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Q1 2022 Trip.com Group Ltd Earnings Call

EVENT DATE/TIME: JUNE 28, 2022 / 12:00AM GMT

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

Chun Man Poon *Morgan Stanley, Research Division - Equity Analyst*

James Lee *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Ronald Keung *Goldman Sachs Group, Inc., Research Division - Executive Director*

Thomas Chong *Jefferies LLC, Research Division - Equity Analyst*

Tianxiao Hou *TH Data Capital - Founder, CEO & Senior Analyst*

Wei Xiong *UBS Investment Bank, Research Division - Research Analyst*

PRESENTATION

Operator

Thank you for standing by, and welcome to the Trip.com Group 2022 Q1 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to Michelle Qi. Please go ahead.

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

Thank you. Thank you, everyone, for joining today. Good morning, and welcome to Trip.com Group's First Quarter of 2022 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 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 first quarter of 2022 as well as the outlook for the second quarter of 2022. After the prepared remarks, we will have a Q&A session.

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

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

Thank you, Michelle. Thank you, everyone, for joining us on the call today.

2 years ago into the pandemic, the travel industry still faces pandemic-related challenges. The first quarter of 2022 showed a mixed picture in which the Chinese domestic market and the global markets have developed independently.

In China, the first 2 months of the year were encouraging while March was relatively uneasy due to the outreach of Omicron in multiple regions, including the first-tier cities. Such pandemic influence extended into April and May with strict pandemic control measures and travel curves being imposed that largely limited the performance of the travel industry.

While short-term perspective may not seem optimistic, demand for travel is still strong, which offers a brighter outlook for the long term. With sound COVID risk reduction measures and improved safety perception, user confidence growth and their desire for travel recovers. Global travel continues to recover at a strong pace as governments continue to open up. We anticipate to see a similar pattern in China once the restrictions are eased.

In order to capture such travel demand, we continue to develop travel products to match consumers' travel aspirations. With efforts in previous quarters, we enhanced our value proposition of our customers and partners in the China market with established strength in both long-haul and short-haul travels through bolstering our product capabilities, service qualities and business efficiency. In January and February, our domestic hotel bookings continued to deliver better than market performance, increased by more than 20% year-over-year. The market was again largely disrupted by outbreak since March, but we have already seen signs of recovery following the easing of static management measures.

On the international front, we are encouraged to see benefits of global recovery from the pandemic with strong travel demand in many countries, especially across Europe and the Asia Pacific. Following these countries' decisions to largely remove travel restrictions, we have been strengthening trends of business performance across our global platforms, with air bookings achieving triple-digit year-over-year growth and hotel bookings significantly improved, especially the trans-Atlantic and Asia markets.

It has been 2 years since the onset of the pandemic. Fortunately, the green shoots of travel have already appeared, along with opportunities to encourage continued growth. With our "Local Focus", we will continue to be nimble and adaptive to cater to the fast-changing market environment and match our product and our service offering to current demand. On the international front, will remain "Global Vision" to be keen to build on positive signals that we are seeing so far and further fortify our global footprint.

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

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

Thank you, James. Good morning, everyone. I would like to start with a brief overview of our performance in the past quarter and updates on our strategic focuses.

First of all, overall performance overview. In the first quarter of 2022, our total net revenue remained largely stable year-over-year, which was a net result of a relatively well performed first 2 months and a weaker March impacted by the latest round of Omicron outbreaks in China. In January and February, our domestic business sustained better-than-industry performance with domestic hotel bookings increased above 20% year-over-year and were close to fully recovered to 2019 level. However, since March, the whole market has been under severe impact of the pandemic related to restrictions. Overall speaking, in Q1, our hotel bookings were close to 2021 level with same-city vacation hotel reservations grew more than 20% year-over-year.

Our air reservation was also recovered faster than the market. In Q2, although the China domestic market was largely affected by the pandemic controls and travel restrictions, we were delighted to see that the fundamental demand for travel was still solid. The recovery was much faster in areas less affected by COVID. For instance, hotel bookings in Southern China and Western China have already surpassed 2019 level in the recent months. In the past 2 weeks, our total hotel bookings have also surpassed 2019 level following the easing of COVID situation.

The global market, on the other hand, continued to make major strides towards recovery to prepandemic level as more and more countries have substantially dropped their pandemic-related travel restrictions. Traffic on our global platforms have already surpassed the 2019 level. The world is ready for a greater reopening. Overall, air ticket bookings on our global platform has increased over 270% year-over-year, in which our global brands, Trip.com, have managed to increase by approximately 400% year-over-year. In overseas market, domestic air ticket bookings on Trip.com have surpassed the 2019 level with a growth more than 150% and have outpaced the industry average across all of our key markets.

Overall, hotel bookings on our global platforms have also increased by more than 25% above 2019 level in the first quarter. Domestic hotel bookings in non-China markets on Trip.com increased over 200% when compared to the same period in 2019, especially in markets such as Hong Kong, South Korea, Singapore, Malaysia, U.S.A., U.K., UAE, et cetera. The upward trends continued to gain momentum in the second quarter. We have also seen gradual recovery of international travel as more and more countries decided to lift restrictions and reopen their borders to accept international travelers.

Second, operational highlights and strategic focuses. While the China market and the global market showed a different path of development, it is important for us to stick with our "local focus and global vision" strategy and be flexible and adaptive to make the best out of the situation and focus on the following areas.

First of all, accommodation. In the China domestic market, we continued to strengthen our value proposition to hotel partners and users through product innovation, such as hotel packages and our TripPLUS program. To build a stronger user case and respond to the customers' aspiration for better services and value for money, we worked hard to further enhance the quality of our value-added hotel package products which covers over 10,000 hotels. High-end hotel packages contributed over 40% of reservations to these participating partners and a broad incremental upside to our hotel business partners. We also continued to strengthen our value proposition in our TripPLUS program with about 240,000 hotels joined to reward customer's loyalty with actual benefits for incremental volume. In the meantime, we have also upgraded our back-end system and streamlined service procedures. As a result, our order confirmation time was shortened by 45% when compared to the first quarter last year.

Second, content platform. We continued to make solid progress in strengthening our content platform to better inspire and assist users to make well-informed travel decisions. On top of achievements in 2021, amount of daily average user generated content further grew by 140% sequentially. In the first quarter, the number of KOLs also increased by 10%. While amount of the content and our fleet of content creators continue to grow, we also focused on enhancing the efficiency of our content channels as well as improving the quality of our content. We are delighted to see higher user engagement in the first quarter with the number of average daily engaging users. Our content channel increased by around 40% year-over-year. Average number of content viewed per user also increased by around 40%. Average view duration has also seen a double-digit improvement and continued to grow in the following months.

Third, global business. On the international front, we continue to integrate and upgrade supply chain and technological capabilities of our international brands and further strengthened the reliability and efficiency of our customer services. In light of global travel recovery, we also worked on expanding our content strategy to cover our global businesses. Leveraging our successful experience in the China market, we managed to improve the daily average traffic of Trip.com content channel by 80% year-over-year. The content engagement rate increased by 150% year-over-year. This also helped to nearly double our user retention rate.

Our activity offerings in overseas markets are also seeing continuous improvements since previous quarter. In 2021, reservations of global in-destination activities on our platform have already surpassed the pre-COVID 2019 level. On top of that, we continue to achieve triple-digit growth in the first quarter. We are encouraged and well prepared to further collaborate with global destinations and attractions to strengthen our market position and gain market share.

Fourth, corporate responsibility. Following up with our rural revitalization initiative, we currently have 9 Trip.com Group country retreats in operations with the latest one freshly opened recently. We continued to collaborate with local authorities to provide professional training to nurture local alternative accommodations and tourism practitioners in order to support the development of rural tourism.

During the recent pandemic outbreak, we also contributed to support the guarantee of supply of daily necessities in Shanghai by leveraging our resources and experience to help related company's personnel with hotel reservations. In total, our corporate travel team contributed 160,000 room nights and helped approximately 6,800 daily necessity supply personnel.

With the relaxation of travel restrictions in many parts of the world, we are finally starting to see the light at the end of the tunnel. For the domestic market, we may still see a relatively weak second quarter due to pandemic impact. However, we will continue to show resilience in this fast-changing market environment and be flexible with our strategies to swiftly seize growth opportunities.

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

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

Thanks, Jane. Good morning, everyone.

For the first quarter of 2022, Trip.com Group reported net revenue of RMB 4.1 billion, which was flattish compared to -- compared with

the same period last year and decreased by 12% quarter-over-quarter, primarily due to continued disruption to the travel industry from the recent wave of pandemic outbreak.

Accommodation reservation revenue for the first quarter of 2022 was RMB 1.5 billion, representing an 8% decrease year-over-year and 24% decrease quarter-over-quarter, recovering to 48% of the 2019 level. This is a net result of steady recovery in the first 2 months, offset by the disruption of Omicron outbreak since March. Domestic hotel bookings were close to last year's Q1 level with local hotel grew by more than 20% in year-over-year.

Transportation ticketing revenue for the first quarter of 2022 was RMB 1.7 billion, representing a 10% increase year-over-year and 10% increase quarter-over-quarter, recovering to 50% of the 2019 level, among which China domestic recovery momentum was largely disrupted by resurgence of COVID since March, while air reservations on our international platforms saw a significant increase mainly contributed by the recovery in Europe and Asia as a result of relaxation of travel restrictions.

Packaged tour revenue for the first quarter of 2022 was RMB 124 million, representing a 27% decrease year-over-year and 30% decrease quarter-over-quarter, recovering to 12% of the 2019 level. This is mainly due to pandemic-related travel restrictions in domestic China market and largely muted outbound travel tourism.

Corporate travel revenue for the first quarter of 2022 was RMB 222 million, representing a 12% decrease year-over-year and 40% decrease quarter-over-quarter, recovering to 93% of the 2019 level, primarily due to the impact of pandemic-related static management in March.

Excluding share-based compensation charges, our total adjusted operating expenses decreased by 11% year-over-year and was a saving of 38% compared to the same period in 2019, reflecting our effective cost control and efficient operating management across business lines.

Adjusted product development expenses for the first quarter decreased by 6% from the previous quarter. It was a saving of 19% compared to the same period in 2019 as we continue to run lean and maintain a stable headcount in a team.

Adjusted sales and marketing expenses for the first quarter decreased by 33% from the previous quarter. It was a saving of 62% compared to the same period in 2019 as we continue to stick with our prudent marketing protocol.

Adjusted G&A expenses for the first quarter decreased by 9% from previous quarter. It was a saving of 23% when compared to the same period in 2019.

Adjusted EBITDA was RMB 91 million for the first quarter compared to negative RMB 216 million in the same period last year and RMB 54 million in the previous quarter. Adjusted EBITDA margin was 2% for the first quarter compared to negative 5% in the same period last year and 1% in the last quarter.

Diluted loss per ordinary share and per ADS were RMB 1.52 or USD 0.24 for the first quarter of 2022. Excluding share-based compensation charges and fair value change of equity securities investments and exchangeable senior notes, non-GAAP diluted loss per ordinary share and per ADS were RMB 0.06 or USD 0.01 for the first quarter.

As of March 31, 2022, the balance of cash and cash equivalents, restricted cash, short-term investment, held-to-maturity time deposit and financial products was RMB 63.3 billion or USD 10 billion.

Turning to the second quarter of 2022. We would like to share some color of our recent businesses. Multiple rounds of Omicron outbreak across China, including first-tier cities such as Shenzhen, Shanghai and Beijing, largely impacted the entire China domestic travel industry. In the quarter-to-date, the industry-level air passenger volume was down by 70% to 90%. And the industry-level hotel RevPAR was down by 40% to 60% compared to the same period in 2019, among which a significant portion was attributable to quarantine requirements.

We are encouraged. However, we are encouraged by the recent business recovery as the outbreaks are more under control starting from June. In the past several weeks, our hotel reservations have surpassed the 2019 level, mainly contributed by local vacation demand, while long-haul travel is still under pressure.

Outbound travel remains -- remain muted under current conditions.

And outside of China, the recovery momentum in Europe, U.S. and Asia remain robust. Our international brands showed further improvement in April and May, benefiting from the relaxation of travel restrictions and reopening of country borders.

As the COVID threat continues to linger in the China domestic market, we will continue to adopt strict cost control protocols while remain keen to seize the growth opportunity in the global market.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Alex Poon with Morgan Stanley.

Chun Man Poon *Morgan Stanley, Research Division - Equity Analyst*

It's glad to see the global travel recovery. Can management share with us more about your global expansion strategy, your pure international business, given the chance for outbound travel recovery in the near term is still probably remote?

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

Yes. Thank you. (inaudible)

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

We will continue to integrate and upgrade in the supply chain and technology of our international brands and further strengthen the reliability and efficiency of our customer service. In Asia markets, we have been working more closely with local suppliers to address the growing needs for staycation, which helps Trip.com market share with increasing brand awareness and app usage in the past 2 years and lay strong foundations for further growth once the cross-border travel restrictions are removed.

In Europe, all of our brands have been in close collaboration throughout the previous quarters, giving a strong boost to our product comfort, tentativeness in the region. As more and more countries have dropped their pandemic-related travel restrictions, we are glad to see strong recovery and synergies across our international brands. As we shared in the prepared remarks, in Q1, overall air ticket booking on our global platform have increased over 270% year-over-year, in which our global brand Trip.com have managed to increase by approximately 400% year-over-year. Overall hotel reservations on our global platforms achieved 25% growth versus 2019 with significant contribution from domestic reservations in overseas markets. The upward trend continued to gain momentum in the second quarter.

Operator

Your next question comes from Ronald Keung with Goldman Sachs.

Ronald Keung *Goldman Sachs Group, Inc., Research Division - Executive Director*

I just want to ask, how will the current kind of economic situation change your expectations on the future recovery -- further recovery trend, first with domestic and then the outbound travel market? How does the current pandemic situation might have set your expectations for broader reopening and outbound of a recovery? And lastly, what is your expectation for the recovery momentum once the border reopens?

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

Thank you, Ronald. We believe the demand for China domestic travel and the global travel is still very solid. In the areas with comparatively fewer travel restrictions, such as Southern China and Western China, we are very encouraged to see the hotel reservations have already surpassed the 2019 level in the recent months. And our total hotel reservations also quickly rebounded to the pre-COVID level in the past 2 weeks as the outbreaks got better controlled. And our global brands also see very strong recovery momentum in the domestic and international travel following the ease of travel restrictions across countries.

Though being very optimistic about the pent-up demand for the outbound travel, especially where we noticed that the recent quick recovery of the domestic travel during the summertime, we do not expect to see drastic changes in the inbound and outbound travel policies in the near future, but we strongly believe that the pent-up demand is there. It's just a matter of time when the country decided to open the border. Thank you.

Operator

Your next question comes from Brian Gong with Citigroup.

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

So how is the early booking situation for the summer session for domestic and the international market, respectively? And can you share more color about your overall outlook for the second half and next year?

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

Thank you. So far, we have comparatively limited visibility, given the very short booking windows happened recently. And we are cautious about the short-term perspective of the China domestic travel given the current COVID policies in multiple regions in China, including Shanghai, Beijing, the big cities. Nevertheless, we remain optimistic about the long-term prosperity because first, with the current health care measures and report lower mortality rate, we are finally seeing the COVID becoming a hopefully more manageable threat.

And meanwhile, we have recently seen the authority making efforts to reduce the potential disruption from Omicron cases such as relaxing unnecessary quarantine and lockdown measures and increasing the granularity of the scope of cross-province travel ban from province level to the country level. Yes. So we think it's hard to predict the trend, the growth trend for the second half. But so far, what we noticed is that when the policy eased in China, we did see the pent-up demand growth for the China domestic market.

But of course, for the -- on the international front, the growth is there, and we see huge growth potentials for the whole international business, including the international -- including the domestic market as well as the cross-border business travel as well as the leisure travel demand is coming back. Thank you.

Operator

Your next question comes from Alex Yao with JPMorgan.

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

The new waves of Omicron outbreak pushed down the industry even to the level of 2020 in the toughest 2 weeks. Can you share with us your strategies if the tight travel control situation continues or another wave of COVID resurge in the rest of the year?

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

Yes. So thanks, Alex. The new wave of the Omicron looks like it's quite less badly. It's infectious, but the impact is mild. So with the more vaccine is being taken and more data showed that the mortality rate is quite low, we look at the control procedures by the government. It's also relaxed more. So wherever we see a relaxation in the unnecessary lockdown, we see a boom in the industry.

So for the western part of China and a certain part of China, business are growing very well. So even with Shanghai and Beijing still being recovered in the past 2 weeks, our hotel booking has already surpassed pre-COVID level of 2019. So we are hopeful that with the more

effective vaccine being taken by the more population and more experience being accumulated, we will be able to handle the upcoming challenges. And hopefully, the -- with what we have seen from Q1, Q2 and ease of the unnecessary lockdown, it's on the uptrend for the business.

Operator

Your next question comes from Thomas Chong with Jefferies.

Thomas Chong Jefferies LLC, Research Division - Equity Analyst

May I ask a question about the accommodation segment? How should we think about the trend for the ADR as well as the take rate?

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

Thank you, Thomas. Because the whole travel industry was negatively affected by the outbreaks in multiple provinces, so overall, our ADR was down. Especially in Q2, for example, our ADR down more than 20% domestically. And in Q1, our ADR was down by high teens in the Q1 compared with -- these are all compared with the 2019 level. On the international front, maybe because it's an early start of the international travel, so we also see some negative impact on the ADRs on the international front. Thank you.

Operator

Your next question comes from Wei Xiong with UBS.

Wei Xiong UBS Investment Bank, Research Division - Research Analyst

My question is if we look at longer term, some of these structural changes that we've seen since the COVID breakout, for example, the short-haul travel and staycation getting more popular, do we see them as incremental opportunities longer term? And how are we positioned to grab these opportunities? Also related to that, how do we think about the role that the content-driven e-commerce or live streaming platforms could play in travel booking? And how could that affect the competitive landscape for OTAs?

Jie Sun Trip.com Group Limited - CEO & Director

Sure. So for the short-haul travel, over the past 2 years, we're working very hard to build a very strong user case for the short-haul travel through multiple initiatives in product and marketing innovations. To date, short-haul travel has become a key contributor to our domestic recovery, especially in the days where long-haul travel is restricted. For example, in Q1, our interprovincial hotel booking grew about 20% compared with the pre-COVID 2019 level with the local hotel bookings actually increased by over 60% compared with the 2019 level.

For Ctrip, because we are actually famous for booking for the long-haul travel, so compared with the pre-COVID level, we did notice that more and more customers noticed or have awareness that if you come to future site or Ctrip app, you can easily find value for many products for the local travel booking. So we believe this is part of it or a significant part of this incremental business for us.

With regard to the content strategy, we have achieved multiple milestones in key metrics such as content generation, usual engagement and conversion to orders. All these efforts and achievements allow us to better inspire and assist users to make well-informed travel decisions and make us a more effective, attractive marketing hubs for our advertising partners. In Q1, for example, our domestic travel advertising revenue increased over 20% compared to the pre-COVID level. So we -- so far, we are happy to see that our content strategy helped -- started to help us, firstly, to increase the users' engagement and secondly, have a positive contribution to our revenue. Thank you.

Operator

(Operator Instructions) Your next question comes from James Lee from Mizuho.

James Lee Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst

Given all the on and off disruptions in the travel industry, I was hoping, Jane, that you can talk about maybe some of the government policies to support the tourism industry for both consumers and suppliers.

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

Yes. With the ongoing pandemic and intermittent lockdowns, the travel industry is still in need of more support from the authority, and Jane and James have made a lot of efforts talking with related government authorities. And we are glad to see that the authority is making efforts to reduce the potential disruptions from Omicron cases. Especially recently, we see a lot of relaxations of unnecessary quarantine and lockdown measures in a lot of provinces in China and increasing the granularity of the scope of the cross-province travel bans from the province level to the county level. So with the authority and industry players joining hand to improve our business environment and to stand against the challenges together, we are very confident that the travel industry will come back even stronger.

Operator

Your next question comes from Tian Hou with TH Capital.

Tianxiao Hou *TH Data Capital - Founder, CEO & Senior Analyst*

I have a question related to your cash sustainability issue. As this COVID's on and off and China continued its zero COVID policy, and so the company in the last several quarters is in the position of burning some cash. So how sustainable is the company's cash position under the current situation -- current environment? Is there any room for the company to achieve further cost saving? Or is -- this company has any plans to -- further to raise some capital to enrich your balance sheet? So that's the question.

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

Ctrip has been experienced up and down of the travel industry in the last almost (inaudible) years, so we have reached experience to weather the storm. And we believe the most important part to survive or even become stronger is to have the sufficient liquidity -- to keep the sufficient liquidity in place. So as of March 31, the company had RMB 33.3 billion or close to USD 10 billion on hand in cash assets, including our held-to-maturity time deposits and financial products. And most importantly, our net cash was USD 1.9 billion as of March 31 this year. And our net working capital was USD 1.7 billion.

We will frequently -- we actually frequently assess our liquidity positions with latest business data and are confident to conclude that the combination of our existing cash reserves, cash flow from operations and financing sources are sufficient to meet our anticipated cash needs, including our working capital, capital expenditure and repayment of financial obligations for the foreseeable future.

With regard to the cost savings, during the last -- past 2 years, we have already streamlined our operations across business lines in addition to certain adjustments related to COVID. And in addition, our improvements on content, cross-selling and technology have further lifted marketing -- our marketing efficiencies. For example, in Q1, our total adjusted operating expenses decreased 11% year-over-year, and compared with pre-COVID level, it was a saving of close to 40%, thanks to our largely flexible cost structures and very effective cost controls.

And going forward, we expect to achieve further cost savings especially in the second quarter. Our largely discretionary sales and marketing expenses will be adjusted according to the extent of business recovery and continue to be ROI-driven. And also, we are able to run lean and stay productive, especially for our domestic operations, with the current team structure, and we'll continue to improve our operating efficiencies.

And for example, in the second quarter, part of the performance-based bonus maybe decreased due to the negatively impacted top line growth. However, we -- in the international -- in the overseas market, we may increase some investment to capture the pent-up demand depending on the growth momentum and business recoveries. But the impact to our group level cost structure will be pretty limited. Thank you.

Operator

That's all the time we have for our question-and-answer session today. I'll now hand back to Michelle Qi for closing remarks.

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

Thank you. Thanks, everyone, for joining us today. You can find the transcript and webcast of today's call on investors.trip.com. We look forward to speaking with you on our second quarter of 2022 earnings call. Thank you, and have a good day.

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

Thank you.

Operator

That does conclude our conference for today. Thank you for participating. You may now disconnect.

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