oppenheimer - Analyst*

Good morning, everyone. Thank you for taking my questions. My question is about the competitive landscape and your present strategy. You mentioned that you have roughly \$500 million on your balance sheets that is available for more aggressive pricing and marketing activity. So perhaps you can, you know, help us understand what's your view on competition, especially price competition?

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Sure. I think if you look at the competitive landscape Ctrip could generate \$1 billion on the bottom line almost every year and we want to use our funds to best enhance our leadership and increase the value for our shareholders but the priority for the usage of the funds is to strengthen our operational activity and to extend our leadership into the market. So to an extent the market has intensified competition. I think for our market share right now it's still very small. We are very determined to make the right investment so in the long run our [operandi] our product offering and also our services are enhanced in the long run.

So the \$500 million is available for sales and marketing and other activities which can extend our leadership into the market but obviously when we use this money we will use it very carefully to make sure every dollar we invest will generate a very good return in the long run.

Andy Yueng - *Oppenheimer - Analyst*

Great. If I may -- if I can follow up with one more question regarding product development. Can you also give us some idea what kind of mobile products you are developing right now?

Min Fan - *Ctrip.com International, Ltd. - President & CEO*

Yes, I would like to add some color on mobile development. I think for (inaudible) we are probably the leading OTA to introduce the 3G market and our mobile platform is one of the leading apps in China or among our target customers and we do continue to give high priority to the development of mobile apps as well as building the back end supporting systems. As you probably know in the market there are quite some mobile apps provided by some smaller players but I think the advantage for Ctrip, not only we have very good brand awareness we also very strong exclusion service capability. So I think in the near future Ctrip will prove itself as the very clear leading player in this field.

Andy Yueng - *Oppenheimer - Analyst*

Great, thank you.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Thanks.

Min Fan - *Ctrip.com International, Ltd. - President & CEO*

Thank you.

Operator

The next question comes from the line of Mike Olson with Piper Jaffray. Please proceed.

Michael Olson - *Piper Jaffray - Analyst*

Good morning. So just to summarize what you said on the buyback authorization, you've already used up the first two buyback authorizations as well as \$111 million of the new \$300 million authorizations at this point. You have about \$190 million buy back authorization left, is that correct?

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Yeah, it's largely correct. We still have like close to \$200 million left for the buyback.

Michael Olson - *Piper Jaffray - Analyst*

\$200 million?

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Yeah.

Michael Olson - *Piper Jaffray - Analyst*

Okay. Then just a high level question here following on somebody else's question about top line growth. You suggested in the past that one of the major factors negatively impacting revenue growth in recent quarters is just the weaker China macro environment. So is there anything other than an improving China macro environment that could reaccelerate revenue growth?

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

I think that the Chinese economy is maintained at a very healthy level. GDP growth rate is around 7% to 8%, although it's not as high as double digits as two years ago but we believe that 7% to 8% is a sustainable level and we will make sure our investment is kept up with the GDP growth rate and our CEO can also add some color to it.

Min Fan - *Ctrip.com International, Ltd. - President & CEO*

Yeah, I think the Chinese GDP growth is slower than the previous years but China still continues out performing most of the leading nations in the world and as one of the major [consumption] industries travelling [between] China will continue to deliver low growth aided by the increase of household incomes and enhanced pay (inaudible --technical difficulty) systems. So I think in the near to middle term still there is some -- probably some macro economic issues but still travel, especially leisure travel, is growing fast in China and it is expected to become the next growth driver for the travel industry.

So I think for the future we definitely will grasp this opportunity to make even big success.

Michael Olson - Piper Jaffray - Analyst

Right, thank you.

Jane Jie Sun - Ctrip.com International, Ltd. - COO

Thanks.

Min Fan - Ctrip.com International, Ltd. - President & CEO

Thank you.

Operator

The next question comes from the line of Alicia Yap with Barclays. Please proceed.

Alicia Yap - Barclays - Analyst

Hi, good morning. Thanks for taking my questions. Just some housekeeping questions on the balance sheet. I saw that there is a line item of about \$50 million on the short term borrowing. So can you clarify what is the purpose of that and if that is in the USD borrowing or the RMB borrowing and therefore if you can disclose the operations costs for the quarter?

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Thanks, Alicia. For the short term borrowing it's related to the (inaudible) for the share buyback. Firstly you will also notice that in the restricted cash this quarter we increased by RMB500. It's mainly due to offshore credit facilities secured by onshore stand by letter of credit as collateral. In Chinese it is called (inaudible) and the short term borrowing of RMB300 million and RMB81 million is due to this (inaudible) to borrowing offshore to support share buyback.

The reason for us to do this is because it takes some time for us to get (inaudible) official approval to buy a \$300 million (inaudible) mainland China and that's why we entered into agreement with certain commercial banks in China that they would lend US dollars to us offshore so that we can buy back stocks and we need to use about RMB500 million in China as collateral to secure this loan. So this (inaudible) balance (inaudible).

Jane Jie Sun - Ctrip.com International, Ltd. - COO

To add to Jenny's comments, I think this arrangement on a net basis is at no cost for the company because the deposits we placed in mainland China generates interest income and the lending offshore has an interest expense, each number offsets each other, the cost is zero. So for us we have more available cash offshore to buy back stock timely without any cost on a net basis for the company.



Alicia Yap - Barclays - Analyst

I see and can I follow up on another question from the other income line. There is a [gain] of about 8.8 million this quarter, can you elaborate on that and then lastly just on the gross margin impact for the 3Q, you've given out the operating margins I just wanted to get a color on the gross margin? Is that going to maintain at 75% for 3Q? Thank you.

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Firstly for other income it is largely the Government tax (inaudible) subsidies and other (inaudible) income and for the gross margin wise in this quarter our gross margin for the second quarter is largely flat, it's around 75% wuarter-on-quarter and therefore the third quarter will be lower than that now, is mainly due to the e-coupon program and over the long run we still believe 70% to 75% is still a sustainable level that we can achieve.

Alicia Yap - Barclays - Analyst

Okay, great. Thank you.

Operator

The next question comes from the line of Fawne Jiang with Brean Murray. Please proceed.

Fawne Jiang - Brean Murray - Analyst

Good morning. Thank you for taking my questions. The first question is actually regarding the hotel promotions you are running in 3Q and its implications for your margin guidance for 3Q. It seems that you are running a pretty aggressive promotion, all segments of the hotel (inaudible -- technical difficulty) four or five stars or three star hotels. I just wonder what is the percentage of each of the segments are currently under such promotion and secondly, given you guided 3Q operating margin at 25% to 27% what assumption for the promotion level will the current promotion continue for the rest of the quarter or it seems like most of your promotions are due to expire in July?

Jane Jie Sun - Ctrip.com International, Ltd. - COO

Yes for the hotels I think we want to make sure our price remains to be very competitive in the market. So we adjust our strategy based on the market condition. To an extent we see our price has some differentiation in the market, we adjust our promotion to make sure in each segment every hotel price remains to be very competitive.

Our current 25% to 27% operating margin [we've left] at that strategy including the intensified e-coupon and also intensified sales and marketing campaign that will allow us to penetrate further into the untouched customer pool.

Fawne Jiang - Brean Murray - Analyst

Okay. Just for clarification on that, so you basically say the 25% and 27% margin guidance is actually the worst case for your promotions? I mean, you're already (inaudible -- technical difficulty) the most aggressive promotion for the full quarter? Is that fair?

Jane Jie Sun - Ctrip.com International, Ltd. - COO

Yes, it is a prudent guidance based around best (inaudible) visibility so far.

Fawne Jiang - Brean Murray - Analyst

Okay, got it. The second question is actually regarding the air commission rate for second quarter, if I remember correctly I think at some point during the quarter management actually communicated you saw some air commission rate cut pressure from the airlines which had a negative impact on your air growth for second quarter and likely three quarter. It seems like -- I just wonder whether that has happened and how -- what's the outlook for 3Q on air commission rate cuts -- on air commission rate?

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Okay, thank you for the question. First of all, for air commission rate it was still within the range of 4% to 5% and yes, as you've mentioned we've (inaudible) some downward pressure for our commission rate. In 1Q air commission rate dropped by 2% to 6% year-on-year and in late June we did see that the commission rate dropped around about 5% year-on-year again. In 3Q based on our current (inaudible) visibility, this (inaudible) will be very likely to continue into late in August. So for the second quarter we believe this nominal commission rate will drop by about 5% in year-on-year again, and that for the full year based on our (inaudible) visibility this 4% to 5% will still be achievable and in the next one to two years, and this will also be the level where it can be sustained. For the long run we believe airlines will make their (inaudible) decisions, and on our side Ctrip will continue to the best in everything we can control, especially we will continue trying our best to improve our service quality and efficiency to make sure to run the business at the lowest cost but deliver the best services. In this we can help both airlines and the customers to receive higher benefits.

Fawne Jiang - Brean Murray - Analyst

Jenny, just to follow up on that, I think in your third quarter guidance you mentioned that you are going to see volume grow by 15% to 20% but revenue per ticket flat. So if we are going to see 5% year-on-year on (inaudible) commission pressure are we assuming a 5% pricing up year-on-year?

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Correct, yeah, naturally.

Fawne Jiang - Brean Murray - Analyst

Okay. Also for the airline commission rate cuts, do you see that from like one single airline or you pretty seeing that from the major airlines? What's the coverage?

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

For the major airlines for the major results, and I would believe that the airlines will adjust the commission rate policy from time to time, depending on the demand, and their own financial pressures and status. That was why you see in the past in the (inaudible) quarter-over-quarter with the system at this level varies from time to time, but it was smoothed out for the full year (inaudible) will be [4% to 5%].

Fawne Jiang - Brean Murray - Analyst

Got it. Do you think that's more a seasonal than a structural [pinch] on the airline side?

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

For five years.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

For five years.

Fawne Jiang - *Brean Murray - Analyst*

Okay, thank you very much.

Operator

Our next question comes from the line of Catherine Leung with Goldman Sachs. Please proceed.

Catherine Leung - *Goldman Sachs - Analyst*

Hi, good morning. I was wondering if you could elaborate a little bit more on the more aggressive sales and marketing campaign that you discussed starting from the late second quarter? Are there any additional products or business lines that you're focusing the additional marketing efforts compared to this first half of this year? And then also related to this, the 50% of the increased sales and marketing expenses that you discussed is related to the e-coupons. Is this effectively the contra revenue portion or is this the portion of e-coupons that are actually recognized in the sales and marketing cost line? Thank you.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

For the product offerings we -- our believe is pure sales and marketing is not enough. It has to be coupled with strengthened product offerings and service level. So our goal is three -- we need to achieve three number ones. Product offerings should be number one, service needs to be the best and price needs to remain very competitive. So when we have launched this intensified sales and marketing, the product offering needs to be extended as well, so as we discussed we launched a few new products. Tujia is similar to (inaudible) model, our (inaudible) come targeted at low end budget customer, similar to (inaudible) World in the world and we also have (inaudible) which is Smart Hotel choice that's also similar to a model that is very popular with (inaudible).

So with all the strengthening product coupled with the strengthening sales and marketing we believe our market share will be extended very effectively. So that's the first thing. And your second question is on the split of the sales and marketing. For e-coupons, if the customer redeem it for our product then it's a contra revenue and two thirds of the e-coupon is counted as a contra revenue. If a customer would like to redeem these e-coupons by exchanging the e-coupon for a gift, for example a lamp or a luggage, then it's a regular sales and marketing activity. That's about one third that's captured in the sales and marketing line.

Catherine Leung - *Goldman Sachs - Analyst*

And I'm sorry, in terms of the e-coupon, are you considering at all -- I know that previously you sort of matched what was available in the marketplace. Are you considering sort of expanding above and beyond what competitors are offering in terms of e-coupons in the second half of this year?

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

I think we are very careful making sure we stay very competitive in the market. Meanwhile we kept a balance of the healthy ecosystem, so largely I think we monitor the market and make sure our price is maintained at a healthy level, at a very competitive level, but we do not want to do anything that is totally irrational.

Catherine Leung - *Goldman Sachs - Analyst*

Okay, understood. Thank you.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Sure, thanks.

Operator

Our next question comes from the line of Tian X Hou with T.H. Capital. Please proceed.

Tian X Hou - *T.H. Capital Research - Analyst*

Thank you, management for taking my question. My question is regarding your promotion program, so I wonder what percentage of your inventory, hotel inventory are you using for this in a promotion program, e-coupon, cash rebate or any other kind of rebate program? And is that only summer or not? If it is not only for summer how long is it going to last? So that's the second part of the question. The third part of the question, do you see the potential risk of those kind of pricing war eventually merged into higher rated hotel area such as four star hotels or even five star hotels? That's the first question. And the second is really I saw the increase in the product development so I wonder what some of the new products and offerings are in the pipeline? You can put something in the market which could actually to resume the past growth and as well as maintain the margin stability.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Sure. First of all on the coverage of the e-coupon, I think we do not set a target. For example we have a certain percentage of the hotel that needs to be covered by e-coupon. I think we compare our price with the market price and to make sure every hotel that's listed the name should be very competitive in the market. So it's adjusted on a daily basis. But for the high end customers they normally do not use the coupon as much as the budget customer, so the three star (inaudible) hotels, the redemption rate for the e-coupon is higher and that's the package the markets were after to extend our leadership into this area as well.

Secondly in the product line the increased product investment covers many (inaudible). We have already disclosed a few new products that has been launched including the Tujia (inaudible) hotel offerings. And going forward there are more products in the pipeline which we will be rolling out continuously. But we would like to take a very prudent view because once it's launched we want to make sure it's a successful launch. So the investment in product line is a long term investment in terms of technology, product offerings and services, and it's reflected in our guidance already.

Tian X Hou - *T.H. Capital Research - Analyst*

So how long does this new intensified price war is going to last? Is it just going for the summer is it for whatever, you don't really know?



Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

I think our commitment to make sure we extend our leadership in the market is a long term investment, so as long as it takes we will make sure we have sufficient funds. The [\$500 million] fund is available to run any effective campaign to make sure our leadership is extended.

Tian X Hou - *T.H. Capital Research - Analyst*

So what's the effective tax rate for the rest of the year?

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Yeah, for effective tax rate on the non-GAAP basis it will be around 17% to 18% (inaudible -- technical difficulty).

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

On a GAAP basis I think it's about 28% year on year.

Tian X Hou - *T.H. Capital Research - Analyst*

Okay, got it. Thanks so much.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Thank you.

Operator

Our next question comes from the line of Ming Zhao with 86Research. Please proceed.

Ming Zhao - *86Research - Analyst*

Thank you. Thank you for taking my question, Jenny and (inaudible). I have a technical question here. So if you have the e-coupon issued with your customers, how do you record on the right hand side of your balance sheet? Is it in the provision for customer (inaudible -- technical difficulty) program or is it in the other payable in the (inaudible)? Because if you look at those two lines the customer reward program actually increased very little quarter-over-quarter but the other line (inaudible) so I just wondered how you record that incoming?

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Sure. It is that expense and the credit contra revenue (inaudible) if the customer redeem it for our product. So it's not in the liability, rather it sits under contra revenue directly.

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

So in the balance sheet you mention it will be largely fall into other payable lines.

Ming Zhao - 86Research - Analyst

Yeah, so if the customer redeems that that's become a contra revenue item. If it's not redeemed you put it into the other accruals line?

Jenny Wenjie Wu - Ctrip.com International, Ltd. - CFO

Correct.

Ming Zhao - 86Research - Analyst

Okay, got it. Okay. So my second question is if we look at the (inaudible) that's going on, a lot of companies are doing it, you guys said you're going to be more aggressive. Is there at any point you're going to say we're going to start that way, we're going to reduce the (inaudible), are you looking at the competitors' move to make that decision or regardless you're just going to do it?

Jane Jie Sun - Ctrip.com International, Ltd. - COO

It's a dynamic environment. First of all I think as we discussed we want to make sure our price stays very competitive. Meanwhile we always would like to see a healthy [image] environment so if the market becomes very healthy obviously we'll welcome that move and that's good for the industry and good for the player. But if the price remains to be under pressure on Ctrip are always willing to pick up any challenges to make sure our price also stays very competitive.

Ming Zhao - 86Research - Analyst

All right, thank you.

Operator

The next question is coming from the line of [Muzhi Li] with Citigroup. Please proceed.

Unidentified Participant

Hi, thank you for taking my questions. Well, I would like to ask about firstly the -- of the sales marketing expenses how much of the increase of the sales marketing dedicated to online versus offline? And I have follow up questions. Thank you.

Jane Jie Sun - Ctrip.com International, Ltd. - COO

Yeah, we try to diversify our sales and marketing in all available channels, so as you see in the major traffic hubs we have direct sales team. We also team up with major corporations to establish a corporate alliance and we also spend quite a large online, so all these channels are very diversified. We want to make sure our sales and marketing campaign channels are very well balanced.

Unidentified Participant

Yeah, but for the increase of the sales and marketing expenses, which part of the online corporate alliance or the distribution of the membership card at the hotel or airlines, in the distributed, how did they rank in terms of the amount of money you spend on it?



Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Yeah, again I think we try to run a very balanced campaign. We try not to put our investment in one packet so as we discussed before, the direct sales, strategic alliance, online marketing, PR, advertisement, all these channels are very balanced when we invest our sales and marketing dollars.

Unidentified Participant

One follow up question regarding the gross margin. You said that the gross margin down mainly because of the e-coupon contra revenue. Any other reasons why the gross margin will come down?

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Yeah, as we have communicated with investors so far and you see this year there would be several components to correct our margins. One of them the labor cost, so the gross margin-wise, except for this e-coupon program, the (inaudible) also related to the labor cost increase.

Unidentified Participant

I see, and how many of your 39,000 hotels are in your current pre-paid program?

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Oh, currently not many. The (inaudible) model, very little. It's a small number so far.

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Yeah, it's still a complementary product.

Unidentified Participant

Okay, thank you very much.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Sure, thank you.

Operator

I would now like to turn the call back over to Michelle Qi for closing remarks.

Michelle Qi - *Ctrip.com International, Ltd. - IR Manager*

Thank you Carla. Thank you everyone for joining us on the call today. A replay of the call will be available on the IR website shortly as the call is completed. We appreciate your interest in Ctrip and look forward to convening with you again next quarter. Thank you very much for your time, bye bye.

Jane Jie Sun - *Ctrip.com International, Ltd. - COO*

Thanks.

Jenny Wenjie Wu - *Ctrip.com International, Ltd. - CFO*

Thank you.

Min Fan - *Ctrip.com International, Ltd. - President & CEO*

Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation, you may now disconnect. Have a great day.

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