

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q2 2020 Trip.com Group Ltd Earnings Call

EVENT DATE/TIME: SEPTEMBER 25, 2020 / 12:00AM GMT

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Lixin Ju *BofA Merrill Lynch, Research Division - VP & Research Analyst*

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

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

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

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

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

PRESENTATION

Operator

Thank you for standing by, and welcome to the Trip.com Group Limited earnings conference call. (Operator Instructions)

I would now like to hand the conference over to Michelle Qi, Head of Investor Relations. Please go ahead.

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

Thank you, Amanda. Thank you, everyone.

Good morning, and welcome to Trip.com Group's Second Quarter 2020 Earnings Conference Call. Joining me today on the call are Mr. James Liang, Executive Chairman of the Board; Ms. Jane Sun, Chief Executive Officer; and Ms. Cindy Wang, Chief Financial Officer.

During this call, we will discuss our future outlook and performance, which are forward-looking statements made under safe harbor 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 (sic) [Securities and Exchange Commission]. Trip.com Group does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the second quarter of 2020 as well as outlook for the third quarter of 2020. After the prepared remarks, we will have a Q&A session.

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

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

Thank you for everyone.

The travel industry saw the full quarter impact of COVID-19 in the second quarter of 2020. China has been leading the recovery due to effective management of the outbreak across the country. Although many international regions are still battling with the continued spread and the resurgence of COVID-19, we are pleased to see progress across the globe towards managing this pandemic and the subsequent reopening to safe travel.

In the past quarter, we expanded our core competencies and aligned ourselves with the strong recovery momentum in the China domestic market. This was achieved through adapting product offerings and reinforcing supply chains to suit our customers' preference. We further strengthened collaboration with hotel partners by launching new products with attractive deals. These efforts brought our

suppliers with much needed incremental demand through increased brand exposure directly to customers. Moreover, our offering expanded from hotels rooms to nonroom products. As a result, we saw further sequential growth for the number of hotels providing guaranteed room allotment as well as a number of high-end hotels designating us as their preferred distributor.

In recent weeks, reservations for high-end hotels have seen double-digit growth compared to last year, which further strengthened our market leadership. As part of the deal campaign to relaunch travel activities in both China and abroad, we utilized live streaming to reconnect with our customers. Many of you may know that I've been on the road weekly to showcase travel destinations across China as well as to promote our latest and our best deals from hotels to flights to attraction tickets and more. These efforts have created new ways to engage with our customers, attract new users and rekindle their love for travel.

So far, we have completed dozens of live streaming shows covering most of China's top destinations. These were all well received by our customers, especially outbound travelers who are now turning to domestic alternatives.

We are delighted to see that the domestic China business is well on track towards full recovery. Despite pockets of outbreaks and a virus resurgence, our China domestic hotel and air bookings have turned positive growth again, significantly outpacing the industry. Outbound and overseas business remained largely subdued given the continued COVID-19 spread. However, we are glad to see that many markets have stabilized and seeing a rebound from the April lows. Leveraging our experience in China's recovery, we have launched programs in selected overseas markets to promote their domestic products.

In the past 2 months, demand for hotel bookings by non-China customers have more than doubled compared to the same period last year. We are also encouraged to see more countries and regions are carefully reopening their borders. With the fast progress made towards finding a vaccine and effective medical treatment for COVID-19, we remain optimistic in travel resumption around the world.

To conclude, I would like to thank our customers, employees, partners and shareholders for your unwavering support during the pandemic. We look forward to seeing you on the road.

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

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

Thank you, James. Good morning, everyone.

I would like to start with a quick recap of the previous quarter. Total net revenues in Q2 declined by 64% year-over-year. This reflected the strong sequential recovery of our China domestic businesses, offset by a steep decline in our international operations.

Throughout the second quarter, the company quickly adapted operational priorities and mindfully balanced cost control with marketing needs to stimulate consumer demand. We are pleased to have been able to minimize operating expenses in the quarter, while capturing additional market share as the industry recovered.

First, domestic travel recovery is well on track. Extending upon the observation we shared in the last call, domestic travel in China saw meaningful recovery during the quarter. This was led initially by short-haul activities, followed by [cross-provincial] long-haul travel, which has picked up substantially since May. Consumer confidence was further boosted by sustained containment of COVID-19 infection across the majority of the country.

During the past couple of months, we witnessed full recovery in succession across several of our product line in China domestic market, including accommodation, air ticketing and various in-destination services. On the whole, pricing remained significantly reduced on a year-over-year basis, but the gap has narrowed month-by-month.

Our team quickly identified early shifts in consumer demands and adapted product and marketing strategies accordingly to suit a prevailing preference for short-haul activities. In recent months, we have observed positive year-over-year growth of more than 20% for short-haul travel reservation across accommodations, attractions and car rental services.

We further strengthened our relationship with suppliers, especially high-end hotel partners. The number of the hotels designating us as their preferred distributor increased by more than 10% sequentially from the first quarter. Over the past months, our high-end hotel reservation reached double-digit growth year-over-year. We also affirmed market leadership in the transportation segment.

During the month of August, our domestic air ticketing reservation achieved positive year-over-year growth, meaningfully outpacing the industry at a time where overall China domestic flight passenger volume was down 15% to 20% compared to the last year's level.

As James mentioned, we have adopted live streaming as an innovative means of directly engaging with customers, which has allowed us to accurately capture demand amongst our mid- to high-end customer base. To date, products sold through this channel have been priced at an average of RMB 1,200, and more than 60% of customers made repeat purchases throughout one or more live streaming sessions.

In the second quarter, corporate travel also saw strong recovery momentum as business trips resumed. For packaged tour, it was largely restricted throughout the second quarter. However, we were glad to see that the restriction on the domestic group tours were lifted in July.

Next, on the international business. Overseas market hit the bottom in April, and green shoots of recovery have since been observed in many regions. Customers have started to travel domestically, and hotel reservation have shown initial signs of recovery. In order to further stimulate customer interest, we initiated Travel On campaign and extended our travel revival incentives to overseas market. We reinforced the relationship with global partners to offer attractive deals. Leveraging our successful live stream experience in China, we localized this model for targeted international markets, which earned us both market share and customer loyalty against the current backdrop of turbulence and volatility in these markets.

In addition, we utilized the business downtime to refine our internal capability. For example, our chatbot has improved its efficiencies to 3x compared to last year's level. Our outbound travel has remained minimal since the initial outbreak in China due to health care concerns, along with limited supply and demand. However, we are glad to see the relaxation to cross-border flight controls coming into effect on the basis of prudent evaluation.

Despite an uneven pace of recovery across our international business, we remain optimistic about the long-term growth prospects. We're encouraged by the global efforts in the development of the vaccine and medical treatment, and look forward to the resumption of travel activities worldwide.

Operationally, we further adapted the company to suit the challenging environment through the comprehensive scrutiny of each expense categories and reexamination of efficiency. Owing to our largely flexible cost and expense structure and efficient operational management, our total cost and expenses decreased by around 50% year-over-year in the second quarter. We continue to take necessary measures to ensure that our organizations remain lean and efficient, while proactively preparing to capture the opportunities during the recovery.

The first half of 2020 has been challenging for the travel industry. I would like to thank all of our staff, again, for their dedication throughout this unprecedented period. As we have said before, our talented employees are our most valuable assets. We are committed to ensuring that Trip.com Group remains an inclusive and attractive workplace, where our employees can reach their full potential.

Overall, taking into consideration of the development of the past few months, we're encouraged by the pace of the recovery in China and look forward to seeing more of our business segment returning to positive growth in the near future. In view of recent progress made by medical community and indication of reopening the borders around the world, we are optimistic about the trajectory towards the incremental recovery for our overseas and outbound businesses.

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

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

Thanks, Jane. Thanks, everyone.

For the second quarter of 2020, Trip.com Group reported net revenue of RMB 3.2 billion, representing a 64% decrease from the same period in 2019. Net revenue for the second quarter of 2020 decreased increased by 33% from the previous quarter. The performance reflects a strong recovery of our China domestic business, offset by a steep decline of our international businesses.

Accommodation reservation revenue for the second quarter of 2020 was RMB 1.3 billion, representing a 63% decrease from the same period in 2019 and a 9% increase from the previous quarter. Sequential increase of accommodation reservation revenues was mainly driven by the strong recovery momentum of domestic market, offsetting declines in the international markets.

Transportation ticketing revenue for the second quarter of 2020 was RMB 1.2 billion, representing a 66% decrease from the same period in 2019 and a 52% decrease from the previous quarter. The sequential decrease of transportation ticketing revenue from the first quarter of 2020 was mainly due to the significant decline in international business.

Revenues from China domestic transportation revenues increased modestly from the previous quarter. Packaged tour revenue for the second quarter of 2020 was RMB 130 million, representing an 88% decrease from the same period in 2019 and a 75% decrease from the previous quarter. Cross-region and outbound packaged products have been on restricted list for the entire second quarter. Only selected products were permitted to operate, such as same-province tours and attraction ticketing, which resulted in the significant year-over-year and sequential decline. Cross-region packaged products have resumed operations since July, and around 80% of our off-line stores have now reopened.

Corporate travel revenue for the second quarter of 2020 was RMB 162 million, representing a 47% decrease from the same period in 2019 and a 29% increase from the previous quarter. Revenues from other business declined by 11% year-on-year for the second quarter of 2020 and 13% from the previous quarter, reflecting a full quarter impact of the pandemic. Gross margin was 72% for the second quarter of 2020, which decreased from 79% for the same period in 2019 and 74% for the previous quarter.

Sales and marketing expenses for the second quarter of 2020 decreased by 69% to RMB 661 million from the same period in 2019 and decreased by 52% from the previous quarter. Sequential decline from the first quarter is primarily driven by savings for our international markets as well as full quarter impact of domestic savings. Marketing efficiency improved during the quarter due to both new initiatives in more cost-effective channels, such as live streaming as well as improved traffic conversion from increasing competitiveness of product offerings.

Product development expenses and G&A expenses for the second quarter of 2020 decreased 32% and 37%, respectively, from the same period in 2019. A significant portion of the expenses can be considered variable cost.

G&A expenses in the first quarter of 2020 included bad debt provision of RMB 1.2 billion for the increased receivables, mainly due to the refunds for reservation cancellations we paid on behalf of our travel suppliers and increased credit risk as a result of COVID-19. Such provision was minimum during the second quarter, which caused a significant sequential decrease of 74% in G&A expenses. Excluding share-based compensation charges, total non-GAAP operating expenses decreased by 52% year-on-year, thanks to our generally flexible cost structure and efficient operational management. Excluding share-based compensation charges, non-GAAP loss on operations was RMB 200 million.

Diluted losses per ADS were RMB 0.80 or USD 0.11 for the second quarter of 2020. Excluding share-based compensation charges and fair value changes of equity security investments, non-GAAP diluted losses per ADS were RMB 1.93 or USD 0.27 for the second quarter of 2020. This year, the company has settled USD 250 million, and USD 1.1 billion worth of convertible bonds in May and July 2020, reducing potential diluted ordinary share count by approximately 3.1 million.

As of June 30, 2020, the balance of cash and cash equivalents, restricted cash, short-term investments, held-to-maturity time deposit

and financial products was RMB 64.3 billion or USD 9.1 billion. Furthermore, approximately USD 1.1 billion to repay convertible bond due on July 1, was wiped out by the end of the second quarter and was classified under prepayment and other current assets on the balance sheet. In addition, in July, the company issued USD 500 million worth (inaudible) shareholding we have to Huazhu, which further bolstered our capital reserves.

Now turning to the third quarter of 2020. We expect to see continued strong recovery from the China domestic business, while the international business remain under pressure due to the pandemic. For the third quarter of 2020, the company currently expects net revenue to decrease by 47% to 52% year-on-year. Excluding share-based compensation charges, the company expects our non-GAAP operating income will be between RMB 1.2 billion to RMB 1.3 billion. This reflects Trip.com Group's current and preliminary view which is subject to change. The increase in uncertainties due to the pandemic further restricted our visibility. We will continue to monitor the market and provide more color to investors in time.

With that, we will open up for questions. Operator, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Alex Yao from JPMorgan.

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

My question is about the international side of the business. How does the pandemic change your international strategy? And how do you think about the pace of the recovery in outbound travel as restrictions are gradually lifted?

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

We remain confident for the long-term prospects of global travel industry. In the short term, we focus on domestic travel. Our teams continue to strengthen core competencies catering to new customer needs in a post-COVID environment, including product and service innovation, supply relationship enhancement and technology upgrades, et cetera.

As a result, we have gained further market share in the past few months. In addition, we are also taking advantage of international business downtime to upgrade our overseas platforms. For example, our instant messaging tool now handles more than 65% of customers' requests for brand Trip.com compared to 20%-plus in the previous year.

In terms of recovery so far, we are encouraged to see regional momentum in selected border opening and resumption of travel in certain markets. Domestic hotel bookings [will see] recovery. We believe that pandemic has created a unique opportunity for us to extend leadership in key international and outbound markets, leveraging a strong China domestic rebound. And drawing lessons from recovery in our home market, we will emerge a stronger and a more competitive player once the international markets open up.

Operator

Your next question comes from Thomas Chong from Jefferies.

Thomas Chong Jefferies LLC, Research Division - Equity Analyst

Given that we are already at the end of September, can you comment about how we should think about the momentum as we are approaching the national holiday season and Q4? And on the other hand, can you also provide a breakdown of the Q3 revenue guidance?

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

Okay. So for the national holiday, the early booking data for the national holiday is encouraging. The prices in some top destinations, even exceeded prior year level. But given the short booking windows, we expect mainstream orders will come in the following days.

In terms of the breakdown of the Q3 guidance line by line. We expect our total revenue to decrease 47% to 52% year-on-year in Q3, which reflects 60-plus percent improvement from the previous quarter, mainly driven by continued recovery of China domestic travel

activities. We expect revenue for accommodation reservations to decrease 40% to 45% year-on-year. China domestic hotel reservations made full recovery in the past months, while price is still under pressure. International hotel revenue remained at very low level compared to 20% to 25% contribution in Q3 last year.

On the transportation reservation revenues, we expect the revenue will continue to decrease 50% to 55% year-on-year. Our domestic air ticketing reservations achieved positive growth since August. However, the outbound and overseas business remained largely subdued given the continued COVID spread after the initial wave, which contributed about half of our total transportation revenue in Q3 last year.

We expect our revenue for packaged tour business to decrease 80% to 85% year-on-year. The domestic package tour business picked up gradually, led by local activities and customized tour packages. However, the international packaged tour business has not yet restarted due to travel restrictions, which accounted for more than half of our total packaged tour revenue in Q3 last year.

With the continuous recovery on the business sectors in domestic travel -- in domestic China market, we expect revenue for corporate travel business to decrease 20% to 25% year-on-year. Thank you.

Operator

Your next question comes from Binnie Wong from HSBC.

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

So my first question is actually on the domestic side of the business because I think that one of the very positive commentary you have made in your remarks was that the reservation for China domestic hotel and flights recovered to a full-level recovery in (inaudible). So just wondering that we are looking at some of the industry data, domestic air seem to be recovered to 85% of like last year's level. So just wanted to see how does the comment reconcile. That's the first question.

And then if we are looking at some of the news flow, you also state that Ctrip will also be providing some of the travel coupons, right, to boost the -- especially for the upcoming holidays for 1,800 in terms of like kind of per person, kind of like coupons. So just want to see how would that impact our margin. And I guess your outlook for the domestic recovery.

Jie Sun Trip.com Group Limited - CEO & Director

Thanks, Binnie. First of all, looking to the market growth, we have seen on the air ticket, the market has recovered somewhere between 80% to 85%. However, our team has done an excellent job gaining the market share. The growth for the past months has been double digits, the extra percentage representing the additional customers we have surveyed in this challenging market.

Secondly, we are also using different methods to target at the customers that can generate positive ROI in the long term. So the travel coupons is very much in line with our expectation. We evaluate our market share gain as well as the ROI and making sure all the campaigns we design achieve both on the ROI target as well as the market share gain. So far, the live stream campaign, coupled with the destination partners incentives, plus our team's efforts make a good investment to gain market share in a new area.

And thirdly, on the outbound business. I think the outbound business -- we have seen certain countries have established the green lane, such as Korea, Singapore, et cetera. So far, it's still in the testing stage. However, if the scientists in the medical field makes breakthrough in vaccines, we would expect these green lanes will be fully utilized, which can be a very good pioneering program leading towards more opening for cross-border transactions. However, at this stage, the cross-border travel volume still is minimal. Thank you, Binnie.

Operator

Your next question comes from Gregory Zhao from Barclays.

Xiaoguang Zhao Barclays Bank PLC, Research Division - VP

So my question is about the hotel market competition, so especially the high-end hotel. Have you seen any kind of competitors more aggressively expanding to the high-end market? And also what's the current hotel take rate level compared to last year?

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

For the high-end hotel market, price subsidy have been proved ineffective. We keep focusing on strengthening our core competence especially in the inventories and the service levels. In the past several months, our Boss Live streaming shows and presale channels have helped participating hotels increase their brand awareness and drive incremental volumes for both room and nonroom products. We also launched the channels like short-haul holidays or fresh sale to help hotels run targeted marketing. Our market share increased significantly against -- increased significantly during the pandemic. And we are confident that we can continue to leading the edge. And our take rate on the hotel remains flat compared with before the pandemic level. Thank you.

Operator

Your next question comes from Jed Kelly from Oppenheimer.

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

Very encouraging to see, a nice domestic rebound gives us some hope in other parts of the world. Just a quick -- couple of quick clarifications or questions. Just when you mentioned hotel reservations, are you talking about bookings or the number of reservation? And then can you just give us an update on how you're thinking about growing the Trip.com brand as borders reopen close to China?

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

When we talk about hotel, it's on the GAAP basis. So it's taking consideration of the reservation minus the cancellation. Secondly, on the Trip.com brand, I think for the Asian market, we have seen very good control by a lot of countries in Asia. They have demonstrated strong ability to control the outbreak of the virus. So we are hopeful that with the improvement and stabilization in the control procedures for the virus, we will be able to gradually utilize the vaccine plus the confidence in the consumers and be able to increase the outbound business in the Asian market first.

And in certain pockets, our Trip.com brand in certain markets in Asia is also strengthening because of our competitive product offerings. And one-stop shopping platform really offers a very convenient and a strong platform for these markets to extend our leadership. Thank you.

Operator

Your next question comes from James Lee from Mizuho.

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

My first question goes to Jane. Maybe Jane, if you help us crystallize maybe some of the government policies that will continue to promote travel. I think last quarter, you mentioned the province of [Fuzhou] was promoting long-weekend travels and Hainan province was designating as free trade zone. You also talked about on the call the recent approval interprovincial travels for packaged tours. I was wondering, are there anything new in the horizon that I think could be helpful for travel industry? And how should we think about this policy in terms of implication heading into the October holiday?

And my question for Cindy is more on the hotel pricing trend. Can you be maybe a little bit more specific? I think last quarter, you talked about pricing being down maybe 30% to 40%. Any update for 2Q and also expectation to 3Q?

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

Thanks, James. I will take the first question. In terms of the government policy, overall, as we work with different provinces, almost every province are very eager to attract the consumers to their province. So we work very closely with the government to make sure we highlight the most popular travel destinations and make sure everyone comes up with incentives to attract our consumers. And our mid- to high-end customers, instead of traveling abroad, now they are turning into different provinces to look for new areas for exploration. So the government's policy is very effective. Provinces such as Hainan really serves as almost Hawaii in China, attracting a lot of leisure travelers. And some other regions also attract a lot of mid- to high-end customers during the golden week holidays. So we were continuously working with each province to make sure we offer the most attractive products to our consumers with very competitive pricing structures.

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

Yes. With regard to the ADRs of the hotel accommodation reservation. On average, Q2 probably still -- will be the worst impacted by the pandemic. So we still see, on average, in Q2, the ADR decreased significantly year-over-year. However, from the end of Q2 and especially most recently, with the domestic travel market started picking up, especially the business travel segment started picking up, we saw gradual improvement in the ADRs for the hotel business. Thank you.

Operator

Your next question comes from Tianxiao Huo from T.H. Capital.

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

Good guidance on the Q3 bottom line. It's not easy to have that kind of a strong bottom line in such a travel environment. I have 2 questions, one is regarding -- since we're finishing Q3, so we're looking into the new quarter which is Q4. So we're starting a longer national day holidays. It used to be like 7 days. Now this year, it's like 8 days. So a lot of young people or families, they will plan ahead. So from the initial booking, so what do you see? People like travel within the province or across the province, what is the trend on that? So that is the first one.

The second one is much more a broader issue. We saw some Chinese companies who are listed much earlier, like (inaudible) those guys. So they choose to be privatized and eventually do something else. So I wonder what the company's thoughts in terms of capital market strategy, privatization or double listing in Hong Kong. What's our plan? What do you see Ctrip's -- or Trip.com is going to do in the future? So that's much more the question for James and Jane.

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

Thank you. I will take the first question, and Cindy will take the second question. Regarding the national holiday, we have seen strong demand from our customers because after being locked down in the first quarter and the border is closed, a lot of outbound demand is converting to the domestic demand. So that is very positive. And if our different province capitalize on this demand, it's very positive for our economy. And also, it's going to be very positive for the recovery of the travel industry.

However, we also have seen different schools has adopted different policies. So for example, some school will advise the parents not to take the kids out of the city or out of their province. That -- as a result of that, if the kids are not allowed to go to different states or different cities, the parents will not be able to go. And therefore, that might be a little bit negative for the demand. However, we believe that the government will be very prudent, release different policies to encourage the cross-province travel. And therefore, these depressed -- this demand will be unleashed eventually as long as the GDP per capita is remained. So we are very much hopeful that different state, different schools will, in a way, gradually open up the policy as the control of the virus has been demonstrated very effective. So we are hopeful that cross-province restrictions will be lifted.

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

We noticed some recent market rumors about the potential privatization in the market, but the company does not have any plan for privatization at this moment. And as always, we are always open-minded to evaluate all the possibilities in the capital market in order to maximize the best interest of our company and shareholders. Thank you.

Operator

Your next question comes from Ronald Keung from Goldman Sachs.

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

I guess my question would be on your kind of significant decline in marketing spend this quarter -- in the second quarter. So I want to hear about your customer acquisition strategies. We've seen James doing live stream, great job there. When we look, our peers kind of leverage some high frequencies, local services or through WeChat. So can you share just how plans in leveraging, maybe mini programs or even short-form video players. And more importantly, I just want to hear, do we see any potential partnerships that you could form beyond your relationship -- close relationship with Baidu.

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

Yes. So on the marketing strategy, we are very aggressive yet very prudent when we evaluate the effectiveness. There are a couple of things we are doing. First of all, our transportation business serves as the most effective marketing channel for us. The high-speed railway has reached many cities in the third tier, fourth tier cities. And these customers who are using our transportation products will naturally be opened up for using our hotels and local attraction tickets, et cetera. So that's the first thing.

The second thing is in the lower-tier cities, we also have opened up off-line stores in the city center. And these are also great marketing channels for us to promote our brands as well as selling products.

And thirdly, we are also very open to work with all the channels. So Baidu, Tencent, Ali, et cetera, all these channels, we are very open as long as it's mutually beneficial for our shared customers. We're very open-minded to work with all of them. So we are very aggressive penetrating into the lower-tier cities and maintain our competitiveness in terms of the penetration as well as the price structure. Thank you.

Operator

Your next question comes from Joyce Ju from Bank of America.

Lixin Ju *BofA Merrill Lynch, Research Division - VP & Research Analyst*

I have 2 questions. The first one is actually regarding the high end hotel side. Of course, we mentioned in the opening remarks, the high-end domestic hotels actually leading the way in our hotel bookings. Just want to understand like for the volume and also the ADR perspective, how this compared to the overall domestic hotel. And also, like for the low-tier city hotel, what recent trends we have observed. My second question is actually regarding our recently announced future cooperation with JD.com. I just want to know, like with the long-term strategic plan for this cooperation, and what's the progress by now.

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

Thank you. For the high-end hotels, yes, it's -- this segment is now leading the recoveries. As I explained earlier, on average, the ADRs in the high end, including all the segment in the accommodations is still depressed, on average, especially in Q2. However, starting from the end of Q2, moving into the Q3 and especially most recently, we saw gradual recovery improvement on the ADR level, thanks to the strong recovery, especially in the business and high-end leisure travel demand in China.

With regard to the low-end hotels, as always, we will continue to lead the price competitiveness in our targeted market and acquire -- aggressively acquire new users with very competitive low-end hotel offerings.

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

With JD, we are very positive in our partnership. Again, we are, again, very open-minded, working with our valued partners to offer our competitive products and make sure it's a win-win partnership, which can serve our shared customers and offer the best product and services to them. Thank you.

Operator

That does conclude our question-and-answer session at this time. I will now hand back to Michelle for closing remarks.

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

Thanks to everyone for joining us today. You can find the transcript and webcast of today's call on investors.trip.com. We look forward to speaking with you on our third quarter 2020 earnings call. Thank you, and have a good day.

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

Thank you.

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

Thank you.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020 Refinitiv. All Rights Reserved.