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Q4 2023 Trip.com Group Ltd Earnings Call

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the Trip.com Group 2023 Fourth Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Michelle Qi, Senior IR Director. Please go ahead.

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### Michelle Qi *Trip.com Group Limited - Senior IR Director*

Thank you. Good morning, and welcome to Trip.com Group's Fourth Quarter and Full Year of 2023 Earnings Conference Call. Joining me today on the call are Mr. James Liang, Executive Chairman of the Board; Ms. Jane Sun, Chief Executive Officer; and Ms. Cindy Wang, Chief Financial Officer.

During this call, we will discuss our future outlook and performance, which are forward-looking statements made under the safe harbor provision of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties, as such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in Trip.com Group's public filings with the Securities and Exchange Commission. Trip.com Group does not undertake any obligation to update any forward-looking statements except as required under applicable law.

James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the fourth quarter of 2023 and the full year of 2023, as well as the outlook for the first quarter of 2024. And we will have a Q&A session after the prepared remarks.

With that, I will turn the call over to James. James, please.

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### Jianzhang Liang *Trip.com Group Limited - Co-Founder & Executive Chairman*

Thank you, Michelle, and thanks, everyone, for joining us on the call today. China's border reopening in 2023 (sic) [2023] has ignited a global travel surge. Our enhanced leadership in product and service has empowered us to significantly outperform the market. In 2023, our core OTA business reached a record high, achieving a GMV of approximately RMB 1.1 trillion, or [USD 160 billion]. This marked a year-over-year increase of nearly 130% and a growth of about 30% compared to 2019. Concurrently, our total net revenue also grew by 122% year-over-year and 25% compared 2019. We significantly improved our adjusted EBITDA margin to 31% in 2023, which is the highest level over the past decade.

In September 2023, we began buying back our own stock using the existing quota. Additionally, the Board has approved the 2024 capital return program, further increasing our overall quota to a total of USD 581 million. This decision demonstrates our strong confidence in the long-term value potential of the company.

The China travel market has been growing significantly, with outbound travel playing an increasingly large role due to easier visa access

and gradual resumption of international flights. Our global business is also thriving, particularly in the APAC region, reflecting our strengthened market presence and improved product competitiveness. Expanding our international operations with diversified products worldwide remains a key priority for us. As travel demand arises, we also recognize the increasing importance of enhancing our services through exceptional customer service, AI technology and reliable content, we continue to invest in improving user experience. Our commitment to globalization and great quality, collectively known as our G2 strategy, drives us to continuously innovate and improve.

The year 2023 marked China's reopening to the world and 2024 will be a year of consolidating and expanding global tourism. Upholding our G2 strategy, we aim to become a leading player in the Asian market and a global market in 3 to 5 years.

With that, I will turn the call over to Jane for operational highlights.

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### **Jie Sun Trip.com Group Limited - CEO & Director**

Thank you, James. Good morning, everyone. As a quick overview, our net revenue in Q4 grew by 104% year-over-year and increased by 24% compared to 2019. During this period, the travel industry witnessed a strong momentum as rising travel sentiment drove growth and supply side constraints continued to ease. Both our hotel and air reservations grew by approximately 130% year-over-year. For the full year of 2023, our total net revenue achieved year-over-year growth of 122% and 25% compared to 2019. This outstanding result was due to the robust release of travel demand and the exceptional performance across all of our business segments. Additionally, our adjusted EBITDA margin in 2023 significantly improved to 31%, reflecting the successful optimization of our cost structure and overall productivity enhancement.

Now, let me walk you through different market performance. First, China domestic. In Q4, the China domestic market continued to exhibit robust growth. Our domestic hotel bookings witnessed a year-over-year growth of over 130% or more than 60% compared to 2019. Demand for travel showed no signs of slowing down during the winter season. Popular destinations, such as Harbin in the northern part of the country experienced a surge in visitors. Notably, individuals have been prioritizing travel expenditures over other daily expenses, indicating a shift towards experiential spending. This change in consumer behavior has significantly favored travel industry as more people allocate their resources towards exploring new places and creating memorable experiences. We have continued to expand our user base among the elderly demographics through the deep integration of product integration, content generation and marketing efforts. In Q4, the number of the users over 50 years old increased by more than 90% compared to 2019. And this is just a beginning to capitalize on the market opportunity for retired community, which has spending power and ample time.

Second, outbound market. Despite the winter seasonality in Q4, outbound travel from China maintained the same level of the recovery as the peak season in Q3. The gradual easing of supply side constraints, such as increased international flight capacity and certain clearance of visa blocks played a significant role in facilitating this positive trend. Chinese travelers continue to exhibit high demand for travel to overseas destinations. Moreover, many countries implemented visa-free policies, specifically targeting at Chinese travelers, further enhancing the appeal of these destinations and fueling their popularities. In Q4, Trip.com Group's outbound air ticket and hotel bookings recovered to more than 80% of pre-pandemic level, surpassing the market overall recovery rate of 60%. Thailand, Singapore, Japan, Korea, Malaysia remain as the top outbound travel destination on our platform.

Third, global markets. On the international front, we actively enhance our global market presence through the strong synergy of improved products, enhanced services and targeted marketing efforts. We have witnessed a steady growth in APAC region. In Q4, total GMV of our overseas OTA brand grew by more than 70% year-over-year and increased by more than 100% compared to 2019.

Now, let me walk you through a few strategic highlights. First, globalization. If 2023 was about a return to travel, then 2024 will be the year when people go further than ever before. The travelers become more comfortable and confident, venturing around the world. They are taking to the skies, rails, roads and the seas to experience unforgettable adventures. From music festivals to exotic adventures, travelers are increasingly seeking more than just a typical gateway. They are craving for immersive cultural experiences, thrilling adventures and music euphoria, all valuing meaningful connections and quality times with their families and friends. In light of this evolving travel preference, Trip.com Group is providing comprehensive travel information and insights, as well as expanding our global offering in products and services. Recognizing that the total addressable market in the major Asia regions is larger than that of China. Our goal is to further expand our business scale by establishing ourselves as the leading player in Asia market and the global market

with the next 3 to 5 years.

Our global OTA platform currently operates in 39 countries and regions across Asia, Europe and the rest of the world. We offer users a wide range of travel options through our one-stop model with our exceptional 24/7 multilingual in-house customer service and global SOS support, our global users can receive immediate assistance through our AI chatbot or connect with live representatives within an average time of 30 seconds only. Over 60% of our global bookings are made directly through Trip.com. We have been successfully gaining mind share and market share in the key Asia regions, including Hong Kong, Singapore, Korea, Japan, Thailand and Malaysia.

Second, inbound market. China inbound travel is an untapped opportunity. Inbound tourism plays a vital role in country's economy. For tourism-dependent countries, such as Thailand, inbound travel can contribute to more than 10% of its GDP. For developed nation, inbound travel can contribute to around 1% to 3% of its GDP. China's current level is less than 0.5%. If China can reach a global average between 1% to 2%, it would unlock a great market potential of another RMB 1.5 trillion to RMB 2 trillion market. Recognizing the importance of inbound travel, China has included in its integral part of its 14th 5-year plan, the government has taken steps to facilitate inbound tourism by granting visa-free access, making travel more convenient for international visitors. China has extended its visa-free policies to citizens from 10 countries so far, including France, Germany, Italy, the Netherlands, Spain, Ireland, Switzerland, Singapore and Malaysia and Thailand. Since the implementation of this visa-free policy, there has been a remarkable increase in inbound travel to China from these countries with a rising of nearly 30% in December when compared to November as reported by Chinese National Immigration Administration.

In 2023, Trip.com has already observed a significant surge in visitor numbers with a 4-digit increase compared to 2022. Moreover, government is making progress in many areas, such as simplifying visa application process, facilitating foreign credit card payments and enabling online travel reservation with foreign passports. We anticipate that the forthcoming inbound tourism policy will bring about favorable changes, creating new opportunities for the industry. With Trip.com Group's extensive customer reach and a robust supply chain, we are well prepared to capitalize on the future growth of inbound travel.

Third, AI. The integration of artificial intelligence has emerged as a transformational force, revolutionizing the way we experience and navigate the world. Since the emergence of the large language models in early 2023, we have been actively exploring the potential of these new technologies to make travel more convenient, personalized and memorable for everyone. Our AI assistant, TripGenie is revolutionizing trip planning with personalized itineraries, instant bookings and a rapid response to queries, utilizing natural language processing to -- and our extensive travel data, we aim to simplify the travel planning and reservation process. Our focus is on the constant enhancement of our model to align with users' behavior and data, providing seamless and hassle-free travel experience. Additionally, Trip.com offers AI-driven travel recommendations to improve booking experiences. These dynamic lists aim to meet diverse needs of users, utilizing the latest travel trends, real-time pricing information and top-rated options. This not only enable our partners to showcase their offering, but also provides users with reliable insights for informed decision-making. We remain dedicated to enhancing our capability alongside the advancements in the AI technology as we firmly believe in its potential to drive exponential growth.

Fourth, corporate responsibility. Our travel industry has shown remarkable resilience in the face of pandemic. As we navigate this recovery, our commitment to deliver high end, high-quality customer experiences remain crucial. Equally important is our dedication to contributing to the growth of our partners in the industry as a whole. We recognize the significance of our role in not only providing exceptional services, but also in fostering economic growth and achieving common prosperity. By creating more job opportunities and actively contributing to economic development, we strive to make a positive impact on the communities we serve. Therefore, we are firmly committed to embracing sustainability as a fundamental component of our long-term growth strategy.

At Trip.com Group, we developed a sustainability strategy that prioritize customer service quality, aiming to promote the sustainable development of our industry through community-friendly, environmental-friendly, family-friendly and stakeholder-friendly guidelines. First, on community-friendly. We firmly recognize the sustainable tourism is a driving force of economic growth and job creation. According to World Travel & Tourism Council's forecast, the sector will contribute to USD 15.5 trillion to GDP by 2033, representing 11% -- 11.6% of the global economy. Moreover, it will employ approximately 430 million people around the world with nearly 12% of the global workforce. Trip.com Group takes a comprehensive approach to foster sustainable development within the travel industry.

As part of our commitment to support the driving growth in the local communities, we have made sustainable investments in our rural revitalization strategy. This strategy focuses to bolstering tourism by constructing high-end accommodation and providing training for tourism professionals, thereby stimulating economic growth and development in remote areas. Notably, the number of Trip.com Group country retreats has increased from 8 to 27 over the past year. The annual per capita income of the local residents involved in the country retreats have risen by over RMB 40,000. This economic growth contributes to achievement of the common prosperity, enable more individuals to start their own business and secure employment opportunity within their community, ultimately contributing to an improved quality of life.

Second, environmental-friendly. To show our commitment to environmental preservation, we have introduced to our carbon hotel standard in 2023. This industry framework collaborates with our hotel partners to enhance accommodation sustainability and promote environmental protection. The initiative has yield promising results with over 1,500 partners being recognized as low carbon hotels. Furthermore, we have made significant strides towards providing sustainable travel choices across all of our business lines. In addition to green hotel initiatives, we have also introduced green flight program, which enable travelers to qualify and offset carbon footprint of their air travels and provide eco-friendly travel option to help reduce environment impact. Through green vehicle initiatives, we advocate for the use of electric vehicles, or EVs, to reduce carbon emission in ground transportation. We also launched an innovative green corporate travel initiative, which includes low carbon labels for flights, cars, trains and hotel supported by robust system for precise carbon emission calculation. In the previous year alone, over 16 million customers of Trip.com Group chose to use green products.

Third, family-friendly. Trip.com Group placed great importance on family-friendly initiatives to strive to create agenda inclusive and diverse workforce. Currently, senior employees make up more than 50% of our workforce, reflecting our commitment to fostering a balanced environment. We have implemented policies to support pregnant employees. Starting from 2023, employees who have been with our company for 3 years plus can receive a child care subsidy of RMB 50,000 for each child. Furthermore, Trip.com Group is proud to be the first company in China to adopt hybrid work model. We believe this approach, not only enhance employee satisfaction, but also promote productivity and creativity within our organization.

Fourth, stakeholder-friendly. We strive to put our customers first, providing exceptional services and value, meeting their needs and ensuring their satisfaction. Second, we are committed to delivering great value to our partners, contributing to the growth of our industry and collectively creating more job opportunities for the society. And thirdly, we work hard to create value for our employees and shareholders, fostering a positive and rewarding environment to allowing them to strive and benefit from our success.

In conclusion, the travel industry has been thriving since the start of 2023 driven by strong demand. We expect the industry to continue flourishing, foster economic growth and cross-cultural connections. In light of this positive outlook, we are committed to innovating and strengthening our global offering to capitalize on these trends. We are confident in our ability to contribute to the growth and the success of the travel industry in many years to come.

With that, I will now turn the call to Cindy.

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**Xiaofan Wang *Trip.com Group Limited - CFO & Executive VP***

Thanks, Jane. Good morning, everyone. For the fourth quarter of 2023, Trip.com Group reported a net revenue of RMB 10.3 billion, representing a 105% increase year-over-year and a 25% decrease quarter-over-quarter. Despite the sequential decrease, which was mainly due to normal seasonality, the revenue was still 24% higher than the 2019 level. For the full year of 2023, net revenue reached RMB 44.5 billion, representing a 122% increase year-over-year and a 25% increase from 2019. This growth was mainly driven by the strong release of travel demand following China's reopening at the beginning of the year.

Accommodation reservation revenue for the fourth quarter reached RMB 3.9 billion, representing a 131% increase year-over-year and a 32% growth compared to the 2019 level. In the fourth quarter, China market continued to demonstrate robust growth. Domestic hotel bookings grew over 60% above the pre-pandemic level, and outbound hotel booking remained at more than 80% of the pre-pandemic level. In addition, hotel bookings on overseas platform continued to show triple-digit growth. For the full year of 2023, accommodation reservation revenue totaled to RMB 17.3 billion, marking a 133% increase from 2022 and 28% increase from 2019.

Transportation ticketing revenue for the fourth quarter was RMB 4.1 billion, representing an 86% increase year-over-year and an 18% growth compared to 2019. For the full year of 2023, transportation ticketing revenue was RMB 18.4 billion, representing a 123% increase from 2022 and a 32% increase from 2019. The growth was mainly due to the strong growth in our domestic and global air ticketing business and robust recovery in outbound -- of outbound air ticketing bookings.

Packaged tour revenue for the fourth quarter was RMB 704 million, representing a 329% increase year-over-year and recovering to 88% of the 2019 level. In the fourth quarter, domestic packaged tour continued to outgrow the 2019 level. On the other hand, the recovery in outbound packaged tour is still lagging behind, but the gap has been significantly narrowing. For the full year of 2023, packaged tour revenue was RMB 3.1 billion, representing a 294% increase from 2022 and recovering to 69% of the 2019 level.

Corporate travel revenue for the fourth quarter was RMB 634 million, representing a 129% increase year-over-year, which is 70% higher than the 2019 level. Air ticket bookings has increased by double digits compared to the 2019 level, while hotel bookings have more than tripled the 2019 level. For the full year of 2023, corporate travel revenue was RMB 2.3 billion, representing a 109% increase from 2022 and an 80% increase from 2019.

Excluding share-based compensation charges, our total adjusted operating expenses were 17% lower than the previous quarter and 1.6% higher than the same period in 2019. For the full year of 2023, total adjusted operating expenses were 8% higher than the 2019 level.

Adjusted product development expenses for the fourth quarter decreased by 19% from the previous quarter and increased by 10% compared with the same period in 2019. Adjusted G&A expenses for the fourth quarter decreased by 16% from the previous quarter and decreased by 1% from the same period in 2019. For the full year of 2023, the combined total of adjusted product development expenses and adjusted G&A expenses were 15% higher than the 2019 level. The total headcount of our product development and G&A teams remained significantly lower than during the same period in 2019.

Adjusted sales and marketing expenses for the fourth quarter decreased by 15% from the previous quarter and decreased by 6% compared with the same period of 2019. For the full year of 2023, adjusted sales and marketing expenses as a percentage of net revenue was 20% compared to 26% during the same period in 2019. This was mainly due to improved marketing efficiencies and a strong release of [standard] demand at the beginning -- from beginning of the year.

Adjusted EBITDA for the fourth quarter was RMB 2.9 billion, representing a growth of 899% year-over-year and 117% compared to 2019. Adjusted EBITDA margin for the fourth quarter was 28% in comparison to 6% in the same period of 2022 and 16% during the same period of 2019. For the full year of 2023, adjusted EBITDA was RMB 14 billion, representing a growth of 550% year-over-year and an increase of 78% compared to 2019. Adjusted EBITDA margin for the full year of 2023 was 31% compared to 11% in 2022 and 22% in 2019.

Diluted earnings per ordinary share and per ADR -- per ADS were RMB 1.94 or USD 0.27 for the fourth quarter of 2023. Excluding share-based compensation charges and fair value changes of equity security investments and exchangeable senior notes, non-GAAP diluted earnings per ordinary share and per ADS were RMB 4 or USD 0.56 for the fourth quarter. For the full year of 2023, diluted earnings per ordinary share and per ADS were RMB 14.78 or USD 2.08. Excluding share-based compensation charges and fair value changes of equity security investments and exchangeable senior notes, non-GAAP diluted earnings per ordinary share and per ADS were RMB 19.48 or USD 2.74.

As of December 31, 2023, the balance of cash and cash equivalents, restricted cash, short-term investment, held-to-maturity time deposit and financial products was RMB 77 billion or USD 10.9 billion.

Given that the rapid business growth this year has significantly strengthened the Group's cash flow, as we strongly believe that the company share price is undervalued. As of February 22, 2024, we repurchased USD 224 million of our shares and reduced our share count by approximately 1% versus 2022. According to the regular capital return policy, the Board of Directors has recently granted authorization for the company to implement strategic capital return initiatives. These initiatives may encompass discretionary annual share repurchase, discretionary annual cash dividends or a combination of both. This reflects our dedication to our shareholders'

investment and our belief in the strong long-term prospects of our business and the travel industry.

To conclude, we are delighted that the travel market has been recovering significantly. Our performance has effectively reflect the rising consumer confidence and demand for travel. We are committed to drive strong growth in 2024, along with the continued upward trajectory in the travel market and most importantly, to create value for our long-term shareholders.

With that, operator, please open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question will come from the line of Joyce Ju from Bank of America.

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### Lixin Ju *BofA Securities, Research Division - VP in Equity Research & Research Analyst*

Congrats on the strong results. This quarter, the company's international platform, Trip.com actually saw another robust quarter. And the management also mentioned a lot in your opening remark that the globalization is actually our importance, like in a long-term goal. Could you kindly elaborate a little bit more on this front? What's the Trip.com's current achievement, more details? Any color will be fine. And the near-term, midterm, even longer-term goals and also the consequence strategies to achieve that. How would you -- how would your G2 strategy help to reach this goal?

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### Jianzhang Liang *Trip.com Group Limited - Co-Founder & Executive Chairman*

Our G2 strategy focuses on globalization and great quality. We believe our long-term growth relies on the progression of our globalization strategy, which aims to build global products, supply chains, services and technology for worldwide users. Asia is a top travel destination for travelers from China and other parts of the region. By leveraging our strong supply chain, diverse product offering and industry-leading service and technology, we strive to provide exceptional service for users in Asia and subsequently around the world.

With respect to great quality, our mission is to provide the best travel experience with the best technology. For example, we have introduced TripGenie, an AI-based travel assistant to enhance the travel planning experience. We're also using AI to improve the efficiency of our customer service, content generation and IT operations.

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### Operator

(Operator Instructions) And our next question will come from the line of Alex Poon from Morgan Stanley.

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### Alex Poon *Morgan Stanley, Research Division - Equity Analyst*

Congratulations management for a very strong quarter. My question is regarding our recent business performance, particularly around Chinese New Year and after for different segments, including domestic, outbound and Trip.com. And how should we elaborate or extrapolate from this strong CNY performance into Q1 and the rest of the year?

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### Xiaofan Wang *Trip.com Group Limited - CFO & Executive VP*

Alex, as of 2023, our business has fully rebounded to pre-COVID levels. From this year forward, we will stop using 2019 as a benchmark for comparison except for our outbound travel segment.

With regard to the recent performance, let me start with the market performance. The China travel market has shown strong momentum quarter-to-date, especially during the Chinese New Year. A number of domestic tourists grew by 34% year-over-year or 19% above the 2019 level, and outbound travel continues to recover with slight capacity during the Chinese New Year holiday reaching around 70% of the 2019's level. And we are very happy to see that the several -- see that several countries have now offering visa-free entry for Chinese travelers.

With regard to our own performance, our company continues to outpace the market growth, solidifying our position and gaining a

significant market share. During the recent Chinese New Year holiday, our domestic hotel and air reservations have increased by more than 60% and 50% year-over-year, respectively. And our outbound hotel and air reservations have both surpassed the 2019's level. The January of 2023, including the Chinese New Year holiday with a low base for travel activities and the travel momentum only started to pick up after the Chinese New Year. Therefore, we anticipate a stronger year-over-year growth in the first half of Q1 this year and followed by a comparatively softer second half just because of the high base.

And with regard to the international markets, our Trip.com business has maintained a mid- to high double-digit year-over-year growth. Therefore, we continuously to see a very strong growth in the travel market.

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**Operator**

And our next question will come from the line of Alex Yao from JPMorgan.

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**Alex C. Yao JPMorgan Chase & Co, Research Division - Head of Asia Internet & New Media Research**

So the Civil Aviation Administration of China, i.e., CAAC has projected that the outbound flight capacity will reach 80% of pre-COVID levels by the end of 2024. This seems relatively slow considering that the capacity has already reached 70% during the Chinese New Year holiday. From your perspective, what factors might contribute to this slow recovery? When does management anticipate a full recovery in the outbound travel sector?

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**Xiaofan Wang Trip.com Group Limited - CFO & Executive VP**

Alex, we hold a very strong confidence in the full recovery of outbound travel. Firstly, our platform has observed a significant search interest in the outbound travel, which indicates a robust demand from our users. Furthermore, China is becoming increasingly open to attract inbound tourism, which forms a part of the demand for China-related international travel.

Secondly, the market supplier situation is improving. We have noticed a steady recovery in the number of inbound and outbound flights. Additionally, visa policy has become increasingly favorable. For instance, we observed that the market offering visa-free policies to Chinese travelers showed much better recovery during the Chinese New Year period compared to other destinations.

And lastly, it's important to note that the most markets outside of China are project to require 2 to 3 years to fully recover their international travel. Even the 70% to 80% recovery of outbound passenger volume in 2024 will indicate a year-over-year growth of approximately 65% to 90%. This clearly illustrates the potential for the strong growth in outbound travel in the coming year. And with our own data, during the recent Chinese New Year holiday, our Group already saw outbound air and hotel reservations fully bounced back and beyond the 2019 level.

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**Operator**

(Operator Instructions) And our next question is from the line of Jiong Shao from Barclays.

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**Jiong Shao Barclays Bank PLC, Research Division - Analyst**

And firstly, Happy New Year to you all. Yes. So there are a lot of cross-currents in the Chinese economy today, as you know. I mean, the property market, the stock market are doing terribly, people's confidence is very low. Economy is kind of soft. You have put up very, very strong results and congrats on that. I was just wondering, in Q4 and so far in Q1, what have you seen in terms of travelers spending behavior, leisure travel or business travel. Are they spending less, spending the same or in terms of changes in destination? Anything you can share would be great.

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**Jie Sun Trip.com Group Limited - CEO & Director**

China is a very big country. There are a lot of different segments. We have seen that certain segments, such as entertainment, music festivals, wellness and travel, these segments are doing very well. We have seen customers have increased their travel demand based on our search volume on our platform. Many customers are going to different places, both domestically and to the rest of the world. The interest for our customers to explore different regions in the world have been enhanced compared to pre-COVID level. With the easiness



of travel restrictions and also gradual recovery for the visa applications and flight capacity, we are hoping 2024 will be the year that we can take more customers to travel within China and to the rest of the world. So the travel demand is very strong, and we are very committed to provide the best service and products to our customers.

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**Operator**

(Operator Instructions) And our next question comes from the line of Simon Cheung from Goldman Sachs.

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**K. Y. Cheung *Goldman Sachs Group, Inc., Research Division - MD***

Happy New Year, everyone. I just have one quick question in relation to the margins. I think if you look in the prior several years on a sequential basis, obviously, fourth quarter seasonally weaker, we should see some sort of margin contraction. And we have seen that as well in your fourth quarter results. However, I think the magnitude of correction like when I look at quarter-on-quarter, the EBIT margins are falling by roughly about 6%, 7% compared to historically, maybe almost like mid-teens. It's seemingly tracking a bit better than anticipated. So, I guess, the question I have is, we have seen quite a few quarters of sales and marketing expenses tracking well below the 2019 level. And I just wanted to question how you're thinking about the trend, especially given incrementally there might be more spending to be incurred maybe in the overseas market now that you have a more aggressive globalization strategy?

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**Xiaofan Wang *Trip.com Group Limited - CFO & Executive VP***

Simon, with regards to the sales and marketing expenses, in the fourth quarter last year, we have seen a significant improvement in our marketing efficiencies, primarily due to our enhanced conversion, as well as the internal cross-selling initiatives. And on top of that, we also make a lot of investment in, for example, the content generation, which also significantly helped us to improve the marketing efficiencies. And our long-term goal is to further enhance the marketing efficiencies in both China, as well as our international markets by focusing on increasing our direct traffic, as well as to improving our cross-selling within our platform. But, of course, for the international Trip.com business, we are also looking at the opportunity to further enhance our brand awareness outside of the China market.

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**Operator**

(Operator Instructions) And our next question will come from the line of Brian Gong from Citi.

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**Dapeng Gong *Citigroup Inc., Research Division - Assistant VP & Equity Research Analyst***

James, Jane, Cindy and Michelle, Happy New Year. My question is also regarding our international platform, Trip.com, which has recorded strong growth. Could you provide a bit more details on Trip.com's like global footprint, GMV and the revenue contribution, as well as profitability? Also, what are primary markets that Trip.com focus on? And what are Trip.com's key competitive advantages in those markets versus its competitors?

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**Xiaofan Wang *Trip.com Group Limited - CFO & Executive VP***

We anticipate that the Trip.com will contribute 15% to 20% of the Group's total revenue over the next 3 to 5 years with a mid- to high double-digit CAGR growth. And we believe that the Trip.com growth is built upon our robust product logistics, supply chains, service standard, as well as technologies that we applied across various geographical regions. Our Trip.com primarily focusing on the Asian market, which is the top outbound destinations for travelers from both China and other parts within the region. It's worth noting that the combined size of the top Asian market, excluding China surpasses that of the Mainland China in terms of the growth bookings.

Our growth strategy with Trip.com starts with leveraging the strong air traffic from Skyscanner, then progresses from metasearch to the mobile app, broadening our offering from air travel to the hotel bookings and extends our reach from Asia and hopefully, to the rest of the global travel. Meanwhile, we anticipate that the Trip.com were to be profitable within the same time frame. This will be driven by the scalability, increased marketing efficiencies through a strong mobile presence and brand name, as well as a shift in the revenue mix favoring hotel bookings.

With regard to the competitive advantage of our Trip.com platform, I think, firstly, Trip.com's mobile app offers a smooth and user-friendly search and booking experience. We also utilize our AI tools to provide personalized recommendations and special offers, which enhancing our user engagement. Secondly, our comprehensive one-stop mobile model covers nearly all travel needs, making it

especially attractive to mobile app users. Our extensive experience in China has further solidified our expertise in this area. Thirdly, we offer 24-hour 7 days customer services through our mobile calls, online chat or e-mails, ensuring users have a dependable content point for any issues that encountered. Lastly, Trip.com provides highly competitive product offering, thanks to our Group's strong market presence and well-established supplier relationships.

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**Operator**

(Operator Instructions) Actually, this is all the time we have for Q&A today. I will now turn it back to Michelle Qi for any closing remarks.

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**Michelle Qi *Trip.com Group Limited - Senior IR Director***

Thank you. Thank you, everyone, for joining us today. You can find the transcript and webcast of today's call on the investors.trip.com. We look forward to speaking with you on our first quarter 2024 earnings call. Thank you, and have a good day.

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**Xiaofan Wang *Trip.com Group Limited - CFO & Executive VP***

Thank you very much.

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**Operator**

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.

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