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TCOM - Q3 2019 Trip.com Group Ltd Earnings Call

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NOVEMBER 14, 2019 / 12:00AM, TCOM - Q3 2019 Trip.com Group Ltd Earnings Call

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## PRESENTATION

### Operator

Thank you for standing by, and welcome to the Trip.com Group Limited Q3 2019 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to Ms. Michelle Qi, Senior IR Director. Please go ahead.

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

Thank you, Ashley. Thank you all. Good morning, and welcome to Trip.com Group's 2019 Third Quarter Earnings Conference Call.

Joining me today on the call are Mr. James Liang, Executive Chairman of the Board; Ms. Jane Sun, Chief Executive Officer; and Ms. Cindy Wang, Chief Financial Officer.

During this call, we will discuss our future outlook and performance which are forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today.

A number of potential risks and uncertainties are outlined in Trip.com Group's public filings with the Securities and Exchange Commission.

Trip.com Group does not undertake any obligation to update any forward-looking statements, except as required under applicable laws.

James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the third quarter of 2019 as well as the outlook for the fourth quarter of 2019. After the prepared remarks, we will have a question-and-answer session.

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



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

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

Let's begin with a quick update on the business growth and performance. We continue to deliver solid results for the third quarter of 2019. Net revenue grew 12% year-over-year, reaching RMB 10.5 billion. Ctrip and Qunar are continuing to gain market share among Chinese consumers in both the domestic and outbound markets.

In the international markets, the Skyscanner and Trip.com brand also saw strong growth among overseas travelers. We continue to achieve operating leverage across all expense lines. In the third quarter, operating profit increased by [52%] (corrected by company after the call) year-over-year.

On October 29, we celebrated the company's 20th anniversary with our global strategic partners and announced the new brand identity, Trip.com Group Limited. By continuing to expand our share in the China domestic travel markets, we aim to become the leading international travel brand in Asia ex-mainland China destinations over the next few years. To realize this goal, we will fully leverage the relationships that we have built over time, which are our large-scale, advanced mobile technology multi-cloud offering and open platform capabilities.

Moving forward, our operational focus is on great quality and globalization. Great quality includes our extensive products, extensive user interface, reliable services, and advanced mobile technology.

Globalization requires us to think global and act local. Our product logistics supply chains and service standards and technologies are generally universal across geographies. Local marketing and operations will always adhere to the regulations we either have in each respective markets.

We are pleased to see our efforts have already become -- have already borne fruit in our outbound and overseas business, led by continued success at Trip.com brand as well as its increasing synergies with Skyscanner.

We are excited to see the Trip.com brand's international air ticket volumes growing at triple digits year-over-year, for 12 quarters in a row, and a steady increase in the booking ratio at Skyscanner.

As our new name indicates, we hope to become the most reliable travel companion for our customers and make every trip a partnership. To realize this mission, like we have always been doing, our team will continue to execute tremendously and always strive to provide the best travel experience for our customers worldwide.

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

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

Thank you, James. Good morning, everyone. We are pleased to report Trip.com's solid results in terms of market share gain and increased profitability despite the challenges from a macro perspective globally.

In China, we continue to acquire high-quality users with travel demand through effective marketing channels. In the targeted cities, we again deployed aggressive, yet disciplined pricing strategy for low-end hotel products, capturing an important and growing user base.

In addition, our Net Promoter Scores increased nicely across all business lines, which again demonstrated our improved service quality. Our revenue growth came under pressure due to recent macro and industry headwinds, especially in destinations such as Hong Kong. However, as we have always been in the tough environment, Trip.com Group will continue to be laser-focused on our business fundamentals and take advantage of the market conditions to further enhance our leadership.

Next, I would like to share some of the recent highlights in product expansion, supply empowerment and international business growth. Firstly, the expansion of our products and service. In the third quarter, our product coverage continued to expand in scope and depth. In recent years, we

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have seen a spending increase in customer destination activities. To take advantage of this, we have further expanded our product range, both in China and abroad. Ctrip recently became the first OTA in China to launch a voice guide on our platform. By integrating multiple voice guide suppliers, this service now covers around 8,000 attraction sites in over 800 cities around the globe.

In addition, to better serve Chinese and overseas travelers, we recently deepened our partnership with Tree Group by launching their Europe destination activities product on Ctrip platform, of which more than half have been designed exclusively for our customers.

Going forward, Tree Group will continue to expand their range of products on Ctrip and will launch their products on Trip.com brand in the first half of 2020.

Secondly, our empowerment of supply network. On October 29, we held the second global strategic partners summit in Shanghai. At the summit, all the major business units shared their vision with respective industry partners. Our teams continue to bring our 300 million users to our business partners around the world through open platform. The hotel participates -- the hotels participating in our TripPLUS program have seen 30% incremental growth in traffic.

Also, as financing has become a bottleneck for numerous suppliers on our platform, we have recently introduced a new online financing product tailored for small and micro packaged tour suppliers. Together with financing for this, we have empowered our partners with urgent financing needs by leveraging our ability for data analysis. Going forward, we will continue to utilize Trip.com Group's rich resource in site traffic, platform data, operating chain and back-end tools to empower our partners around the world.

Thirdly, on the progress of our international business. In the third quarter of 2019, excluding certain area in the Greater China destination, our revenue growth for overseas hotels accelerated to 50% year-over-year in the third quarter. We are confident to reach 40%, and 50% of international business will contribute to the total revenue would be 3- to 4-year target.

With our large customer base, the comprehensive product offerings and extensive market expertise, we have demonstrated our ability to send incremental travelers to global travel destinations. To date, we have signed strategic partnerships with over 50 travel destinations. In the third quarter, the Trip.com brand -- the air traffic volume delivered triple-digits year-over-year growth for the 12th consecutive quarter, with its hotel bookings growth continuing to accelerate. In October, Trip.com was awarded a Google Material Designs Award tailored to global users. This recognition is reflective of the increased recognition of the core market brands.

In summary, we are encouraged by the performance of our international business. However, our journey in the overseas market has just begun. Currently, only a portion of the functionality on future Chinese app are available for global users through Trip.com, and we will work hard to increase the functionality and make Trip.com app as comprehensive as the Chinese version.

Last week, we announced a strategic partnership with Trip.com -- with TripAdvisor to global -- to extend our global cooperation, consisting of a joint venture as TripAdvisor China, global content collaboration and a governance agreement, which we have previously disclosed. Through this partnership, we will gain access to TripAdvisor's hundreds and millions of online reviews and features for accommodations and activities worldwide. Equipped with the helpful information generated by global travelers, our customers will have great confidence in what they are going to book through our platform and have a more comprehensive idea of what to expect upon their arrival and will enhance the user experience.

Just 2 weeks ago, we celebrated our 20th anniversary. We are pleased at our past achievements, and we are even more excited about what we will accomplish in the future. In order to create value for our customers, our partners and for the industry, we are working hard to provide the most innovative and reliable services for our customers, both in China and abroad.

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

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

Thanks, Jane. Hello, everyone.



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For the third quarter of 2019, Trip.com Group reported net revenue of RMB 10.5 billion, representing a 12% increase from the same period in 2018. Net revenue for the third quarter of 2019 increased by 21% from the previous quarter. Revenue growth decelerated from the previous quarter, mainly due to recent macro industry headwinds.

Accommodation reservation revenue for the third quarter of 2019 was RMB 4.1 billion, representing a 14% increase from the same period in 2018.

During the third quarter, low-end or low-star hotels sustained strong room night growth for Ctrip despite lapping the lower comparison base. This continued to reflect the effectiveness of our brand pricing strategy, and we will continue to proactively acquire targeted users in this segment.

In the domestic mid- to high-end hotel, we also maintained healthy growth momentum from previous quarters. It is worth mentioning that the total number of high-end hotels joining our TripPLUS program has exceeded 10,000, bringing more booking discounts and a wide range of hotel benefits to our members.

The recent macro and industry headwinds in destinations such as Hong Kong have put pressure on related travel demand and hotel prices. Excluding Greater China destinations, our revenue growth from overseas hotels accelerated to 50% year-on-year in the third quarter.

Transportation ticketing revenue for the third quarter of 2019 were RMB 3.7 billion, representing a 3% increase from the same period in 2018. The slower year-over-year revenue growth compared to Q2 was mainly due to the weak outbound travel demand in certain destinations and a decrease of international air ticket price.

Our international air ticketing business achieved a higher multiple against industry growth during a slow quarter. The Trip.com brand air ticketing volume recorded triple-digit growth for the 12th consecutive quarter.

Packaged tour revenue for the third quarter of 2019 was RMB 1.6 billion, representing a 19% increase from the same period in 2018. In the third quarter, GMV for our offline stores continued to see strong growth. In August, we announced that the total GMV of all offline stores reached RMB 10 billion year-to-date, having reached the milestone 4 months earlier than the previous year.

Corporate travel revenue for the third quarter of 2019 was RMB 335 million, representing a 26% increase from the same period in 2018. This was primarily driven by expansion in corporate customer base and an optimized product mix trend.

Revenues for our other businesses increased by 37% year-over-year in the third quarter of 2019, reaching RMB 688 million. This was primarily driven by strong growth in our advertisement and financial service business.

Gross margin was 79% for the third quarter of 2019, which is consistent with that in the same period of last year and in previous quarter.

Excluding share-based compensation charges, total non-GAAP operating expenses grew 4% year-over-year and 10% quarter-over-quarter in the third quarter of 2019. Total head count in IT, supplier management and administration was largely consistent with the previous quarter. Marketing efficiency continues to improve. This was primarily due to our ROI-driven marketing strategy and continuous efforts in customer services, product cross-selling and content building. Average new customer acquisition costs continued to decrease in the third quarter while conversion and cross-sell ratios continued to improve due to the enhanced competitiveness of products and services. Non-GAAP operating profit in the quarter was RMB 2.6 billion, growing 40% year-over-year and 53% quarter-over-quarter. Non-GAAP operating margin for the third quarter was 25%, increasing from 20% in the same period of 2018 and the previous quarter. The increase is mainly due to improvements in operational efficiency.

Diluted earnings per ADS were RMB 1.35 or USD 0.19 for the third quarter of 2019. Excluding share-based compensation charges and fair value changes of equity security investments, non-GAAP diluted earnings per ADS were RMB 3.70 or USD 0.52 for the third quarter of 2019.

As of September 30, 2019, the balance of cash and cash equivalents, restricted cash, short-term investments and held-to-maturity deposit and financial products was RMB 61 billion or USD 8.5 billion.



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On September 16, the company announced the completion of its previously announced Put Right offer relating to its 1.25% convertible senior notes due 2022. Approximately USD 924 million aggregate principal amount of the loan was validly surrendered and not withdrawn prior to the expiration of the Put Right offer.

Following the settlement of repurchase of these notes, the total number of ordinary shares of the company on a fully diluted base was reduced by 1.8 million shares.

On [October 25], (corrected by company after the call) the company's shareholders approved the proposal to change the name of the company from Ctrip.com International to Trip.com Group Limited at the Annual General Meeting. The American depositary share of the company has started to trade under the new company name since November 5, 2019, and the company's ticker has been changed to TCOM.

On November 6, Trip.com Group announced a strategic partnership with TripAdvisor, including operational cooperation and planned investments. These investments will be financed through cash on hand that will be classified as long-term investments on the balance sheet. We are happy with the potential shareholding and the cooperation -- and the related global partnerships and have no intention to further increase our stake beyond our contractual obligations.

Now turning to the future outlook. For the fourth quarter of 2019, the company expects net revenue growth to continue at a year-over-year rate of approximately 8% to 13%. This forecast reflects a 600 to 700 basis point impact related to recent macro and industry headwinds, in particular, related to events in Hong Kong. Excluding share-based compensation, the company expects non-GAAP operating income will be in the range of RMB 800 million to RMB 1 billion. This forecast reflects the Trip.com Group's current and preliminary view, which is subject to change.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question today comes from Ronald Keung with Goldman Sachs.

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

Congratulations on the very strong margin performance. My question would be on the revenue guidance and sort of what's your view on the normalized growth rate. Because on the fourth quarter, you just mentioned there will be an impact around 6 to 8 percentage points. This is more than the 4 to 5 percentage points that you mentioned in the second quarter results. So as we head into the fourth quarter, the impact from the macro and Hong Kong has increased. Can you just, if you can, split out what's the impact from Hong Kong given the current situation in Hong Kong? Is that the main delta to that bigger impact into the fourth quarter? And if you can then provide the revenue growth by segments in -- that constitutes the fourth quarter revenue guidance.

And once we lapped this Hong Kong impact, what do you see the business to grow on a normalized growth rate? Let's say, from the second half of next year to beyond, where do you see the business growing in terms of -- is it low teens, mid-teens or high teens once we lapped these impacts?

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

Your question probably can be separated in 2 parts. Our Chairman, James Liang, will address the macro forecast and our view on it, and Cindy will address the detailed questions about our guidance.

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

Yes. Certainly, the recent events in Hong Kong certainly has a negative impact on our outbound business, not just in Hong Kong, Hong Kong-Macau, also Taiwan, Greater China regions, they all are negatively impacted. And also not just from China, inbound to Hong Kong is almost completely gone.

I think in the long run, people readjust their travel plans, 3 to 6 months' horizon will be -- the fact, it will be limited. So people readjust their travel plan, and instead they maybe travel to destinations like Japan. So we see -- we will see a pickup in those -- other destinations. So I think in the long run, over a 6-month period, 3- to 6-month period, the effect will be much more limited.

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

And regarding the guidance, comparing with Q3, the guidance for the Q4 reflected the additional 2% to 3% impact on the growth rate related to macro and regional headwinds due to the assumption of the full quarter impact in Q4 based on the latest status. Because if you recall, in the Q3, actually the impact was starting from August, which is not the beginning of the third quarter. And in the Q4, we're assuming there will be a full quarter impact. Therefore, we included the additional 2% to 3% impact on the growth rate.

### **Operator**

Your next question comes from Gregory Zhao with Barclays.

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

First, the considering of future expansion to bring more international tourists to China, so what's your plan to track it, or with the user traffic to Trip.com? And we see Google still at the top of the user traffic funnel in the overseas market, so will you do more marketing [after changing] or more promotion? You have App Store for your Trip.com app. A quick follow-up on your 2020 margin outlook, if we see this Hong Kong issue keeps extending into 2020, so do you still maintain the above 20% operating margin target?

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

Okay. Let me first address the question of retail market. Yes, I think retail market has a lot of potential. But still, there's quite a few bottlenecks. From the China side, the retail, the online payments and the like the hotel for restrictions for foreign -- foreigners and also the like Internet access, all these are bottlenecks. Yes, we are working very closely with the Chinese government. The Chinese government is quite proactive in solving these issues.

And from the search markets, we are actually working with many government aimed to promote China, for example, Japan cross-country tourism, so both from Japan to China and China to Japan. And working with the best -- major destination markets in China, like [Shanghai] government. So we're working closely with the Chinese government and the other governments, other countries, to promote tourism.

And our -- Trip.com has actually increasingly become the venue for people to book international travel in Asia. So that's really -- we have the ability to promote actually major destinations, not just China, major destinations in Asia. So that's really our overall strategy, on one hand, to promote our brand, but also need to work with other governments to invest in resources, in branding and other facilities to promote cross-country travel.



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

Yes, I'll address the margin question. I think we have a very -- in Trip.com Group, we have a very scalable business model. And with -- our business side continues to increase. We can achieve a higher efficiency across all expense [liabilities, which] was already reflected in this quarter's financial statements. But given the huge growth opportunity ahead of us, it's probably not the optimal strategy for us to maximize margin at this moment.

In the future, we will continuously make investments in our products and services, especially in the international market. And our marketing spending will continuously be fully ROI-driven. But thanks to our dominance in the mid- to high-end markets, especially in China, even without continuous investments in the future, our group can still achieve healthy margins. And I think next year, 20% margin is the target we are going to -- we will do our best to try to achieve. Thank you.

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**Operator**

Your next question comes from Binnie Wong with HSBC.

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**Wai Yan Wong** - *HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst*

So with the update in terms of the strategy we have in the overseas market, and also, we are seeing a step-up actually in the cross-selling ratio, right, from [entertainment] to hotels and to the other products. And also with the large volume we have from the Skyscanner, so how do we see the international growth trend and also in terms of any uptick in terms of cross-selling? Because we are -- I think recall in the Investor Day we had earlier, that has already been improving quite significantly from 20% last year to around 30% on the cross-selling ratio. I think that is very encouraging. So can you update us in terms of the international growth, how you're going to see it. And also when will you see kind of like a turnaround in terms of the situation? Is there potentially the shift away -- the impact from Hong Kong will be going into like tourists maybe going into the other markets? Where are we seeing that, with adjusting impact and how we are overcoming it?

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

Sure. Thanks, Binnie. I think [for future --] our strength is really the one-stop shopping model and our ability to cross-sell between distances. And since our international air tickets normally is the first product that our customers select, once they make the reservation, we will immediately know where the customers are going. And with that knowledge, we will be able to target these customers by providing relevant hotels and in destination, tour tickets, transportation, et cetera, to them to increase the cross-sell and the conversion rate.

So that effort is day in and day out. We were in different paths to make sure we provide the right product based on customers' preferring and make sure our accuracy for the offerings is improving every day. So that aspect is very much underway, and it's very concerted efforts by all the business units.

And as we are expanding globally, we are only in selected destinations right now. So as our air ticketing business is moving further into the global business, the opportunity for us to do cross-selling will be enhanced. So we also look at different indexes, such as traffic volumes from China to different destinations and to enhance our pricing offering and product comprehensiveness. So all that is a very comprehensive strategy to make sure whatever a customer need -- is looking for, our product will be suitable to our customers abroad. So I think of our cross-sell will increase throughout the year in the future. Thank you.

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**Operator**

Your next question comes from Jed Kelly with Oppenheimer.





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

Great. Congratulations on your 20th anniversary. It's nice to see all your suppliers at the event generally happy for your success, well done. So my question is just on the accommodation. It did decelerate. I mean how much of that is a mix between lower volumes versus lower commissions or lower ADRs? Can you touch on that? And then on your sales and marketing, it actually was down again by 8%. Given your ambitions for Trip.com, I mean, are you waiting to build up the product to a certain amount of domestic -- of international supply before you accelerate marketing that brand? Just how should we think about your marketing strategy, both domestically and internationally?

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

Yes. For the slower revenue growth, there are [factors there], which is mainly due to the slower-than-expected travel demand due to the macro headwinds, especially in certain destinations like Hong Kong, Taiwan, Greater China region. For example, during the October holiday, the weakened rhythm of travel momentum, the travel demand year-on-year change during the October holiday was the lowest level for both domestic and outbound in the past 8 years, especially for outbound travel industry, which was decreased by 15% year-on-year. And outbound traffic to Hong Kong declined more than 50% in recent months, which also resulted in a steep decline in the accommodation and air ticket prices.

Overall, the outbound travel wallet fleet decreased from 13% to 14% year-on-year in the first half of this year to just a 1% year-on-year in the third quarter. However, as always, we will continuously outpace industry growth. For example, in the accommodation revenue from the overseas, if we are excluding Greater China destinations, our overseas hotels grow about 50% year-on-year. And the Ctrip brand low-end hotel delivered close to 40% quarter growth, and revenue for our domestic high-end hotel maintained a very strong growth momentum. Similar to our accommodation business, our international air tickets business achieved a higher -- in a higher multiple against the industry growth during a slow quarter. And the Trip.com air tickets volume continuously deliver triple-digit growth.

Regarding the sales marketing strategy. As I said, we will continuously have a truly ROI-driven marketing strategy, both domestically and internationally. And we will continuously be more focused on our strength, more advanced than mobile or app-based products. We will continuously promote more in the mobile marketing channels. Thank you.

**Operator**

Your next question comes from James Lee with Mizuho Securities.

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

James, I was wondering then if you can comment on the competitive situation. We recently heard that one of your key competitors recently stepped up on their discounting, maybe especially in the low-tier hotels, low-star hotels. Just wondering if you can talk about that a little bit. How are you guys responding? And do you expect the competition to stabilize and sort of expect that to continue going to 4Q?

And also, Cindy, I'm not quite sure if you provided an operating margin guidance for 4Q. And also, can you break down the segmentation guidance for Q4 as well? That would be helpful.

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

Yes. We have been always pursuing a quite aggressive pricing strategy at the low-end market. I think on the high-end market, our customers are generally not that price-sensitive, and they generally value quality of the services and brands. But on the low end, our customers are quite price-sensitive and quite aggressively pursuing pricing strategy to gain market share, and that's going to be our long-term strategy. So we intend to maintain this strategy.



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

Regarding the guidance for the margins. So excluding share-based compensation charges, the company expect non-GAAP operating income in the fourth quarter will be in the range of RMB 600 million to RMB 1 billion.

On the top line guidance in the accommodation regulation business, in the fourth quarter, we estimate that it will continue to have a healthy growth rate at about 10% to 15%. And for transportation ticketing business, the Q4 guidance will be in the range of 0% to 5% year-on-year growth. And the packaged tour revenue will continue to have a 15% to 20% growth rate. And corporate travel will have a 20% to 25%. In total, our net revenue will grow in the range of 8% to 13%. Thank you.

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**Operator**

Your next question comes from Natalie Wu with China International Capital Corporation.

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

Just curious, can you help us understand what kind of synergies should we expect from your TripAdvisor JV? And secondly, it has been almost 1 year since you upgraded your open platform strategy and launched the 3.0 version system. Just wondering, would you mind sharing with us in more details on the progress regarding that initiative in the past 11 months, especially with respect to those ones that contributed to your financials the most?

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

Sure. First of all, on TripAdvisor, we're very excited about the partnership because our users will be able to access millions of reviews and pictures generated by global users. And when they make their reservation, they will already see what they are going to see in the destination. And that will enhance our user experience. So we are very excited to collaborate with TripAdvisor team to make sure our user experience is enhanced.

Secondly, on open platform. It's a very innovative strategy. Our digital was the first one to do that. And we -- by leveraging the open platform, it's enabled us to have the coverage we want to have across the world and [coverage] of the product that is offered to our customers and also have the best pricing structures that is available for our platform. So, so far, I think that the platform has offered anywhere -- depending on the different product line, it can be anywhere between 20% to [35%] of the volumes are coming from the open platform. And the challenge for us is to make sure the quality is very well controlled. And Ctrip Board behind the scene making sure all the service level is matched by all the suppliers on the open platform. So every day, we run different projects to make sure not only we get above the price coverage and products, but also we offer the best services to guarantee a user experience for our customers when they go abroad. Thank you.

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**Operator**

Your next question comes from Tian Hou with T.H. Capital.

**Tianxiao Hou** - *T.H. Capital, LLC - Founder, CEO & Senior Analyst*

I have 2 questions, 2 quick ones. One is, last year, we actually mentioned a lot about going down to the lower-tier cities. But if we look at what we actually did this year, a lot of them is rather going abroad. So I wonder, have we changed our strategy? Or is this going downstairs -- going down to the lower-tier cities has already finished? So what's the future strategy in terms of expansion? That's number one.

Number two, there's a theory that if someone wants to go abroad to travel, if Hong Kong has something, they can actually alter the destination to other places. So I wonder how to reconcile the impact we're experiencing to the theory I just mentioned. That's the 2 questions.



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

Sure. So Ctrip, we are based in China. So further penetrate into the lower-tier cities has always been our strategy and will be in the future. However, we have seen great potential abroad as well. So the 2 campaigns and 2 fields are moving simultaneously. Our domestic team is moving very aggressive by opening up offline stores, and they are making very good progress, further penetrating into the third-tier, fourth-tier cities. And our pricing structure supports our strategy and have seen very positive growth in the lower-tier cities.

Our international team, on the other hand, also moves very rapidly to make sure we capitalize on the opportunity for outbound travel as well as the other opportunities globally. So these 2 strategies coincide with each other and moving simultaneously very rapidly into both lower-tier cities as well as abroad.

And your second question is the replacement of Hong Kong. Yes. So people will gradually look for alternatives. Now Hong Kong is not a valid place to go. However, it takes time. And what's going on in Hong Kong is not only impacting Hong Kong. Also, it makes people pause and think. So it has peripheral impact in general markets. And -- but again, because we are so diversified, we will work very hard to make sure gradually, we're able to divert certain CapEx to other alternatives, but it takes time.

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

Yes, as a service provider, we have the most comprehensive product to capture any travel demand from the users. But in terms of the targets that we give to the team, we always ask them to outpace the industry growth. So given slow -- our growth rate, slow down but compared with the industry growth rates, we have still outpaced industry growth in a much faster way during a slow down.

**Operator**

There are no further questions at this time. I'll now hand back to Ms. Jie for closing remarks.

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

Thank you, Ashley. Thanks to everyone for joining us today. You can find the transcript and webcast of today's call on [investors.trip.com](http://investors.trip.com). We look forward to speaking with you on our fourth quarter 2019 earnings call. Thank you, and have a nice day.

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

Thank you.

**Operator**

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



## NOVEMBER 14, 2019 / 12:00AM, TCOM - Q3 2019 Trip.com Group Ltd Earnings Call

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