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CTRP - Q1 2018 Ctrip.Com International Ltd Earnings Call

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OVERVIEW:

Co. reported 1Q18 net revenues of CNY6.7b, non-GAAP operating profit of CNY966m, and diluted earnings per ADS of CNY1.81 or \$0.29. Expects 2Q18 net revenue growth (calculated on certain terms) to continue at YonY rate of approx. 12-17%.



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PRESENTATION

Operator

Ladies and gentlemen, welcome to the First Quarter 2018 Ctrip.com International, Ltd. Earnings Conference Call. My name is Aaron. I will be the moderator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

Now, I will hand the call to the Chief Communications Officer, Victor Tseng. Please begin.

Victor Tseng

Thank you. Good morning and welcome to Ctrip's First Quarter 2018 Earnings Conference Call. Joining me today on the call are Mr. James Liang, Executive Chairman of the Board; Ms. Jane Sun, Chief Executive Officer; 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 provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risk 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 Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statement, 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 2018 as well as the outlook for the second quarter of 2018. After their prepared remarks, we will have a Q&A session.



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

Jianzhang Liang - *Ctrip.com International, Ltd. - Co-Founder & Executive Chairman*

Thank you, Victor, and thanks to everyone for joining us on the call today.

I'm happy to report that Ctrip delivered a solid start this year, as we continued to push customer-centric as a core priority in order to strengthen our foundation as China's leading online travel company. Today, I would like to share our customer-centric principles and how this is integrated into every one of our employees' day-to-day work.

What does customer-centric mean to Ctrip? It is about creating value for our customers in every segment of our operations, from product design to service fulfillment. Some people might ask whether being customer-centric will hurt our earnings. Yes, it may require us to sacrifice short-term earnings. However, from a long-term perspective, a company that creates the maximum value for customers is the right foundation to grow market leadership and long-term shareholder value.

As a result, we should not sacrifice customer value for short-term financial interests. Of course, the devil is in the details, and in the past year, we've made some insufficiencies in some areas. We are taking steps to reinforce and refine our customer-centric focus with the following principles.

First, transparency. Ctrip provides transparent disclosure of information, such as price, service scope, change of cancellation policies so that we can minimize customer misinterpretations.

Second, optionality. Ctrip provides an obvious and convenient method to cancel and opt out of value-added products.

Third, consistency. Ctrip provides consistent prices and service policies for the same product across different web pages. And we will work to minimize price fluctuations through technology improvements and process optimization.

Fourth, impartiality. Ctrip provides objective and impartial product ratings, such as hotel diamond ratings based on algorithms and programs designed upon the perspective of the customers.

In the long run, we strive to achieve the following goals as we move towards our long-term aspiration of providing the best travel services in the world.

First, be reliable. We'll work hard to provide the most reliable services and minimize the possibility of any problems or service disruptions.

Second, be proactive. We'll work hard to be the most proactive service provider when it comes to helping customers resolve problems and mitigate losses, even if it is not contractually Ctrip's responsibility. For example, such as in the scenario when a hotel overbooks their room inventory.

Third, provide strong customer assurance. We'll work hard to provide the highest level of customer protection in the industry and offer the highest compensation among our peers if we fail to deliver.

Fourth, reduce customer mistakes. Through intelligent product design, we'll work hard to minimize the chance of customer making a mistake.

Fifth, be responsive. We'll work hard to deliver the fastest customer response and resolution rate through phone, instant message and all other channels.

Sixth, be convenient and user-friendly. We'll reduce the level of effort needed to use our product to the lowest possible level and to ensure a greater customer experience.



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Seventh, be comprehensive. We'll work hard to provide the most comprehensive post-transaction services that may include helping our customer obtain better deals, sometimes even in situations over and beyond our contractual obligation.

In terms of how we will fundamentally incorporate customer-centric philosophy in our organization, we'll do the following: First, we'll increase the weighting of our customer satisfaction in our evaluation system and incorporate service quality as a key measurement metric in performance evaluation. Second, we will continue to invest heavily in service technology. Third, we will set up an independent product rating committee to ensure that product ratings are objective. The committee will fully leverage big data, manual review and appeal processes to optimize our rating for products, such as hotel diamond rating and the gourmet list restaurant ratings. Fourth, we'll set up a customer protection committee that reports directly to executive-level management to enforce and monitor the implementation of these policies and targets.

In the past 19 years since the launch of Ctrip, we have claimed many firsts in the travel and service area, such as the first large-scale call center, the first to introduce service process indicators and utilize the Six Sigma program to improve our systems and processes.

We must be mindful that Ctrip's success to date is derived from the value we created for our customers, and this will not change in the future. Our vision is not only to be the best travel service provider in China but the best in the world. This is a great and aspirational goal, and a goal that's worth total dedication. Despite the challenges and setbacks along the way, we believe, as long as we stick to our customer-centric principles and continually make investments and innovations, we will achieve our goal and become the pride of the travel industry.

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

Jane Jie Sun - *Ctrip.com International, Ltd. - CEO and Director*

Thanks, James, and hello everyone on the call today.

Ctrip reported solid results in the first quarter of 2018. In particular, accommodation revenue grew a healthy 23% year-over-year, despite our large base as our hotel business...

(technical difficulty)

Operator

Ladies and gentlemen, thank you for your patience. Please stay on the line, the conference will begin shortly. There is some technical issues on the speaker line. They will be dialing back shortly. Thank you.

(technical difficulty)

Operator

Sorry for the interruption. We are back online. Over to you.

Jane Jie Sun - *Ctrip.com International, Ltd. - CEO and Director*

Thanks. Thanks, everyone. Sorry for the interruption.

Ctrip reported solid results in the first quarter of 2018. In particular, accommodation revenue grew a healthy 23% year-over-year despite our large base as our hotel business maintained balance growth between revenue and volume.



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We further enhanced our leadership in mid- to high-star hotels, with the growth rate continuing to outpace the industry average. We also strengthened our presence in low-tier cities and budget travel markets.

In the Ctrip brand, the low-star hotel segment saw strong room night growth of 40% to 50% year-over-year in the second quarter -- in the second half of the quarter.

Our transportation business also maintained strong volume growth across different transportation product categories. We are expanding our footprint in air ticketing business while we are transitioning through tough comp due to operating adjustments on value-added services.

Excluding Skyscanner, international air tickets accounts for 40% of the group air ticketing volume, up from 35% a quarter ago as we continued to ride the wave of Chinese outbound customers, and over 30% of our international air tickets are non-China related routes. In addition, Skyscanner's ticketing maintained over 30% year-over-year growth in the first quarter.

As industry leaders, we are taking more responsibility to help the travel industry evolve. We are striving to build a healthy travel ecosystem that brings value for all stakeholders along the value chain, including customers, suppliers and other business partners. Today, I would like to share some of the work we have done to improve customer service quality and to improve our suppliers and highlight some of our technology to support the ecosystem.

First, regarding the customer-centric principle. For Ctrip, customers' needs always comes first. We listened to the voices of our customers and challenged ourselves to upgrade our related travel products and services, based on the fundamental principles of transparency, optionality, consistency and impartiality.

In the first quarter, over 150 of such improvements, upgrades and enhancements, based on the customers' feedback, has gone live, such as correcting bugs in the systems, improving service efficiency and improving the booking experience by our customers.

On the instant message, or IM platform, embedded in our mobile app, the first contact resolution rate is over [90%]. And the overall customer satisfaction rate increased to 95% by the end of the quarter.

We also upgraded our service commitment across product lines, including air ticketing, hotels, packaged tour, car services, local activities and train ticket service, and reassuring that we hold the highest standard of service quality in travel industry.

Our Net Promoter Score, NPS, improved by more than 15% over a quarter ago on average across hotel and air ticketing products. We are encouraged that customers are recognizing our efforts as demonstrated by continued increase in traffic growth across Ctrip's group brands over the quarter.

Going forward, Ctrip will always strive to offer the best customer experience in the industry, no matter what challenges we encounter along the way. We will continue to prioritize the customer-centric principles in our operations. We will continue to make significant investment in our product and technology such as our ABC initiative in artificial intelligence, big data, cloud computing, to cope with travelers' evolving demands.

To ensure strong execution of our customer-centric principle, our customer service KPI now weighs heavily in overall evaluation in each business unit. For a long-term perspective, we are confident that we have right vision, strategy and principle in place to create better value for customers, shareholders and the society.

Second, to empower our partners. The strong bond between Ctrip and our suppliers is also our core competence. Throughout the years, we have made investments to better integrate with global travel supply chain to promote broader choices, better services and unique experiences. We bring many customers to our suppliers, particularly mid- to high-end customers, that are naturally drawn to Ctrip's service capabilities.

We also engage fully in shaping the future of China tourism market through continuous cooperation with all travel partners and by sharing Chinese travel market chains for the coming years. Last month, we launched the Ctrip Hotel University. This initiative provides training courses designed to help hotel managers and operators utilize various tools on Ctrip platform to engage with customers and to improve operating and market



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efficiency. The Hotel University also provides high -- big data insights on trends around the industry development and customer behavior. We aim to help hotel owners to build a high-quality talent pool to promote the development of the hotel industry in China.

In many segments, we are aligning suppliers and customers to raise standards for reliable products and services. We are now seeing solid results. As a direct example, the customers' tour package product delivered triple-digit growth in its third year and has become a meaningful part of our packaged tour business. And many of these suppliers have been beneficiaries for this growth.

Third, for technology. At Ctrip, technology has always been our competitive advantage, and it continues to be a critical area to focus and invest. Today, our open platform technology allows many players in the industry to connect efficiently with Ctrip. And in our air ticketing business, our AI technology helps airlines to better forecast flight demands based on our users' behavior.

We also developed a credit rating system based on the users' booking history on the platform. Our strong credit rating user can enjoy different levels of convenience in their booking experience. The system also allows product providers to better -- to get a better sense of what kind of customers they're serving. Over 5 million customers enjoy the easy booking process through the credit guarantee and deferred payment.

Fourth, for international business, Skyscanner now has a footprint covering over 200 markets. In the first quarter, Skyscanner's MAU increased by around 30% year-over-year reaching 80 million. Its direct booking program continues to gain momentum, delivering revenue growth over 600% year-over-year in the first quarter. We are still just touching a very small portion of what direct booking can contribute in the long run.

Trip.com is gradually gaining the customers' recognition, particularly in the air ticketing business. With the international air ticketing showing the triple-digit growth in its first quarter, Trip.com is gaining its momentum. A few days ago, Trip.com officially launched Japan site and announced that the issuance of Trip.com's global travel credit card, which is the first joint credit card with Sumitomo Banking Corporation and Union International. We worked hard to improve users' experience and one-stop shop capabilities of Trip.com.

Recently, Trip.com's mobile web was featured in Google I/O 2018 conference in a showcase of accelerated mobile page, AMP, which is a recognition by Google that Trip.com's users have a faster mobile booking experience compared to its peers.

There is a lot of work ahead of Trip.com as we strive to replicate our core competencies in service and one-stop shopping platform to serve non-Chinese markets, which includes rolling out our local services capability and more travel products in transportation in different languages. As always, we will take a methodic and substantive approach to extend our service scope and depth.

We are hugely grateful for the trust of our customers. Together with our partners and our employees, we strive to make our -- their travel easier and more enjoyable. There are still many improvements for us to make and also many areas we can further unleash our potential.

We are in the good position to capture the growth in travel industry, both domestically and globally. We're very excited about the bright future ahead of us.

With that, I will turn the call over to Cindy, and she will talk -- walk you through the details of our financial results. Thank you.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thanks, Jane. Thanks, everyone.

Effective January 1, 2018, the company adopted a new revenue recognition standard. Results for reporting periods beginning after January 1, 2018, are presented under the new revenue guidance. We adopted the full retrospective transition approach and retrospectively adjusted the financial statements for the year 2016 and 2017.

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For the first quarter of 2018, Ctrip reported net revenue of RMB 6.7 billion, representing an 11% increase from the same period in 2017. Accommodation reservation revenue for the first quarter of 2018 was RMB 2.5 billion, up 23% year-on-year, primarily driven by increase in accommodation reservation volume.

As Jane mentioned early, we continue to gain market share in the mid- to high-star hotel segment while we significantly increased our presence in lower-star hotel segments. In the first quarter, international hotel room nights grew about triple the industry growth.

Transportation ticketing revenue for the first quarter of 2018 was RMB 2.9 billion, which remained consistent with the same period of 2017. Ground transportation, including train ticketing, bus ticketing and car services, led the growth of this reporting line. To further strengthen our service quality in this area, we obtained a license for car-hailing business. Our own car-hailing operation will focused on travel-related business, especially transportation to and from airports and train stations.

Air ticketing segment delivered strong volume growth across Ctrip, Qunar, Skyscanner and Trip.com brands. Revenue growth was offset by the decrease of per air ticket segment revenue, which is related to the operating adjustment we've discussed in previous quarters. We expect the situation will gradually improve in the second half of this year with comparatively easier comps.

Packaged tour revenue for the first quarter of 2018 was RMB 834 million, up 18% year-on-year, primarily driven by increase in volume growth of organized tours and sales guided tours.

By the end of first quarter, the number of business partners on our platform increased by 71% year-on-year as we completed the merge of our inventory pool with Traveling Bestone, significantly enriching our product offering. The growth of our off-line stores continued to gain momentum, and they now form a strategic component of our ecosystem.

Total GMV of these stores grew around 50% year-on-year in the first quarter of 2018. Last month, we signed the number 1,000 Ctrip store. Together with Qunar and Traveling Bestone brands, we expect to have 8,000 stores across China by the end of this year.

Corporate travel revenue for the first quarter of 2018 was RMB 180 million, up 25% year-on-year. The growth in corporate travel business was primarily driven by expansion of travel product coverage. As we are working with multiple partners to be an integral part of budget and cost control for our corporate clients, more and more clients choose to book hotels and other travel products through the corporate travel platform.

Gross margin was 82% for the first quarter of 2018 compared to 80% in the same period in 2017. The improvement of gross margin was mainly driven by increase in automation in our service centers through the adoption of AI technology.

Excluding share-based compensation charges, total non-GAAP operating expenses grew 14% year-on-year and 3% quarter-over-quarter in the first quarter of 2018. Non-GAAP operating profit in the quarter was RMB 966 million, up 8% year-on-year and 38% quarter-over-quarter. Non-GAAP operating margin of the first quarter was 14%, slightly decreased from 15% in the same period of last year, mainly related to revenue headwinds in the air ticketing business.

Diluted earnings per ADS were RMB 1.81 or USD 0.29. For the first quarter of 2018, excluding share-based compensation charges and fair value changes of equity securities investment, non-GAAP diluted earning per ADS were RMB 3.48 or USD 0.55 for the first quarter of 2018.

As of March 31, 2018, the balance of cash and cash equivalent, restricted cash and short-term investments, was RMB 52.5 billion or USD 8.4 billion.

Now I turn to the outlook. For the second quarter of 2018, the company expects the net revenue growth to continue at a year-on-year rate of approximately 12% to 17%, which is calculated on the estimated net revenue of the second quarter of 2018 under the new revenue recognition standard and the net revenue of the second quarter of 2017 retrospectively adjusted. This forecast reflects Ctrip's current and preliminary view which is subject to change.

This concludes our prepared remarks. Operator, now please open the line for questions.



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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question, Gregory Zhao from Barclays.

Xiaoguang Zhao - *Barclays Bank PLC, Research Division - VP*

So my first question is, during the opening statement, James just shared his understanding of the customer-centric and what it means to Ctrip. So would you please also talk about what that means in terms of the CapEx and any potential financial impacts it may cause in detail? And my second question is about your traffic and revenue growth. So in Q1, we saw both user traffic and revenue recovery from the trough from November '17. So now it's about the end of May. So can you share with us the user traffic and booking trend in the first 2 months of 2Q? And by the way, is there any way to quantify the relationship -- the correlation between the Ctrip and Qunar's user traffic and your revenue growth?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you, Greg. Our traffic has been back to normalized level recently, and we were continuously gaining market share across all business lines. As the company now is focused more on the customer-centric, Ctrip has taken the leadership to set the highest product and service standard in the travel industry [range] which in the long run will benefit the whole travel industry as well as Ctrip. Therefore, we decided to sacrifice certain short-term financial benefits to ensure that the customer now is having the best booking experience and the highest service standard on Ctrip platform. As long as we are continuously to further solidify our leadership and gaining market share, we are still very confident that in each upcoming quarter, our growth should improve step-by-step through tough comps, and through the fourth quarter, which we will have a comparatively lower comp of last year. Thank you.

Operator

Our next question, Eileen Deng from Deutsche Bank.

Eileen Deng - *Deutsche Bank AG, Research Division - Research Associate*

I have a question for James. The international business in this quarter continued to deliver robust growth, especially for Skyscanner and Trip.com. Could you share more insights on the underlying driver of such accelerated growth? And what is our strategy for this international business going forward?

Jianzhang Liang - *Ctrip.com International, Ltd. - Co-Founder & Executive Chairman*

Thanks. First of all, Ctrip's outbound business maintained strong growth in the first quarter of 2018, driven by strong outbound demand, international air ticketing volume grew rapidly with 2 to 3x of the market growth rate. And also our growth of overseas hotels also tripled industry growth rate in Q1. Secondly, Skyscanner delivered strong results in the past quarter. Ctrip and the Skyscanner technology team worked closely together to push direct booking initiative, and we are glad to see 8 more direct-booking partners were added in the first quarter. Moreover, Skyscanner remains an independent platform with great attention to customer experience that's why our traffic growth has been strong. And lastly, Trip.com continued to deliver triple-digit growth in air ticketing in Q1 and we are also, step-by-step, adding more products to Trip.com and increase our service capability. So we are very optimistic and confident about our international business going forward. Thank you.



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Operator

Our next question, Ronald Keung from Goldman Sachs.

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

My question is on accommodation side. Could you just share with us the latest views on competitive landscape, also on the low end, which we know has been competitive? And any sort of indications on the high end on the competitive landscape and therefore, the -- so it's filtering to any commission rates or coupon rate trends that you could share. Lastly, your expectations for revenue growth in the second quarter, hopefully by segment that you could share with us.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Yes. Accommodation market -- accommodation reservation market in China is huge and now still very fragmented with online penetration rates at only about 20% to 25%. They always have room for a few players in the market. However, Ctrip proved to be the leader ever since we established. And most importantly, Ctrip is the only company who have sustainable profit in this industry. In terms of the strategy in different segments of the accommodation reservation market, for the mid- to high-end hotels, we will continuously to make investment in building the most comprehensive product offerings with very competitive pricing for both domestic and international hotels. And we will further solidifying our leadership in the mid- to high-end hotel market. For example, for the outbound travel -- for the outbound international hotel business segment, Ctrip continues to triple the industry growth in the first quarter. And for the lower end of the hotel market, given it's still very fragmented and off-line driven, Ctrip will be very decisively focused on volume growth and market share gaining. Thank you.

Operator

Our next question, Alicia Yap from Citigroup.

Alicia Yap - *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

I have a question regarding the domestic air. So could management provide some of the latest progress and update? And if we just look at the domestic air revenue, what was the growth rate on the year-over-year basis? And if you could share with us, based on your second guidance, what is the implied growth rate for the domestic air for the second quarter? And how should we think about the overall second half growth rate outlook? And if Cindy can also give us colors on the second quarter operating margins' outlook.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Sure. Yes. So let me provide the second quarter revenue guidance for each business line item first so that you can have a better overview. So in each of the business line items, accommodation reservation revenue will grow about 20% to 25% year-on-year in the second quarter, and transportation ticketing will grow about 0 to 5%. And packaged tour revenue will grow about 25% to 30%. Corporate travel business will -- continues to have a very steady, healthy growth at about 20% to 25%. Please also be noted that the -- all the 2018 financial results adopt the new revenue recognition standard. So the comps -- the 2017 comp also reflected base periods which are restated under the new revenue guidance. For the 2017 quarterly numbers, please refer to the press release which we provided the 2017 quarterly financial restatement details for your reference. In terms of the margin guidance, in the second quarter, we expect our non-GAAP operating profit will be in the range of RMB 1.1 billion to RMB 1.2 billion, implying a non-GAAP operating margin at about 15% to 16%. This relatively steady non-GAAP operating margin was mainly due to more aggressive sales marketing spending before summer and partially offset by operational efficiency improvement. In terms of the air ticketing revenues, yes, our domestic air ticket business still has a very healthy volume growth and gaining market share. However, the revenue per ticket was significantly impacted by the change of value-added service practice. But as James and Jane explained, we were, going forward, very focused on the



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customer-centric. In return, we think it will have -- bring us a long term -- very healthy long-term growth and market share gaining in the long run. Thank you.

Operator

Our next question, Natalie Wu from CICC.

Yue Wu - *China International Capital Corporation Limited, Research Division - Analyst*

I have a question regarding the accommodation business. Just wondering how do you see the growth rate for your accommodation business going forward? And how much is driven by volume and how much is driven by take rate? And also what's the current contribution from mid- to high-end hotels versus lower-end hotels, both GMV-wise and revenue-wise? And how should we think about the margin profile of your mid- to high-end hotels versus lower-end hotel business?

Jane Jie Sun - *Ctrip.com International, Ltd. - CEO and Director*

Sure. We look at a couple of baselines. The first one is our GDP growth rate is about 6.5%. And the second baseline is the industry growth line, which can normally double the GDP growth rate at about 10%. And Ctrip, based on our scalability, our service and efficiency, we can outpace the market by doubling the market. So as Cindy says, our growth forecast is somewhere around 20% to 25%. In terms of the segments, for lower end, our strategy is to aggressively gain market share so we do not plan to make any money in the lower-end market. And the growth rate as demonstrated by our strong growth in that segment at about 40% to 50% year-over-year growth in terms of volume. So the majority of the revenue contribution comes from the mid to high end. So we will provide the excellent services to our mid- to high-end users and make sure our service level stands out as the best in the market. So that's how we can move in both markets. Thank you.

Operator

Our next question, Jed Kelly from Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Sales and marketing grew slightly faster than revenue this quarter. How should we think about the pace of sales and marketing growing versus revenue as we move throughout the year? And do you think you can potentially reach your outer year margin goal of 20% to 30% by 2019 after you transition through some of these cross-selling headwinds?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Yes. For the sales marketing we have -- for the sales and marketing expenses, actually if you look here with sales and marketing expenses as compared with the net revenue, we are actually at the lowest level compared with international peers, thanks to the over -- now close to 80% of our traffic contributing for our own mobile app, which is purely organic traffic. However, given there's huge potential opportunities, both domestically and internationally, we have the top priority to further expand our market share, both domestically and internationally. So we never set any like budget limits on the sales and marketing spendings. However, we will carefully monitor the return on investment for each of the sales and marketing channels. Once the marketing channel can bring us positive ROI, we will continuously to make investment. In terms of the margin guidance in the next -- in the midterm margin guidance, despite we will continuously make investment in the service and marketing as well as the product and the service, we still are committed to the 20% to 30% non-GAAP operating margin in the next 1 to 2 years.



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Operator

Our next question, John Choi from Daiwa.

Hyungwook Choi - *Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap*

I have a question on Skyscanner. I think you guys mentioned the user growth was up by 30% but revenue was up by 600%. And also I heard that you have had 8 more direct booking partners. So going forward in terms of monetization of Skyscanner, how much more upside potential do we see? And how should we think about the growth going forward?

Jane Jie Sun - *Ctrip.com International, Ltd. - CEO and Director*

Yes, for Skyscanner, the MAU increased about 30% year-over-year. So in a very saturated market in a global placing to have 30% growth in MAU is a demonstration of how strong the team is. The 600% year-over-year growth, that's referred to the direct booking. So before Ctrip makes the investment, the majority of the investment -- the booking is redirecting the traffic to the airlines or the other players listed in a market. But after Ctrip makes the investment, then we inserted our direct booking services into Skyscanner. So when a customer make -- clicks onto Ctrip, they do not need to be redirected to other sites. Instead, Ctrip's service capability will empower the customer to make the reservation within Skyscanner's site. That is going to enhance the users' experience and increase the satisfaction rate by the user. And also increase the earnings ability by Skyscanner. So -- and we only account for a small portion of the overall Skyscanner's traffic. Going forward to an extent that Skyscanner has great presence in certain regions, we will increase these direct booking facilities to make sure the users' experience is enhanced, and therefore, their earnings' abilities and satisfaction rate will enhance as well. I hope that helps. Thanks.

Operator

Our next question, Juan Lin from 86Research.

Juan Lin - *86Research Limited - Research Analyst*

My first question is on the international business. I wonder if you could just provide some color on revenue contribution of overseas business for accommodation and also the contribution of overseas business for total revenue. Also I wonder, when I look at the gross margin, it looks like gross margin's declined for the first time since a while ago. Wondering what are the reasons behind the gross margin decline. And whether there's still room for gross margin improvement going forward.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

So the international business, international hotel now accounts for about 25% to 30% of the total accommodation -- sorry, 20% to 25% of the total accommodation revenue. And international air ticket contribute about 40% of our total air ticketing revenues. So the revenue -- our revenue mix is now moving more towards the international business as we expected. In terms of the gross margin for this quarter, the main reason for the decrease is because of the decrease of the per ticket revenue on the air ticketing business. However, our team -- our service center team were continuously working very hard to provide the best-in-class services, and at the same time maintain a very reasonable cost per booking. Our cost per booking, actually in the last 3 years, consistently decreased. And we will continue to -- using the best -- we'll continue to make investments in the technologies in the service industry, for example, to introduce the AI-assisted chat bot to increase the intelligence of the AI system chat bot to help us improve the user satisfaction rate and at the same time to control the cost. Thank you.

Operator

Our next question, Ming Xu from -- my apologies, our next question, Jin Yoon from Mizuho.



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Jin Kyu Yoon - *Mizuho Securities USA LLC, Research Division - Research Analyst*

Any chance you can provide a soft guidance outlook for 3Q revenues. And in the quarter, there were concerns about cancellation and return flights -- charges related to cancellations and returns on flights. Has that had any material impact to revenues or guidance in the near term?

Jane Jie Sun - *Ctrip.com International, Ltd. - CEO and Director*

Cindy will provide you with any number-related question. But regarding the policy on cancellation, return or delay of the flights, Ctrip was the first company come out by telling our consumer that our policy is we charge 0 fee for processing the cancellation, delay or change of the tickets. I think the priority for Ctrip is to make sure our customers are well taken care of during their trip. So our policy for these cancellations and change of the tickets is 0 service fee. Whatever our airlines and service provider charges, we will just present to the customers without adding any additional cost from Ctrip's part. And that has bringing the positive response by our customers.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Yes. And as long as we continuously to further solidifying our leadership position and gaining market share, we are still very confident that for the each upcoming quarter, our growth should improve step-by-step through the tough comps and through the fourth quarter, which we will have a comparatively lower comp over last year.

Operator

Our next question, Ming Xu from UBS.

Ming Xu - *UBS Investment Bank, Research Division - Director and Research Analyst*

So first is a follow-up question on the competition in low-end hotel booking market. So could you maybe share with us some color on the coupon level? And secondly, I noticed you recently issued an ABS for your travel finance business. So how should we think about this finance business going forward?

Jane Jie Sun - *Ctrip.com International, Ltd. - CEO and Director*

Yes. So Ctrip starts with high and the mid-end, and we are very dominant in that market. And as we move further, we are very aggressive in penetrating to the lower tier cities. There are a couple of things we have done. First of all, we have increased the coverage for the hotels that is penetrating into the lower-end market. Secondly, our sales and marketing is enhanced to also let our brand penetrating into these markets. Thirdly, we also have thousands of off-line shops that covers the low-end cities. And so far, the concerted efforts from the product offering, plus service, plus the sales and marketing and our off-line strategy has worked very well, which is demonstrated, as our numbers have shown, for the lower end of accommodation to increase its growth to 40% and 50% growth year-over-year. And for that market, because Ctrip is a newcomer into the market, our goal is market share gain, so we're not intending to make money for this lower end market. In terms of the ABS, yes, our finance team is very new, yet they work very hard and very creative. So their product is the #1 that's listed on the Shenzhen market. And because Ctrip customers are quite high-end, this product provides a high quality customer pool for further financial product to be listed on Shenzhen Exchange. So going forward, I think we will be also working very hard with the banks, with the financial institutes, to provide different alternatives for financial products and also maintain a very prudent spirit to make sure all the product has a high quality to support the credit rating. Thank you.

Operator

Thank you. Due to time restrictions, our last question, Wendy Huang from Macquarie.

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Wendy Huang - *Macquarie Research - Head of Asian Internet and Media*

First, I want to clarify about the 40% international air ticketing contribution that Cindy just mentioned. Is this excluding the Skyscanner? If that's the case, if we include the Skyscanner, what should be the international contribution to the air ticketing segment? And also can I also double check if Skyscanner's revenue mostly included in the transportation segment as well? And also for the packaged tour, is there a international revenue contribution figure that you can share with us as well? On the international front, given that in the domestic market, actually Ctrip probably does not have meaningful competitor out there. However, when you enter into the international market, Priceline is a very strong player in that landscape. So what's your strategy to compete against your shareholder Priceline on a global stage? And also finally, I have a housekeeping question on the financials to the CNY 688 million fair value loss that you booked this quarter, where is it booked? Is it in the other income or after income? And also what is the -- which investment is it related to?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you, Wendy. So our 40% contribution from the international air ticket didn't include Skyscanner's contribution. Skyscanner, in the recent quarter -- in the last quarter, contribute about 10% of the group's total revenue. Yes, a vast majority of the revenue of Skyscanner comes from the air ticket business. In terms of the international contribution for the packaged tour business, packaged tour business, 50% to 60% of the revenue of packaged tour business comes from the outbound travel business. And in terms of the fair value loss, which -- actually it's reflected the change of the U.S. GAAP before all the investments in the available-for-sale investment or classified in other comprehensive income, which is balance sheet items. But from this year -- from January 1 of this year, we have to book the fair value change of the investment in those -- of this investment in the P&L which is below the operating line items. And those investment included our investment -- minority investment in public companies.

Jane Jie Sun - *Ctrip.com International, Ltd. - CEO and Director*

Yes, regarding booking, historically, we always have very good partnership with booking. Booking has developed a tremendous footprint in the global places, and we have the highest respect for them. For Ctrip, our strength is the coverage associated with our China customers. So in China, we open our inventory to our partner and in the global places, booking opened inventory to us. And so far, I think it worked out very well. There is lots of things we can explore together. Thank you.

Operator

Thank you. Now we have come to the end of the Q&A session. I will now hand the session over to Victor Tseng for closing comments. Please go ahead, Victor.

Victor Tseng

Thanks to everyone for joining us today. You can find the transcript and webcast of today's call on ir.ctrip.com. We look forward to speaking with you on our second quarter 2018 earnings call. Thank you and have a good day.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you very much.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.



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