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CTRP - Q4 2015 Ctrip.Com International Ltd Earnings Call

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OVERVIEW:

CTRP reported full-year 2015 total revenues of CNY11.5b or \$1.8b, net income attributable to CTRP's shareholders of CNY2.5b or \$387m, and diluted earnings per ADS of CNY7.11 or \$1.10. For 1Q16, Co. expects to continue net revenue growth YoY at rate of approx. 75-80%.



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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Q4 2015 Ctrip.com International LTD earnings conference call. My name is Tevon and I will be your operator for today. (Operator instructions). I would now like to turn the conference over to your host for today, Mr. Shiwei Zhou, Senior IR Director. Please proceed.

Shiwei Zhou - *Ctrip.com International Limited - Senior IR Manager*

Thanks Tevon. Thank you for attending Ctrip's fourth quarter 2015 earnings conference call. Joining me on the call today we have James Liang, Chairman of the Board and Chief Executive Officer; Ms. Jane Sun, Co-President and Chief Operating Officer; Ms. Jenny Wu, Chief Strategy Officer; and Ms. Cindy Wang, Chief Financial Officer.

We may, during this call, discuss our future outlook and performance which are forward-looking statements made under the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our result 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 obligations 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, as well as the outlook for the first quarter of 2016. We will also have a Q&A session towards the end of this call. With that, I will turn the call over to James for our business update. James, please.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Thanks Shiwei, thanks to everyone for joining us on the call today. We had another strong quarter with great results. The Company continued to execute well, with revenues up 50% year-over-year. We were also happy to see significant operating margin improvement in the quarter versus a year ago.

After so many events occurred in the last several quarters, I would like to take this opportunity to update our long term growth target, the coordination with our investor companies and the importance of outbound travel in our overall strategy.

Let's first talk about our view of future growth potential. We mentioned in the past that Ctrip's annual GMV could reach RMB700 billion by 2020. After recent investments we made in travel-related companies, we have updated our long term GMV targets. In 2015, Ctrip, along with its investor companies, generated more than RMB350 billion in GMV. With favorable secular industry trends and solid executions, the annual GMV is expected to reach between RMB1.2 trillion to RMB1.4 trillion by 2020.

There are several favorable factors that drive the GMV growth. First, China's travel industry will continue to grow faster than the overall economy, due to the country's economic transition from an investment-driven economy to a consumption-driven economy.

Second, online travel bookings only account for a small fraction of China's overall travel industry. More and more travelers will book their hotel rooms, flights and tours online, especially through mobile devices.

Third, as the industry leader, we have the scale, well-known brands, high quality service, leading technology and a comprehensive product offering which will position us as the key beneficiary of these favorable industry trends.

Fourth, new travel products such as those operated by our key business units will further contribute to the overall GMV growth. More travel offerings will also include cross-selling opportunities in the customer segments.

Lastly, with rising personal income, more and more Chinese are looking to explore attractions further away from home. Outbound travel will be an important growth driver for the industry and Ctrip for the years to come.

Now let's move on to the correlation between Ctrip and its invested companies. As you know, we have become a strategic investor of some travel-related companies. These investments enable us to reduce irrational pricing competition and should, over time, put the industry back on a healthy and sustainable growth trajectory.

Going forward, both Ctrip and its investor companies will focus on their core customers who have been traditionally strong in the mid to high end customer segments. While the investor companies have built a name for themselves in their respective niche markets, such as the younger customers in lower tier cities, by focusing on core customer bases the Ctrip group can spend marketing dollars more efficiently, so we have more financial resources to invest in product development, improving service quality and expanding product offerings. These improvements will eventually lead to a healthy, online travel ecosystem that better serves the growing travel demands.

Lastly, I would like to talk about the importance of outbound travel, which will continue to be a key growth driver. China's GDP per capita is gradually reaching \$8000, a tipping point beyond which outbound travel will start to pick up. We saw such trends in countries like South Korea and Japan many years ago.

At this point, Chinese outbound travelers account for less than 10% of the total population, a share that is much lower than those seen in the US and in South Korean markets. Only a small portion of the Chinese population has passports, so there is a long, long, long way to go. Many countries have already implemented favorable policies, including easing visa restrictions to attract Chinese travelers.

With 750,000 international hotels, flights, routes, connecting more than 5000 international destinations and more products and destinations under development, Ctrip has the most comprehensive outbound travel offerings and is in a great position to benefit from fast-growing outbound travel markets.

Overall, Ctrip is the best positioned player operating in one of China's most promising industries and we will seize the opportunity and grow Ctrip into the world's largest internet company.

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

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks James. I am pleased to share updates of Ctrip's main business with you.

First, our hotel and other accommodation; at the end of the fourth quarter of 2015, Ctrip's domestic hotel coverage reached 360,000 hotels, increasing by more than 60% year-over-year. In the quarter, total revenue grew 41% compared to the same period last year. Outbound travel continued to be a key driver for hotel business. With our investments in the travel-related companies, we are seeing pricing competition become more rational.

Second, on transportation ticketing services, total transportation revenue grew 61% year-over-year in the fourth quarter, continuing its fast-growing momentum. During the peak day of spring festival travel season, the number of passengers who booked through Ctrip's transportation platform exceeded two million.

Train tickets maintained its strong growth momentum, with the volume growth exceeding 250% year-over-year. Bus ticketing continued to expand quickly, now covering over 3000 bus terminals across the country. During the peak day of October 1, the total number of bus ticketing sold through Ctrip exceeded 300,000 per day.

Air ticketing continued to grow slightly, driven by healthy volume growth. International air ticketing revenue continued to maintain a much faster growth rate.

Our comprehensive transportation offerings and a strong data analysis capability enable us to offer various combinations of multiple transportation modes to help transport our customers from door to door, significantly improving their user experience.

Third, package tours; package tour revenue continued to grow at a healthy rate, up 50% year-over-year and driven by strong volume growth. Mobile is becoming an increasingly important platform for packaged tour bookings. During the spring festival, the share of tours booked through our mobile exceeded 50%.

In 2016, we will focus on collaboration with partners throughout the travel supply chain, improving efficiency and product innovation. We already have 14,000 package tour vendors and travel agencies on our platform. The recent transaction with UTour is a perfect example of our effort to add more partners to the platform. It gives us more access to local package tour suppliers, especially in Europe markets.

Over the time, the package tour business will transition from a platform that just sells package tour products, to a platform that works very closely with suppliers, offering them not just to use traffic and booking orders, but also vendor support, such as yield management, product marketing and after-sales service and real-time management services.



Fourth, on corporate travel, the corporate travel grew its revenue by 26% year-over-year. The percent of Chinese companies that use travel management service is only about 10%, significantly lower than 40% share in the US market. The corporate travel management market is very fragmented. A lot of small and mid-sized Chinese enterprises do not use travel management services. As a result, we believe there is a long way to go for us to grow the corporate business in the Chinese market.

Lastly, I would like to comment on accomplishments we have made in 2015. 2015 was a great year for the Company. Internally, our Company executed very strongly, grew the top line by 48% and improved operating margin by 470 basis points. Externally, Ctrip also made strategic investments in several travel-related companies, which has helped to significantly reduce irrational price competition and put industry onto a sustainable growth path.

As always, we are deeply appreciative of the devotion from our employees and the support from our partners who have paved the way for us to reach where we are today. We will continue to invest in the new initiatives and in the key areas to strive to achieve better operating results going forward.

Now I will turn the call over to our CFO, Cindy, for financial highlights.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you Jane. Thanks everyone.

For the fourth quarter of 2015, Ctrip reported total revenues of RMB3 billion or \$468 million, representing a 50% increase from the same period in 2014. Total revenues for the fourth quarter of 2015 decreased by 10% from the previous quarter, primarily due to seasonality. For the full year ended December 31, 2015, total revenues were RMB11.5 billion or \$1.8 billion, representing a 48% increase from 2014.

Accommodation reservation revenues for the fourth quarter of 2015 were RMB1.2 billion or \$183 million, representing a 41% increase year-on-year, primarily driven by increase in accommodation reservation volume. Accommodation reservation revenues decreased by 14% from the previous quarter, primarily due to seasonality.

For the full year ended December 31, 2015, accommodation reservation revenues were RMB4.6 billion or \$713 million, representing a 44% increase from 2014. The hotel reservation revenues accounted for 40% of the total revenues in 2015 and 41% of the total revenue in 2014.

Transportation ticketing revenues for the fourth quarter of 2015 were RMB1.2 billion or \$192 million, representing a 61% increase year-on-year, primarily driven by an increase of 143% in ticketing volume. Transportation ticketing revenues increased by 3% from the previous quarter.

For the full year ended December 31, 2015, transportation ticketing revenues were RMB4.5 billion or \$688 million, representing a 51% increase from 2014. The transportation ticketing revenues accounted for 39% of the total revenue in 2015 and 38% of the total revenue in 2014.

Packaged tour revenues for the fourth quarter of 2015 were RMB350 million or \$54 million, representing a 50% increase year-on-year, primarily driven by an increase in volume growth of organized tours and self-guided tours. Packaged tour revenues decreased by 41% from the previous quarter, primarily due to seasonality.

For the fourth quarter ended December 31, 2015, packaged tour revenues were RMB1.7 billion or \$257 million, representing a 58% increase from 2014. The packaged tour reservation revenues accounted for 15% of the total revenues in 2015 and 14% of the total revenues in 2015 (sic, see press release - "2014").

Corporate travel revenues for the fourth quarter of 2015 were RMB136 million or \$21 million, representing a 26% increase year-on-year, primarily driven by the increased corporate travel demand from business activities. Corporate travel revenue increased by 9% from the previous quarter.



For the full year ended December 31, 2015, corporate travel revenues were RMB473 million or \$73 million, representing a 27% increase from 2014. The corporate travel reservation revenues accounted for 4% of the total revenues in 2015 and 5% of the total revenues in 2014.

For the fourth quarter of 2015, net revenues were RMB2.9 billion or \$444 million, representing a 50% increase from the same period in 2014. Net revenues for the fourth quarter of 2015 decreased by 10% from the previous quarter. For the full year ended December 31, 2015, net revenues were RMB10.9 billion or \$1.7 billion, representing a 48% increase from 2014.

Gross margin was 73% for the fourth quarter of 2015, compared to 69% in the same period in 2014 and remained consistent with the previous quarter. For the full year ended December 31, 2015, gross margin was 72%, compared to 71% in 2014.

With a very disciplined, extensive increase, income from operations for the fourth quarter of 2015 was RMB95 million or \$15 million, compared to a loss of RMB401 million or \$65 million in the same period in 2014 and income of RMB405 million or \$64 million in the previous quarter. Excluding share-based compensation charges, income from operations was RMB292 million, or \$45 million compared to a loss of RMB274 million, or \$44 million in the same period in 2014, and income of RMB539 million or \$85 million in the previous quarter. For the full year ended December 31 2015, income from operations was RMB381 million, or \$59 million, compared to loss of RMB151 million, or \$24 million in 2014. Excluding share-based compensation charges, income from operations was RMB1 billion, or \$158 million, compared to RMB346 million, or \$56 million in 2014.

Operating margin was 3% for the fourth quarter of 2015, compared to a decrease of 21% in the same period in 2014, and 13% in the previous quarter. Excluding share-based compensation charges, operating margin was 10%, compared to negative 14% in the same period in 2014, and 17% in the previous quarter. For the full year ended December 31 2015, operating margin was 3% compared to negative 2% in 2014. Excluding share-based compensation charges, operating margin was 9% compared to 5% in 2015. Net income attributable to Ctrip's shareholders for the fourth quarter of 2015 was RMB76 million, or \$12 million, compared to net loss of RMB224 million or \$36 million in the same period in 2014, and net income of RMB2.4 billion, or \$380 million in the previous quarter.

Excluding share-based compensation charges, net income attributable to Ctrip's shareholders were RMB272 million, or \$42 million, compared to net loss of RMB98 million, or \$16 million in the same period in 2014, and net income of RMB2.5 billion, or \$401 million in the previous quarter. For the full year ended December 31 2015, net income attributable to Ctrip's shareholders was RMB2.5 billion, or \$387 million, compared to RMB243 million, or \$39 million in 2014. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB3.2 billion, or \$486 million, compared to RMB739 million, or \$119 million in 2014.

Diluted earnings per ADS were RMB0.19 or \$0.03 for the fourth quarter of 2015. Excluding share-based compensation charges, diluted earnings per ADS were RMB0.69, or \$0.11 for the fourth quarter of 2015. For the full year ended December 31 2015, diluted earnings per ADS were RMB7.11 or \$1.10, compared to RMB0.79, or \$0.13 in 2014. Excluding share-based compensation charges, diluted earnings per ADS were RMB8.80, or \$1.36, compared to RMB2.42 or \$0.39 in 2014. As of December 31 2015, the balance of cash and cash equivalents, restricted cash and shortened investment was RMB29.7 billion, or \$4.6 billion.

From an accounting perspective, Ctrip has consolidated Qunar's financial results since December 31 2015. So for the business outlook of the first quarter of 2016, the Company expects to continue the net revenue growth, year-on-year, at rates of approximately 75% to 80%. With that, operator, we open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Your first question comes from the line of David Jin, representing Goldman Sachs.



David Jin - *Goldman Sachs - Analyst*

Hi, good morning management, thank you for taking my question. My first question is regarding your long-term GMV projection. Thanks, James, for your colour of RMB1.2 trillion to RMB1.4 trillion by 2020. So may I confirm, number one, is the GMV including Qunar and eLong? And secondly, can we know the mix from both segments, or break down across air, hotel, and packaged tour? Also, the mix between domestic and outbound in terms of long-term outlook? Then I will have a quick follow-up, thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes, thanks David. The GMV including our consolidated financial statement of the companies, of the invested companies, and in terms of the GMV in different product segments, still, the transportation ticketing accounts for the majority of the total GMV.

David Jin - *Goldman Sachs - Analyst*

Would you mind providing a mix of outbound and domestic, if possible, thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes, now the outbound travel still accounts for a comparatively small portion of the total GMV, but the total outbound portion grows much faster than the domestic part. So to the year 2020, we do expect a significant portion of the GMV contributed by our outbound travel business.

David Jin - *Goldman Sachs - Analyst*

Thank you Cindy. My follow-up question is regarding your package tour business, because James also just mentioned on the call that you just had a transaction with UTour, and also it seems that you have been restructuring your package-tour business ever since second half last year. So can we understand more of your long-term outlook of this business from both revenue and margin outlook, and also your strategies in terms of your mix of in-house offerings and open platform offerings? Thank you very much.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure, the package-tour business is growing very well. We open up our platform not only providing the tours that we packaged our self, but also open to all suppliers to make sure our coverage, pricing, and time to market is the best in the market. So right now, probably half of them are self-made, and half of them are from our suppliers. Going forward, for the popular travel destinations, we will continuously strengthen our product offerings, by giving different options to our customers. So for the first time travelers, they prefer to go with a group. Young travelers, they prefer to do a self-tour package.

We also innovated a product which is called a family package. So you can customize your product to your family needs, and that business also is growing very fast. So that's the forecast, and this package tour is very unique, because Ctrip already has the hotel customers as well as the air ticketing customers. So when they go abroad, naturally, they will use Ctrip's outbound business, package tour to make it easy for young families and for their groups. So we're very positive for this business. In terms of margin, the margin should be in between hotel and air tickets, because it's a combination of hotel and air.

David Jin - *Goldman Sachs - Analyst*

Thank you James, Cindy, thank you very much. I'll get back to the queue.



Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you so much David.

Operator

Your next question comes from the line of Vivian Hao, representing J.P. Morgan.

Vivian Hao - *J.P. Morgan - Analyst*

Hi, thank you for taking my question. I have a couple of quick questions more regarding the near-term outlook for Ctrip. First of all, if it's possible, can you provide us the core organic Ctrip volume growth outlook for both air and hotel for Q1, and the second question is regarding more on the airline -- the airline ticketing side. So given the recent dispute between airlines and also Qunar, do you see any need for a strategic realignment? Given the situation, the (inaudible) is industry-wide for OTA. Further, on the outbound long-haul sector for air ticketing side, what is our plan to take market share, given the increasing competition from airline direct sales? Thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure Vivian. Ctrip's goal is to continuously gain more market share by achieving very healthy and sustainable CAGR rates at around 30% from now to the year 2020, just ask James. By there we will have a total GMV of around RMB1.2 trillion to RMB1.4 trillion. In terms of the organic, because Ctrip do share some eLong trade with our investor companies, so it would be very difficult for us to provide a separate guidance on Ctrip alone's revenue forecast. For the air ticketing business, Ctrip will work together with airlines. We share the same vision that we need to provide the most reliable product to our customers.

Empowered by Ctrip's best technology in -- among the industry as well as the scale, Ctrip has the ability to provide the highest service standards and the most comprehensive product offering to our customers, and at the same time to control our distribution costs within a very reasonable range among all the industry players. Therefore, we believe that Ctrip actually created value to our customers, our partners, including airlines, and ultimately, we will create value for the whole air distribution industry over the long run. For the international air ticket -- international air ticket always is the key growth driver for Ctrip's transportation ticketing product line. The international air ticket has the highest industry growth rate, and Ctrip has the best product offering in the air ticket -- especially international air ticket product offering. So Ctrip is now in the best position to capture the highest growth rate with our mid- to high-end customer bases. Thank you.

Vivian Hao - *J.P. Morgan - Analyst*

Thanks.

Operator

Your next question comes from the line of Binnie Wong, representing Merrill Lynch. Please proceed.

Binnie Wong - *Merrill Lynch - Analyst*

Hi management, thank you for taking my question. So my question is on the performance basis. If we look at the consolidation of the two companies, does that imply that -- a performance growth of about 40%? Is that growth trend comparing to 2015 we see in Ctrip and your sister company? It just seems to be a little bit slower. Is that because of reflecting of the macro impact, or how should we look at this? Also, can you just share with us on your growth outlook, the mix -- like, the growth on your key, core business segments? Thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure, Binnie. Yes, just as I said, the sustainable and the healthy CAGR rate from now to the year 2020 to achieve our goal will be around 30%. I think the guidance pretty much in line. We believe we are on the right track to achieve our long-term growth. In terms of the revenue guidance in the -- for the different product lines, for the accommodation reservation revenues, we expect to grow 70 to 80% year over year revenue growth, and the transportation service will grow about 100 to 110% year over year, and the package tour will have a very healthy growth at about 40% to 50%, year on year.

Binnie Wong - *Merrill Lynch - Analyst*

Thank you. Then as a second follow up, just that -- on your margins trend in 2016, in your opening remarks, you have mentioned a few times about that -- the pricing competition is getting more rationalized. Then also balanced with your investment in product developments and also in our new -- the Baby Tiger. How should we think about for the margin trend this year? Thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes, in addition to the more aggressively -- to continuously gaining our market share, we will improve our profitability to bring our non-GAAP operating margin back to the 20% to 30% level, which is the mid- to long-term forecast of our margins.

Binnie Wong - *Merrill Lynch - Analyst*

Okay, thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you.

Operator

Your next question comes from the line of Dick Wei, representing Credit Suisse. Please proceed.

Dick Wei - *Credit Suisse - Analyst*

Hi, good morning, thanks for taking my questions. My first question is on Baby Tiger initiatives. I wonder if you can share with us what is the revenue and profitability contribution outlook for this year, thanks.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Okay. Yes, we actually -- Yes, we call them new business units, and not all of them are still called Baby Tigers anymore because some of the Baby Tigers are growing -- so, grown up. So they're becoming -- Yes, young tigers. Now we're going to not start calling them tigers, we call them the new business units. Some of them, actually, not doing very well, and that's expected. Some will survive, some will become really big, and some will just die. So some -- so we are having to (inaudible) redirect their effort to become new initiatives. So we don't call them a group because they will -- this is just a transition. So some will become really big, some will become redirected to other initiatives. So we still have these -- every year, we still have new -- incubated, new projects. Currently, it's a creative destruction process, and it's ongoing.

Dick Wei - *Credit Suisse - Analyst*

Great, and maybe if I can follow up for sales marketing, the expenses this year, that -- what is the strategy difference between last year and this year? What are some of the key areas of spending into 2016, given the type of the landscape and so on?

Cindy Wang - *Ctrip.com International Limited - CFO*

Sales marketing, we will still use ROI as our benchmark to deploy our resources. So obviously, the higher ROI area will get the most of the investment. But every year, we carefully look at the available channels, and we do every testing for the channel to make sure what every dollar we spend in the sales marketing channel will generate the best return for us. So we will continue with our strategy. There are a couple of things that we are focusing our efforts on. Mobile continues to be a very important strategy for us, penetration into the second-tier and third-tier cities is also very important for us. The third one is the outbound business will be a high-margin, high-growth area for us. So we will continuously put our dollar into the areas that generate the best return for our shareholders.

Dick Wei - *Credit Suisse - Analyst*

Great, thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thanks, Dick.

Operator

Your next question comes from the line of Mike Olson, representing Piper Jaffary.

Mike Olson - *Piper Jaffary - Analyst*

Good morning. You mentioned the mid- to long-term margin target. But can you say what you're expecting for Q1 margins, and then secondly, I might have missed this, but would you be able to tell us what Q1 revenue guidance would be for just the core feature of business that would be comparable on a year-on-year basis compared to Q1 of last year, thanks.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure Mike, on the operating margin side, in the first quarter of last year, Ctrip together with Qunar had a non-GAAP operating loss at about negative RMB350 million. This year, with the original pricing competition sales tax, improved the operational efficiency as well as our very disciplined expenses increase. We expect Ctrip and Qunar's total non-GAAP operating loss will be significantly reduced to a range of negative RMB100 million to zero, or the break-even level, if we perform extremely well. On the revenue part, because Ctrip and our investor company shared some of the inventory so it will be very difficult for us to provide a separate guidance for Ctrip alone.

Mike Olson - *Piper Jaffary - Analyst*

Okay and then one other quick question, could you provide us with an indication of what you expect the diluted share count to be in Q1?



Cindy Wang - *Ctrip.com International Limited - CFO*

The diluted -- basic diluted share count by now is roughly about 57 million ordinary shares.

Mike Olson - *Piper Jaffray - Analyst*

Okay thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you.

Operator

Your next question comes from the line of Jin Yoon, representing Mizuho Securities, please proceed.

Jin Yoon - *Mizuho Securities - Analyst*

Hi, good morning guys, you guys mentioned that there's some price irrationality that's just come into the market. Can you just talk about how much of your net take rates or net commissions have improved in terms of basis points -- 100 basis points, 200 basis points, 300 basis points, whatever that may be?

The second question is what -- theoretically giving your interests are highly in line with those of Qunar and eLong. What prevents you guys from scaling back even quicker -- even more quickly on rebates and couponing especially on the higher end hotels? Thanks guys.

Cindy Wang - *Ctrip.com International Limited - CFO*

For the take rate, the synergy -- the cooperation between Ctrip and the investors of the Company do help us to improve our hotel commissions.

For example, in the fourth quarter last year, the couponing that we give to our end users, the ratio between the coupon versus the hotel revenues is -- was 15% versus the highest rate at about 21% in the fourth quarter of 2014.

So we do see our coupon -- the irrational pricing competition being scaled back and we do believe more irrational couponing or irrational pricing competition being scaled back.

Jin Yoon - *Mizuho Securities - Analyst*

What prevents you guys from scaling back even quicker -- even more quickly on such couponing and rebates going forward, especially on the higher end?

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes, our goal is to provide the best service quality to our high end customers and not just use the pricing or very aggressive couponing or discounting to attract high end customers.

While in the comparatively mid to lower end of the market segment, we will continue to offer very competitive pricing to continuously gaining our market share, given our existing market share in the lower end is comparatively smaller.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Yes, so it is not as simple just to reducing the coupons because you also have competitions with some other channels such as hotels direct channels.

You need to do the very methodical or -- on the price personalized more -- the term is actually yield management. You need to do a better yield management based on big data. So actually it's an ongoing process. I think it will improve. It will improve but it should be improved, at the same time not sacrificing the growth rate.

Jin Yoon - *Mizuho Securities - Analyst*

Great thanks guys.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks Jin.

Operator

Your next question comes from the line of Amanda Chen, representing Morgan Stanley, please proceed.

Amanda Chen - *Morgan Stanley - Analyst*

Hi, good morning management, thank you for taking my question, I have maybe two here. First is regarding your cost of revenue which declined quite significantly for a q-on-q sense.

So, can you give us some reason behind this declining cost of revenue? Thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes, there is two reasons that we can have a very reasonable cost of service versus the net revenue. The first is we have a very disciplined head count increase in our call centers and we improved our call center efficiency very significantly over the past two years.

The second reason is because the couponing that we give to our end users being scaled back, it helps us to improve our gross margin.

Amanda Chen - *Morgan Stanley - Analyst*

Got it, thank you, and the second one is regarding your air ticket revenue. I'm not sure if you guys will provide such a detailed breakdown but can you share us how much revenue is from the commission paid by airlines and how much is from your cross-selling products? Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Yes, because from -- you're talking about the Q4 right, so for Ctrip we both the agent and open platform model. Open platform accounts for roughly 60% of our total air ticket volume.

Amanda Chen - Morgan Stanley - Analyst

Right, but if we translate to the tick rate, now we are around 4% tick rate of the air ticketing if I remember correctly, so within the 4% how much is contributed as the airline commission fee and how much is from the cross-selling?

Jane Sun - Ctrip.com International Limited - Co-President and COO

Our branded air tick rate is still within the range of 4% to 5% and for the agent model we do receive some volume incentive from the airlines and we also -- part of the tick rate comes from the cross-selling that Ctrip -- where we sell the air ticket, we cross sell for example the insurance, the hotel coupons and to increase the user's thickness to Ctrip, to help us increase air ticket revenue and at the same time to increase the thickness of our user on Ctrip's platform.

Amanda Chen - Morgan Stanley - Analyst

Got it, excuse me I have a quick follow up, so can you share with us how much of the customer's whole -- also by your cross selling products when they buy the air ticket?

Jane Sun - Ctrip.com International Limited - Co-President and COO

Yes the cross selling, because we dynamically adjust the product that we cross sell together with air ticket, so the purpose for the cross selling is to improve the user experience and at the same time to increase the conversion rate of our air ticket products, so it's a very dynamic way to look at the percentage of the cross selling, but we do believe cross selling has already contributed a significant portion of our total air ticket revenue.

Amanda Chen - Morgan Stanley - Analyst

Got it, thank you very much, very helpful.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Thank you.

Operator

Your next question comes from the line of Juan Lin, representing 86Research, please proceed.

Juan Lin - 86Research - Analyst

Hi, good morning James, Jane, Cindy, Shiwei and Michelle. This is Juan calling from 86Research, thanks for taking my questions. I have two questions. The first one again is related to your first quarter guidance.

Your first quarter guidance if we compare to the total revenue of Ctrip plus Qunar last year, it implies around 37% to 41% year-over-year growth, while over the last year -- full year the gross profit growth was about 50% for each quarter on a consolidated basis.

I'm wondering whether the first quarter sets a bottom for revenue growth for this year and when should we expect the gross acceleration for your revenue. This is the first question.



Second question is with the recent actions airlines have taken against platforms, do you expect the volume contributed by your open platforms to your air ticket booking business to decline as a percentage of total and how would air ticketing commission rate trend going forward? Thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure, so if you look at our long term growth rate from now until the year 2020, the implied CAGR is around 30%. We believe are on the right track to achieve our long term growth rate.

Also, I think it would be very difficult for us to provide so called Ctrip alone revenue guidance because Ctrip have now invested company shares in backend inventory systems.

For the question -- as for the question on the air ticket, as Ctrip has the -- both the open platform model as well as the agent model, so even if we lost some volume from the open platform, it was largely compensated by our direct agent model which actually contributed higher revenue for Ctrip.

Juan Lin - *86Research - Analyst*

Thanks Cindy, if I could follow up with the first one, so are we expecting the growth to bottom in the first quarter which means we may see a growth acceleration in the later part of the year?

Cindy Wang - *Ctrip.com International Limited - CFO*

We do believe, because it's too early to provide the full year guidance at this moment, but we do believe this revenue guidance is -- represents a very healthy and sustainable growth for both Ctrip and Qunar.

Juan Lin - *86Research - Analyst*

Thank you very much.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you.

Operator

Your next question comes from the line of Jialong Shi, representing Nomura. Please proceed.

Jialong Shi - *Nomura - Analyst*

Hi, good morning James, Jane, Cindy and Shiwei, thanks for taking my call. I have two questions. First question is about the air ticketing. We know that Chinese airlines are under pressure to increase their direct sales percentage.

So will that mean the OTA as an industry will lose market share in the air ticketing business going forward? Secondly, for the hotel business -- so after Qunar's acquisition there is still two very strong competitors in the hotel market, Ali and Meituan.

So I just wonder how management thinks of the competitor landscape for the online hotel booking industry and what are Ctrip's strategies if any of these competitors resort to irrational couponing or marketing in a bid to grab market share, thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure, I will address your two questions. First of all on the airline business, I think both airlines and hotels will grow very healthily, because the market is growing rapidly.

Both airlines will benefit from it and the companies that provides good services will benefit from it. I think airlines are also very smart and very market-driven, so they will compare the cost of their direct sales versus the money they are paying to the OTAs.

If the direct sales cost is higher than the OTA cost then naturally by giving OTA tickets to sell for them will generate more profit for airlines. So a rational company will compare the cost internally versus the cost externally.

Whichever channel gives them the best bottom line will be able to benefit the airlines for that. From an OTs perspective, I think we always work very closely with the airlines to support them on the sales channel.

Our strength is excellent customer service and a strong technology platform and we will continuously to invest in the technology and also customer service to well support our partners for airlines to generate the best yields and best bottom line for them.

So that's on the OTA side. Regarding on the hotel, yes I think Ctrip team is always working very hard in the hotel team. Again we have a promise with our customers to give them the best service and best price and best technology to service them.

We also have a promise with our partners to support them on the back end, to drive the volume for them. In this market there will be many players as always. There is never a year that Ctrip is the only player.

We always welcome many players in the market, so the other players also provide value in the chain, but again with Ctrip's investment in the technology and customer services, we believe for the travel market Ctrip will be able to extend our leadership in this market.

Jialong Shi - *Nomura - Analyst*

Thank you for the color, Jane.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks.

Operator

Your next question comes from the line of Tian Hou, representing T.H. Capital, please proceed.

Tian Hou - *TH Capital - Analyst*

Good morning management, I've got two questions. The first one is related to your platform model. So your platform model actually generated a lot of traffic and cross-selling results.

In the past when you designed the platform and -- it was actually in the sense of anti-competition, so right now you have already invested in your competitor in that front. I wonder going forward how you are going to deal with this platform business and with the strategy behind it? That is number one.

Number two is for your guidance, so is that possible to provide some volume growth color in different lines of the business in hotels and your transportations? That's my two questions, thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure, I think a platform model versus sales made tool has its strengths and weakness. The platform model gives you the wide coverage and also time to market.

The sales made tool business gives you the strength in customer service. You have more control in these products. So depending on the customer's need we are very -- customer is always the king, so certain customers that focus on reliability and also focus on quality, they naturally will choose to have sales package tool as their first choice.

Then younger generation which has a lower income level, price -- they're more price sensitive. Then we need to provide them with price -- the products with a price advantage on it.

So, as long as your customer -- tailor our product offering to these customers and our product display needs to be customized then we will be able to maximize our strength and best address different customers at different times.

So our technology team spends lots of time to do every testing to make sure they provide the product that is best suited for our customers' needs.

In terms of guidance on volume, I think Cindy provided you with the guidance and they are mainly driven by volume.

Tian Hou - *TH Capital - Analyst*

Thank you Jane.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks.

Operator

Your next question comes from the line of Ming Xu, representing UBS, please proceed.

Ming Xu - *UBS - Analyst*

Morning management, congratulations on the strong quarter, so I just have a couple of questions -- four questions on your guidance or outlook, the first one is I just want to clarify when you say your Q1 revenue will grow by 75% to 80%.

Are you comparing to Ctrip or in Q1 2015 or Ctrip plus Qunar in Q1 2015?



Cindy Wang - *Ctrip.com International Limited - CFO*

Yes, as we consolidate Qunar's financials from an accounting perspective from December 31, last year so from this year we will consolidate profit and loss.

So the 75% to 80% forecast this year includes Qunar's revenues compared with Ctrip's US gap -- Ctrip's revenue under US gap last year.

Ming Xu - *UBS - Analyst*

Okay, so the comparison base for last year is Ctrip alone?

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes.

Ming Xu - *UBS - Analyst*

Okay, got it and then the second question is could you maybe help us understand your current ownership in Qunar, because I think you announced in early January, a deal to further increase your stake in Qunar. So I wonder what is the status now or maybe after the close of this deal how much percentage do you expect to own in Qunar?

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure, after the transaction with Baidu featured approximately 45% voting interest in Qunar, and subsequent to that, Ctrip issued the shares and cash to some SPVs and investment entities affiliated with Ctrip.

So therefore from an accounting perspective Ctrip was starting to consolidate Qunar from the end of last year.

Ming Xu - *UBS - Analyst*

So, is there a number in terms of shares, so is that 70% or 80% or what is the rough number?

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes we will consolidate Qunar's financials from this year.

Ming Xu - *UBS - Analyst*

Okay, got it.

Cindy Wang - *Ctrip.com International Limited - CFO*

Qunar (inaudible) from this year.



Ming Xu - UBS - Analyst

Sure, got it. So, the third question is on the transportation, so you say transportation revenue will grow by 100% to 110%, is that revenue or volume?

Cindy Wang - Ctrip.com International Limited - CFO

It's the revenue, transportation revenue.

Ming Xu - UBS - Analyst

Revenue, okay. So compared to the growth rate in the past few quarters that accelerated significantly, so I'm just wondering what's the driver behind that?

Cindy Wang - Ctrip.com International Limited - CFO

Yes, train tickets contributed much higher, especially the contribution from the volumes. This is the main reason that you see a very high growth rate for the fourth quarter of last year.

Ming Xu - UBS - Analyst

Yes, so could you maybe share with us, maybe three numbers, the ESP of train tickets, take rate of train tickets and also the revenue contribution of train tickets within your total transportation ticketing business?

Cindy Wang - Ctrip.com International Limited - CFO

Yes, still majority, vast majority of the revenue is still contributed from the air ticket business. Yes, but for Ctrip, our goal is to provide one-stop transportation solutions to our end users, so it would be more meaningful to combine different product alternatives, including air ticket, train ticket, bus ticket as well as the car rental services within one single line item when we provide guidance or the revenues.

Ming Xu - UBS - Analyst

Got it, got it. Okay, my last question is on the outbound trips. One of your competitors that specializes more on outbound trips, a couple of weeks ago when they reported, I think the guidance for Q1 was significantly lower than their previous growth rate.

I'm just wondering on Ctrip's -- on your perspective, so what's your outlook for Ctrip's outbound travel business for Q1 also for 2016? Do you see a slowdown in demand? Thanks.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Sure. This year still the outbound travel will be a key growth driver for Ctrip across all business lines. For the packaged tour business, outbound travel already accounts for roughly 60% to 70% of our total packaged tour revenue. We see the growth trajectory is still very well.

Ming Xu - UBS - Analyst

So you don't -- so for Q1 2016, you don't really see a slowdown in growth?

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Yes, we forecast we will have a very healthy growth. For the packaged tour business, we see a very healthy growth rate at about 40% to 50% for the first quarter.

Ming Xu - *UBS - Analyst*

Okay. Okay, very helpful. Thanks.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thank you.

Operator

Your next question comes from the line of Alice Cai, representing HSBC. Please proceed.

Alice Cai - *HSBC - Analyst*

Hi management and thank you for taking my questions. I have a question about the distribution of airlines in Qunar.

I want to see how much of the third agency will squeeze out to Ctrip and on a standard long basis, how much benefit Ctrip will get, these shares from Qunar. So far now, such like Ctrip is the only provider for -- on Qunar's platform for the Air China and China South Airlines, so how much market shares you can gain from these? On a standard long basis, yes.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Yes. Well, Qunar itself historically has been operating a different model, so it's more of a price comparison and metasearch engine. So it will direct traffic to us, other OTAs and any airline's direct website.

So in the past, we've been doing that. Of course, now there's more traffic directed to Ctrip. We haven't -- I mean, I think the situation is still being developed. I think Qunar are working with the airlines, so I'm sure they will diversify their traffic destinations.

So right now I really cannot give a concrete number. But we are operating a different model, so there's some -- it's not apples to apples comparison, our volume, our revenue with Qunar. Qunar sometimes get revenues by clicks.

Alice Cai - *HSBC - Analyst*

Thank you. That will be very helpful. I have a following up question about outbound travel, so (inaudible) the guidance for the segments seems like, on a consolidated basis, the pack tool is very -- growth is just 40% to 50%. Given this is consolidative, Qunar seems that it is a little bit weak, so whether this is because of the weak macro environment or the weaker foreign exchange rate?



Cindy Wang - *Ctrip.com International Limited - CFO*

Qunar's packaged tour is very small, so the number that you are picking up does not significantly influence the growth rate overall. So the 40% to 50% growth represents a very healthy and promising growth rate going forward.

Secondly, our packaged tour business is very rational and very profitable, so we didn't do any irrational spending to artificially boost the volume. So everything we do, we want to make sure it's ROI positive, so the sustainable growth rate -- 40% to 50% -- is very sustainable and healthy.

Alice Cai - *HSBC - Analyst*

Okay, thank you very much.

Operator

Your next question comes from the line of Julia Pan, representing Macquarie. Please proceed.

Wendy Huang - *Macquarie Group - Analyst*

Hi. Sorry, it's Wendy Huang from Macquarie. So my first question is about the GMV --

Cindy Wang - *Ctrip.com International Limited - CFO*

Hi, Wendy.

Wendy Huang - *Macquarie Group - Analyst*

Hi. I think historically you provide the annual GMV figures, so what was the total GMV for 2015?

Cindy Wang - *Ctrip.com International Limited - CFO*

The total GMV for 2015 is RMB35 million -- sorry.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

RMB315 million.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sorry, RMB315 million.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

RMB315 billion.



Cindy Wang - *Ctrip.com International Limited - CFO*

RMB315 billion, sorry.

Wendy Huang - *Macquarie Group - Analyst*

Okay. And I also think in the past, you provided the rough numbers for the gross margin by different major segments. Given that the elements in those three segments actually have changed a lot in the past 2 years, can you maybe update the numbers on those segmental gross margins?

Also related to that, you mentioned earlier that half of your packaged tours is actually produced in-house and half from suppliers, so what's the gross margin difference between the in-house versus the third party ones for the packaged tour business?

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure, so for the GMV still, transportation reservation service still accounts for a majority of our total GMV. For the packaged tour business, it's different from -- for example, the group tour business, the open platform already accounts for roughly 40% of our total packaged tour volumes. For the self-guided tour, still vast majority of the volume contributed from Ctrip's in-house developed product.

In terms of the margins, yes, the open platform -- the margins from the open platform could be slightly lower than the self-generated product. But in terms of the operating margin, including the product development people especially, the open platform has the higher margin, or at least a similar level of the operating margin compared with Ctrip's in-house developed product.

Wendy Huang - *Macquarie Group - Analyst*

Thanks. On the non-GAAP OP loss margin that you mentioned earlier for the full year -- so if I got it correct, is the non-GAAP OP loss RMB 100 million to zero in 2016, I think Qunar mentioned earlier in the call that they are still targeting the second half break even at OP level. If this is case, your consolidated full year non-GAAP OP margin guidance seems to suggest that your organic margin is actually not going to improve versus 2015 level.

Can you maybe provide more color on the organic margin expansion for this year implied by your guidance? Thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure. Sorry, the negative RMB100 million to zero actually is the operating -- non-GAAP operating margin only for the first quarter of this year. Normally the first quarter is the slowest season, yes. Ctrip has --

Wendy Huang - *Macquarie Group - Analyst*

I think you mentioned a number --

Cindy Wang - *Ctrip.com International Limited - CFO*

Yes.

Wendy Huang - *Macquarie Group - Analyst*

-- RMB350 million as well.

Cindy Wang - *Ctrip.com International Limited - CFO*

This is the number for the Ctrip and Qunar's total loss in the first quarter of last year.

Wendy Huang - *Macquarie Group - Analyst*

I see. Thank you.

Cindy Wang - *Ctrip.com International Limited - CFO*

So actually the net loss will be significantly reduced in the first quarter.

Wendy Huang - *Macquarie Group - Analyst*

I see. So lastly on the share count, so the Q4 share counts, ordinary shares only come in at 49 million. So has this actually (inaudible) dilutions and also all the Qunar transaction related share dilutions, i.e., a 2 month Baidu share swap and 1 month Qunar employee share swap impact?

Also you mentioned earlier that by Q1 the share counts will be around 57 million. I just whether this number will increase further by the end of 2016.

Also related to that, previously I think for Ctrip alone, you were issuing like one million share grants a year. Now on a consolidated basis, is there any change with this number?

Thank you. That's all my questions.

Cindy Wang - *Ctrip.com International Limited - CFO*

Sure. Thank you, Wendy. So until recently, the total basic share outstanding of Ctrip is about 57 million ordinary shares. This actually is the number we will continuously to grant stock options to incentivize our teams.

In the first quarter of 2016, on top of the normal share-based compensation charges, we will have a non-recurring transaction-related share-based compensation. The total charge will be approximately RMB1.5 billion. Going forward, there will be no further one time transaction related share-based compensation charges.

Operator

Ladies and gentlemen, that was the end of our question session. That concludes today's conference. You are now able to disconnect. Have a great day.

Cindy Wang - *Ctrip.com International Limited - CFO*

Thank you very much.



James Liang - *Ctrip.com International Limited - Chairman and CEO*

Thanks.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Look forward to seeing you next quarter.

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