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CTRP - Q1 2013 Ctrip.com International, Ltd. Earnings Conference Call

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OVERVIEW:

CTRP reported 1Q13 net revenues of CNY1.2b, net income attributable to Co.'s shareholders of CNY153m, and diluted earnings per ADS of CNY1.10. Expects 2Q13 net revenue growth to be about 15-20%.



CORPORATE PARTICIPANTS

Michelle Qi *Ctrip.com International Ltd - IR Manager*

James Jianzhang Liang *Ctrip.com International Ltd - Chairman and CEO*

Min Fan *Ctrip.com International Ltd - Vice Chairman and President*

Jane Jie Sun *Ctrip.com International Ltd - COO*

Jenny Wenjie Wu *Ctrip.com International Ltd - CFO*

CONFERENCE CALL PARTICIPANTS

Fei Fang *Goldman Sachs JBWere - Analyst*

Philip Wan *Morgan Stanley - Analyst*

Jiong Shao *Macquarie - Analyst*

Alicia Yap *Barclays - Analyst*

Michael Olson *Piper Jaffray - Analyst*

Eddie Leung *Bank of America Merrill Lynch - Analyst*

Andy Yeung *Oppenheimer & Co - Analyst*

Fawne Jiang *Brean Capital - Analyst*

Ada Yu *China International Capital Corporation - Analyst*

Alex Yao *Deutsche Bank - Analyst*

Gina Jiang *T.H. Capital - Analyst*

Aaron Kessler *Raymond James - Analyst*

George Askew *Stifel Nicolaus - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the first quarter 2013 Ctrip.com International earnings conference call. My name is [Dyma] and I'll be the operator for today. At this time all participants are on a listen only mode. We will conduct a question and answer session. (Operator instructions) I would now like to turn the conference over to your host for today, Ms. Michelle Qi, IR Manager. Ma'am, please proceed.

Michelle Qi - *Ctrip.com International Ltd - IR Manager*

Thank you, Dyma. Thank you all for attending Ctrip's first quarter 2013 earnings conference call. Joining me on the call today we have Mr. James Liang, Chairman of the Board and Chief Executive Officer, Mr. Min Fan, Vice Chairman of the Board and President, Ms. Jane Sun, Chief Operating Officer and Ms. Jenny Wu, 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 results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements except as required under applicable law.



James, Min, Jane and Jenny will share in our strategy and business update, operating highlights and financial performance for the first quarter of 2013 as well as outlook for the second quarter of 2013. We will also have a Q&A session toward the end of this call. With that, I will turn to James for our strategy and business update.

James Jianzhang Liang - *Ctrip.com International Ltd - Chairman and CEO*

Thanks, Michelle. Thanks everyone for joining us on the call today. We are proud to report strong results delivered in the first quarter of 2013. Net revenues grew by 27% year-over-year, mainly driven by strong volume growth. In the first quarter hotel room nights grew 41% year-over-year and air ticketing volume grew by 27% year-over-year. Boosted by the booming leisure travel segments and the rising popularity of smartphones, China's travel industry is reaching a new stage of secular growth.

The Ctrip team is actively penetrating the leisure travel market and are working hard to embrace new opportunities. Our core strategy remains to build a one-stop shop travel platform with the best products, best services and best prices. To optimize the user experience we made a considerable investment in mobile interfaces and the back end IT infrastructure. At the end of the first quarter over 50% transactions were booked through online and mobile channels. We are determined to build the best mobile travel platform.

Consumers are spending more time with mobile internet, this creates great opportunity for Ctrip to build new direct access to customers and to sell customers with more dynamic product offerings through mobile channels. By leveraging our trusted brand, large and loyal user base, comprehensive products and superior services we are confident that Ctrip is the best position to extend our leadership to mobile internet.

Ctrip's mobile platform is deeply integrated with our online and offline transaction platforms. Meanwhile we actively adopt innovative technologies like voice recognition and location based services. We aim to create the most convenient experience for travelers on the move. We are happy to see the positive feedback from our customers. By the end of the first quarter we had over 30 million downloads for our mobile apps across all major mobile operating systems. Our mobile platform accounted for about 15% of the hotel transactions in the first quarter and recently reached 10% of our air ticketing transactions.

To provide our customers with the best product offering we constantly increase the scope and the depth of our services. Our product team work very closely with industry partners to develop a full range of solutions to meet travelers' expectations. Many of our new products like Smart Choice hotels, vacation rental accommodations and international hotel and air ticketing have gained strong momentum. To ensure our customers can enjoy the most competitive price on feature platforms we spare no effort to explore different approaches. Besides matching competitors and offering coupons or discounts we are working hard to improve operational efficiency and translate it into better prices and to generate the unique packaged products by leveraging our broad product offering and supply network.

We believe these are key drivers for achieving sustainable price advantages. We have really extended our sales and marketing channels, especially online ones, to reach customers. We will continue to spend on sales marketing to enhance our brand awareness and to gain more customers. We are committed to build the best one-stop shop travel platform with comprehensive products, industry leading service quality and competitive prices. Working with a dedicated and diligent team of Ctrip, I'm confident that Ctrip will continue to achieve solid and sustainable growth in the coming years.

With that I will turn to Min for the highlights, the industry trends and the investment opportunities.

Min Fan - *Ctrip.com International Ltd - Vice Chairman and President*

Thanks, James, thanks, everyone. As James remarked only China's leisure travel development (inaudible) [entering the sweet spot] of growth. Certain leisure travel demands are creating great opportunities for travel industry players. I'm very excited about the potential strategic investment opportunities that Ctrip may explore. We are proactively looking for opportunities that could extend Ctrip's business to a new travel related segment or expand our business to a new reaching with great potentials.

Meanwhile we always take a prudent approach to making the move. This is just the beginning of our new journey. We're eager to work with our partners and best serve travelers within China and around the world. With that I will turn to Jane for operating highlights.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Thanks James and Min. Thanks to everyone. We're very pleased with the development of Ctrip's major business lines. Ctrip further expanded its hotel coverage. By the end of the first quarter our domestic hotel supply network covered around 53,900 domestic hotels compared to around 30,900 hotels a year ago. Our international hotel network further extended to about 230,000 hotels. We achieved strong volume growth of 41% year-on-year in the first quarter of 2013 driven by both business and the leisure travel demand. Our new hotel products such as Smart Choice and Group Buy hotels more than doubled in size compared to a year ago.

International hotels also delivered triple digit growth in the first quarter. Air ticketing business kept strong momentum in the first quarter, more than doubling the industry's average growth rate. We continue to execute our proactive pricing strategy in 2013. In late February we launched our air ticketing coupon program. We're encouraged by the positive effects on the new customer acquisition and online migration. In the first quarter over 45% of air ticketing transactions were from online channels. Starting from April we extended our coverage of air ticketing coupon program and it is well on its way to meet our expectations. Our package tour business once again reported strong growth in the first quarter of 2013. The revenue from mainland China grew over 50% year-over-year.

Luxury travel brand, HH Travel, launched its fourth deluxe global tour and set a new record this year. All the seats were sold within 15 seconds at RMB1.18 million per person. We see young travelers showing an increasing interest in DIY tour packages. We are confident that we are leading the market in this segment. We believe the core competence for providing dynamic package is a strong capability to standardize every packages individual travel elements. This is an area where Ctrip excels.

Last month Ctrip launched a new platform for local activity tickets. This further extended our service scope as a one-stop travel platform. Ctrip's corporate travel service maintained steady growth and gained market share in the first quarter. To better cater the corporate clients travel management needs the corporate travel teams is exerting its full efforts to improve its product, price and [process fees]. We see good potential as more Chinese companies proactively manage their travel expenses.

Our train ticket now covers railway products for all rails in operation in China, additionally [Eurotrain] is also offered to our customers. The new channel quickly gained great interest from leisure travelers. We will enrich this channel with more dynamic train plus X products and improve cross sales. We will continue to extend the scope of our one-stop travel platform. We hope every traveler for leisure or for business can build his and her ideal trip with Ctrip and enjoy the best price and services.

2013 is an exciting year for us. We will continue to work diligently to bring the best value to our customers and our partners. Now I will turn to Jenny for financial highlights.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thanks, Jane, thanks everyone. For the first quarter of 2013 Ctrip's total revenues were RMB1.2 billion, up 27% year-on-year and 5% Q-on-Q. Hotel reservation revenues were RMB451 million, up 23% year-on-year, mainly driven by an increase of 41% in hotel reservation volume and partially offset by a decrease of 13% in commission per room night. The decrease of commission per room night was primarily due to promotional activities. Hotel reservation revenues decreased by 4% Q-on-Q. Air ticketing revenues were RMB457 million, up 27% year-on-year primarily driven by an increase of 27% in air ticketing sales volumes. Air ticketing revenues increased by 2% Q-on-Q.

Packaged tours revenues were RMB235 million up 41% year-on-year and 42% Q-on-Q due to the increase of leisure travel volumes. Corporate travel revenues were RMB51 million, up 31% year-on-year due to increased corporate travel demand from business activities. Corporate travel revenue decreased by 11% Q-on-Q primarily due to seasonality. Net revenues were RMB1.2 billion up 27% year-on-year and 5% Q-on-Q. Gross margin was

74% versus 75% a year ago and has stayed flattish Q-on-Q. Product development expenses increased 36% year-on-year and 1% Q-on-Q primarily due to an increase in product development personnel related expenses and share based compensation charges.

In the following section I will also mention numbers on a non-GAAP basis which means including share based compensation charges and for the product development expenses on a non-GAAP basis they accounted for 20% of net revenues versus 18% a year ago and 21% a quarter ago. Sales and marketing expenses increased to 46% year-on-year and decreased 5% Q-on-Q primarily due to the change in sales and marketing related activities. On a non-GAAP basis sales and marketing expenses accounted for 22% of net revenues versus 19% a year ago and 24% a quarter ago.

General expenses increased 25% year-on-year and 6% Q-on-Q primarily due to an increase in personnel related expenses and share based compensation charges. On a non-GAAP basis general expenses accounted for 8% of the net revenues, stayed flattish versus a year ago and a quarter ago. Income from operations were RMB160 million, down 9% year-on-year and up 33% Q-on-Q. On a non-GAAP basis income from operations was RMB272 million down 2% year-on-year and up 16% Q-on-Q. Operating margin was 14% versus 19% a year ago and 11% a quarter ago. On a non-GAAP basis operating margin was 23% versus 30% a year ago and 21% a quarter ago.

The effective tax rate for the first quarter of 2013 was 32%, increased from 28% a year ago and 25% a quarter ago primarily due to certain non-tax deductible items in PRC subsidiaries. Net income attributable to Ctrip shareholders was RMB153 million, down 26% year-on-year and 20% Q-on-Q. On a non-GAAP basis net income attributable to Ctrip's shareholders were RMB265 million, down 14% year-on-year and 13% Q-on-Q. Diluted earnings per ADS were RMB1.010 -- were RMB1.87 on a non-GAAP basis. As of 1Q '13 the balance of cash and cash equivalents, restrictive cash and short-term investment were RMB6.2 billion. For the second quarter of 2013 we expect our net revenue to grow about 15% to 20%, most likely at the high end and this reflects Ctrip's current and the preliminary view which is subject to change.

With that operator, we are opening the line for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) As a reminder all analysts are asked to only ask two questions per person. If you would like to ask a follow-up question please re-join the queue. Your first question comes from the line of Fei Fang. Please proceed. Goldman Sachs. Your line is open and you may proceed. (Operator instructions)

Fei Fang - *Goldman Sachs JBWere - Analyst*

Hi, Jane, Jenny, James, can you hear me?

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Yes.

Fei Fang - *Goldman Sachs JBWere - Analyst*

Congratulations on the results and thanks for taking my question. My first question is on the growth outlook for the rest of 2013 and also beyond. How would you quantify the incremental contribution from say mobile reservations and outbound travel for the rest of the year given that we've seen rapid volume growth from these areas? Thank you.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thanks Fei. I think that the mobile and also outbound represents two fast growing segments in our business line. Mobile right now accounts for about 10% to 15% of the total volume. The industry data has shown that in the near future mobile contribution to the overall online transactions can be even more than 50%. So the growth in this segment will excel compared to the other segments.

Secondly, for the outbound travel, right now the industry data shows outbound travel is quoting very strong, particularly for Ctrip customer because we target at high and middle end customers. These are the customers who can afford one to two trips abroad. So the industry data shows it's more than 10% growth every year for outbound travelers, and also the visa restrictions for this segment are being lifted. That also helped us to gain momentum. For Ctrip I think the two segments you mentioned will be much higher than average growth for the whole company. But in terms of pinning down to the dollar amount, I think we need some time to give a more concrete guidance. But overall, I think in terms of a percentage of contribution and also growth rate it will take strong momentum for the rest of the year.

Fei Fang - *Goldman Sachs JBWere - Analyst*

Great, thanks, Jenny, that's very helpful. Our second question is on sales and marketing. James mentioned in the press release that Ctrip is committed to enhance marketing effectiveness, so I'm wondering if management can elaborate on the main sales and marketing channels that Ctrip is currently using and how would you assess their relative effectiveness? Thank you.

James Jianzhang Liang - *Ctrip.com International Ltd - Chairman and CEO*

Okay. Yes, Ctrip will continue to invest heavily in the online marketing channels, including [search engines], business alliances with different websites, and also Ctrip will continue to invest heavily on the brand awareness, so brand imaging type of marketing and also more kind of direct (inaudible) or direct sales attached to direct marketing channels. I'm not sure if that answers your question.

Fei Fang - *Goldman Sachs JBWere - Analyst*

Yes, it does, thank you. Thank you very much and congratulations again.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thanks.

Operator

Your next question comes from the line of Philip Wan of Morgan Stanley. Please proceed.

Philip Wan - *Morgan Stanley - Analyst*

Hi, good morning, thanks for taking my questions and congratulations on your very strong result.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thank you.

Philip Wan - Morgan Stanley - Analyst

First of all -- yes, thank you. Could you please comment on the travel activities going into the second quarter? In particular, have you seen any impact from the bird flu and the earthquake? That's my first question, thank you.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Yes, so first of all I think we still feel that the travel market is growing healthily and our forecast reflects our confidence in the segment. However, in the travel business every year we have unexpected events such as earthquake in Sichuan or bird flu in the country and what happened politically in Asia. These all have impacts on specific region. We will monitor it very carefully, however so far the impact is reflected in our guidance and actual results already.

Philip Wan - Morgan Stanley - Analyst

Thank you. And then my second question is could you please comment or give us an update about the competitive environment in China's travel market, in particular [we experienced] price war in hotel bookings in late last year? How has it been evolved and then what is your coupon strategy for hotel bookings [prospectively]? Thank you.

James Jianzhang Liang - Ctrip.com International Ltd - Chairman and CEO

Yes, given this segment is very attractive and very fast growing, there's a lot more competitors than a few years ago, so there -- there are existing competitors like Elong and (inaudible) and there are new competitors, mostly international players such as Bookings and Agoda. And quite a few of them are offering aggressive price discounts or coupons and our strategy is actually to match their discounts or coupons and we believe our customer experience and brand awareness and our relationship with the suppliers will allow us to be able to compete, even with all these discounts and still be able to maintain a healthy margin and (inaudible) growth rate.

Philip Wan - Morgan Stanley - Analyst

Yes, a very quick follow-up, specifically for the hotel coupons. In the next maybe one or two quarters, do you expect to see the coupon costs as a percentage of hotel revenue continue to scale down as we see the trend has been stabilized the past two quarters. Thank you.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Philip, I think that the coupon strategy is always the same, which is we match the coupon by -- in a market practice, and so far it's very stabilized. So our goal is to make sure our market share can gain momentum if kept at [while] preserve a healthy revenue growth, and so far we have been achieving both.

Philip Wan - Morgan Stanley - Analyst

Thank you, that's very helpful.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Thanks.

Operator

Your next question comes from the line of Jiong Shao of Macquarie, please proceed.

Jiong Shao - Macquarie - Analyst

Thank you very much for taking my questions and a great results, congrats. I have two questions as well. First is as you always have done in the past, could you please give us your segment guidance in terms of revenue and in terms of revenue growth? And secondly, just on the margins and your airline coupon program, because [Q1] is usually the seasonally weaker quarter for you and now you just did a great job on your operating margins at 23% non-GAAP. So how we should think about that, is that sort of the [problem] for the near term? But on the other hand your airline coupon really kicking in Q2 for the full quarter, could you also remind us what's your expectation in terms of the potential impact on your margins from having a full quarter of airline coupon in Q2? Thank you very much.

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Thank you for your questions. On the guidance, for the hotel we expect the total revenue to grow 15% to 20% driven by 25% to 35% volume growth and the price, average price will decline by 5% and the promotional activities will trim the growth by 5% to 10% and the nominal commission rates probably will stay flattish. And for the air ticketing, the total revenue will grow 15% to 20%, mainly driven by the volume growth of 20% to 25%. And the pricing also will decline by 5% probably and commission rates, and the coupon impact were largely flattish in terms of growth, growth impact.

For the packaged tour, the total revenue growth will be 25% to 30%, continuing to be driven by the strong growth from the mainland China business. For the corporate travel, the growth was again around 15% to 20%, so as we mentioned before, for the Company the total net revenue may grow 15% to 20% towards the high end. And for the air coupon impact, yes, we see the very positive feedback in the first stage of air couponing and we extended it to more flights and more routes and we will continue to methodically to monitor the impact.

So for the second quarter and overall we expect the OP margin non-GAAP basis will be largely flattish Q on Q, and this is (inaudible) investment for Ctrip and we will continue to put the (inaudible) market share as our top priority. And we will decisively invest in the key strategic areas like mobile internet and are likely to continue to enhance our IT infrastructure and to make sure our customers can get the best price, best product and the best service from Ctrip. In the meanwhile as you know, Ctrip team, we are working very hard and very disciplined. We continue to improve our operation efficiency and it will (inaudible) very tight cost control to a wide (inaudible) and we're hopeful that you'll see the strong margin performance in 1Q partially reflect our efforts and we will continue to try our best. Thank you.

Jiong Shao - Macquarie - Analyst

Thanks, Jenny. I just want to follow up on something you just said. I think you said the impact from air coupon in Q2 is flat. Sorry, what did you mean by that exactly? Could you elaborate what you meant because Q1 you didn't really have much impact from air couponing given you launched air couponing I think post Chinese New Year?

Jenny Wenjie Wu - Ctrip.com International Ltd - CFO

Sure. We will continue to methodically monitor the impact from air couponing. We want to make sure our customer can get the best price from Ctrip and also we will design it carefully to make sure we can have the best ROI from every marketing tool. So air couponing, indeed we have -- we excelled its coverage and we also have some special promotions so people booking on mobile internet, mobile apps. But overall, so far what we see is air coupon impact is still very manageable and in 1Q there's literally not much impact and in second quarter we consider we can still manage it very well. Thank you.

Jiong Shao - *Macquarie - Analyst*

Thank you very much, very helpful.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thanks.

Operator

Your next question comes from the line of Alicia Yap from Barclays. Please proceed.

Alicia Yap - *Barclays - Analyst*

Hi, good morning everyone. Thanks for taking my questions. My first question is I just wonder if you can give more clarity on your air ticket growth in the first quarter. Was that mainly driven by the volume? Was there any pricing impact at all? And then how would you have quantified your effectiveness of the conversion rate for your air coupon discount?

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

In 1Q the air ticketing volume growth is primarily driven by the volume growth. So volume growth is also about 27% and for the pricing and the commission per unit it's very flat -- it is quite flattish on a year on year basis. And in 1Q the air couponing, we -- it's basically the first trial stage (inaudible) so we make sure we can operate in a very efficient way. So far we are very happy to see -- as we expected we see the -- for the (inaudible) air couponing, we see that there is strong growth in terms of volume and also we see higher sign-up by the new customers and also improve the online resource. This gives us the confidence that we can manage this tool very effectively so we expanded to more cities and to cover more routes in second stage starting around April.

Alicia Yap - *Barclays - Analyst*

I see. And then just a couple more housekeeping questions. One is that what was the reason for your higher effective tax rate this quarter and then what should we be expecting for second quarter? And for the margins you mentioned for the -- you guided for the second quarter. Would you have any indication for the full year? Thank you.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thank you. For the tax rate, you know we have many subsidiaries and every quarter, each of them, they have -- and also each subsidiary, they are enjoying different tax rates. And every quarter the revenue or contribution from different subsidiaries were varied, and that's why we see them 32% effective tax in 1Q. And for the rest of the year we -- our current visibility probably 30% to 32% will be the most likely range. And secondly, for the -- sorry, what was the question?

Alicia Yap - *Barclays - Analyst*

The margins.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Mind you, I think it will be flattish.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Okay, sorry, I forgot the question. Okay. For the margin guidance for the full year, and you'll see that the industry is still very dynamic and as Jane's just mentioned the competition is still very fierce and we need to closely monitor the industry involvement. So as I think the top priority is still to gain market share at the fastest speed. And when we give the guidance we want to be realistic, so I think going forward we will continue to guide you on the quarterly basis of where we have that assessment, and hopefully we can continue to try our best to achieve the best results. Thank you.

Alicia Yap - *Barclays - Analyst*

Okay. Great, thank you. Congratulations.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thanks.

Operator

Your next question comes from the line of Mike Olson from Piper Jaffray. Please proceed -- Piper Jaffray.

Michael Olson - *Piper Jaffray - Analyst*

All right, thanks, good morning. Just a quick question on the guidance. Why are you anticipating a fairly material deceleration in revenue growth in Q2 compared to what you just reported in Q1? You did mention a decline in hotel volume growth but what factors cause you to anticipate a deceleration in that hotel volume growth?

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

So the guidance, you know, as Jane mentioned, we -- the travel industry by nature can be influenced by many external factors such as macroeconomic conditions, the contentious business and also political issues. Especially in second quarter what we see is that there is (inaudible) inflow and also Sichuan earthquake and also some Asia political disputes. So many things happened and they are still ongoing and although so far the impact is quite limited, but they are ongoing so we need to constantly monitor their impact. And 15% to 20% guidance, and we usually give this range, but then when we give the range we usually have a comfortable (inaudible). The real result probably hit the high end -- mid to low end and this time I specifically mention it is probably towards the high end. It already shows certain confidence from the management team.

Michael Olson - *Piper Jaffray - Analyst*

Okay, and then as far as mobile, could you tell us what did mobile revenue grow year over year and what percent of revenue came through mobile bookings in Q1?



Jane Jie Sun - *Ctrip.com International Ltd - COO*

Mobile revenue, as we discussed, has been growing as one of the fastest segments in the business. Right now, it's about 15% for hotel and 10% for air ticketing. A year ago it's -- there is more single digits. So it's growing very quickly.

Michael Olson - *Piper Jaffray - Analyst*

Okay, thank you very much.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Sure.

Operator

Your next question comes from the line of Eddie Leung, Merrill Lynch. Please proceed.

Eddie Leung - *Bank of America Merrill Lynch - Analyst*

Good morning guys, thank you for taking my questions and congrats on a good quarter. Two questions, the first one is once again you're getting back to the first quarter numbers. So in hindsight when you compare what you guided in the fourth quarter results versus your better than expected results in the first quarter, what actually happened? In which areas surprised you guys to the upside? So that's my first question. And secondly, regarding your mobile channel, I'm curious on where you see the demand coming from. Are you getting new customers from the mobile channel or is it a channel to basically replace a core center or actually cannibalizing your PC booking? So it would be great if you would share some color on that front. Thanks.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

So I will take the first question and Jane will take the second one. For the better than expected 1Q result, we're also very happy with that, and I think it's mainly driven by two factors. Firstly, it is helped by a much better than expected industry growth. For example, in 1Q the air industry volume growth in China is about 11% year on year and top three airlines the volume growth is about 8%. This is probably the strongest year on year performance since second half 2011.

When we gave the guidance in early February we only had the draft estimates list on the industry performance in January, during which period the industry performance is quite modest on a year on year basis. And the second factor is that -- and Ctrip team, 2012 is probably the transitional year for Ctrip. And the Ctrip team work very hard and we spent [14] percentage points margin to reinvent ourselves and successfully upgraded Ctrip to an open, one stop travel platform. The right strategy and strong execution helped Ctrip to gain more market share, especially in the leisure travel segment. Going forward we will continue to try our best to enhance this achievement and the momentum.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

And Eddie, to answer your second part of the question, where the mobile growth coming from, if we look at all the three platforms, including mobile, online and the call center, all three segments for Ctrip are growing very well. I think that's a unique competitive advantage Ctrip has. No matter how old the customers are, no matter where they are, they can choose one of the three methods to get access to our services. So for mobile, the source comes from two segments. When it's the new customer acquisition, I think our sales and marketing campaign tailored for mobile users. And also internally we made all the business processes and product development very strong to be suitable for the customers who are on the move, so hotels and also destinations and tickets.

These are all driven by [LPS] type of services, so the customers feel it's very convenient for them to use. So we have seen both new customers are using it and also existing customers, depending on where they are, they will use different services. For example, if they are at work or in an office, maybe the big screen is preferable, but on weekends in leisure time a mobile is preferable. So that's another source for the mobile customers. But what's unique for Ctrip is if they only have -- if they have Wi-Fi mobile will be very comfortable for them to use, but if even they do not have Wi-Fi a call center is available as well, so that's a unique advantage for Ctrip to have.

Eddie Leung - *Bank of America Merrill Lynch - Analyst*

Got that. Very helpful. Thank you Jenny and Jane, thanks.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Thank you.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thank you.

Operator

Your next question comes from the line of Andy Yeung, Oppenheimer. Please proceed.

Andy Yeung - *Oppenheimer & Co - Analyst*

Thank you, congratulations on a great quarter. Thank you for taking my questions. My first question is about your transaction costing method. What's the current trend and percentage of customers completing their bookings online versus offline in your hotel and air ticketing segment?

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

It's over 60% online.

Andy Yeung - *Oppenheimer & Co - Analyst*

For both hotel bookings and air ticketing?

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

For hotel, and for air ticketing it is about 45%.

Andy Yeung - *Oppenheimer & Co - Analyst*

45%, okay, great, thank you. And then, your call center has been a very valuable asset to your service for the customer. But as we have seen, over time you have increasingly -- you know, having more customers do their transactions through online process, especially like as in a mobile channel. My full question is what's your view on the longer term value of your call center operations? Any view on that would be helpful.



Jane Jie Sun - *Ctrip.com International Ltd - COO*

Call center for Ctrip will still provide great value for our services. The customers' analysis we have done has shown that customers who are using call center are very high end users. These people are less price sensitive, so in terms of margin, I think the call center volumes still generates a very good margin, so it -- right now it's still a very valuable sales platform for our customers.

Andy Yeung - *Oppenheimer & Co - Analyst*

I see, I see. Okay, got it. Thank you so much, that's all my questions.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Thank you, Andy.

Operator

Your next question comes from the line of Fawne Jiang from Brean Capital. Please proceed.

Fawne Jiang - *Brean Capital - Analyst*

Good morning, thank you for taking my questions. First one is actually regarding your margin. It seems like from the first quarter we see a very health quarter-over-quarter margin improvement. Just wonder what are the key factors contributing to the margin improvement? Also I think Jenny mentioned that probably at this point it's too early to guide a margin for full year 2013, but I just wonder whether you could highlight the key factors that could potentially either swing the margin to the upside or potentially put additional pressure on the margin for the full year? That would be helpful, thank you.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Sure, thanks. For the better margin performance in 1Q, again it's driven by two factors. Firstly, Ctrip small by nature (inaudible) a certain level of operation leverage and scalability and the strong top line growth indeed helped the margin improvement. Secondly, as I mentioned the Ctrip team are working very hard and we are very disciplined to improve our operation efficiency and we consistently monitor the investment return on every penny we spend, no matter if it's for the internal operation and for the self-marketing and the product development. So we are very happy to see the strong execution and a very strong result.

And for the full year, as we usually communicate it, for Ctrip if you look at 2012 there are certain areas that cause margin erosion such as labor -- installation and the new BD and the self-marketing and the coupon. So 2013 what we said that we -- again, our top priority is still to gain market share at a faster pace and so we will continue to spend on the strategic areas and to spend to provide the best price, best product, best service to our customers.

So we will continue 2013 as a year of investment. So for the self-marketing wise and for the product development and IP structure we will continue to invest. We indeed see some certain leverage from the labor human capital expenses and we will continue to make sure we can have the best operational efficiency. And also for the new BD we see -- last year is probably the first year and we spent quite a lot of money for the certain type of (inaudible) costs to set up a lot of new teams and new products. And we are very happy to see most of them, they gained very strong momentum and started to generate these new revenues.



I think over the long run most of them they can have decent margins and as this year is the earliest stage of development, in a way we want to make sure they will execute their strategy and they can enhance their leadership. So I think that's probably the areas where we'll see the margin impact and hopefully we can generate this into leverage from our operation. Thank you.

Fawne Jiang - *Brean Capital - Analyst*

Thank you Jenny, that's very helpful. Just a follow up on the margin, it seems like the mobile and the internet have been growing really fast. I just wonder was the overall like a margin difference your offline versus online versus mobile, domestic with international?

Jane Jie Sun - *Ctrip.com International Ltd - COO*

If when you look at the margin, there were two elements. The first one is how much revenue they can bring for each transaction. The second one is how much cost it is associated with. So if you look at mobile, the labor cost is very small because it's automated. However, these customers tend to be young and their spending tends to be a little more limited.

On the call center, though, although it incurs a little bit more labor cost but the customers who use these services are the very high end of customers, less price sensitive. So the margin in call centers and the other platforms can be very similar.

Fawne Jiang - *Brean Capital - Analyst*

Got it. Thank you Jane.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Sure, thanks.

Operator

Your next question comes from the line of Ada Yu from CICC. Please proceed.

Ada Yu - *China International Capital Corporation - Analyst*

Hi, good morning. Hi, can you hear me?

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Hi. Yes, thanks.

Ada Yu - *China International Capital Corporation - Analyst*

Hi, good morning everyone and congratulations for your great quarter.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Thank you.



Ada Yu - *China International Capital Corporation - Analyst*

I have two questions. My first question is regarding your mobile business. So can you give us an update on your mobile business or the product development so far and what is your main strategy and expected goals that you would like to achieve this year toward this mobile strategy -- mobile business? What is the Ctrip's competitive advantages to make itself still as the number one in the mobile booking markets?

James Jianzhang Liang - *Ctrip.com International Ltd - Chairman and CEO*

Yes, our strategy is to complete heavily in the mobile platform. Our advantages are that we have a broader product offering that we can bring to the mobile platform. So compared to some of our competitors, we have a more complete range of products such as the high speed railway bookings, such as international air tickets, international packages. So our strategy is to provide a complete product offering on our mobile platform.

The other advantages are our supplier relationships, because over the years we've built up a very sound product team. So with that we can offer some special prices, special deals, special promotions specifically for our mobile platform, mobile-only promotions. So that will allow our customers to take advantages of these promotions just on the mobile platform. That will increase the market penetration and increase our growth rates on the mobile platform.

Well, some of you have already asked if that will be cannibalization from other channels, some of our new customers. But the third factor is that we will increase our loyalty or stickiness of our existing customers, even though these are existing customers, they will increase their stickiness if we offer a better deals and just every product but sometimes with the better deals on the mobile platform. So that's our strategy and our advantages on the mobile platform.

Ada Yu - *China International Capital Corporation - Analyst*

Okay, thank you. That's very helpful. My second question is given this higher than expected revenue growth rate, can you quantify the amount that is contributed by the coupon insurance in Q1? Or how do you see this trend going forward?

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Yes, I think where we set our strategy, because the travel market is so in the infant stage, it's taking off and it's gaining more momentum. So our priority obviously is market share gain and with that priority we will make sure that our margin and the revenue is best protected.

So in the market we will offer the best price, whether through our coupon program or through package deal, our customer is entitled to have the best online price in the market. Then internally, I think we will also improve our processes to increase efficiency, which will enable us to give back more to our customers. So that's our strategy, so market share first, with that big umbrella we'll maximize our revenue in the margin.

Ada Yu - *China International Capital Corporation - Analyst*

Okay, thank you very much, Jane.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Sure. Thanks.

Operator

(Operator instructions) Your next question comes from the line of Alex Yao from Deutsche Bank. Please proceed.

Alex Yao - Deutsche Bank - Analyst

Hi, good morning everyone and thank you very much for taking my question and congratulations on a great quarter. I have two questions. Number one is can you guys comment on how you manage the relationship with the wholesalers in the market and how do these wholesalers help shape the competitive landscape of the online travel market, including the OTA and alternative revenue models such as e-commerce and search engines.

Number two question is for the third quarter margin, should we expect the margin to recover to maybe perhaps in line above last year's third quarter level, because the coupon impact on the hotel side will be normalized and margin impact will be diminished? Thank you.

Jane Jie Sun - Ctrip.com International Ltd - COO

Sure. So first of all, on the wholesale market, wholesale market is very limited. Based on our observation and survey that market represents only less than 5% of the total market. So we're talking about a very small volume, compared to the rest of the market. Secondly, for this type of wholesalers, I think Ctrip can team up with them by selling package tours and making sure the ecosystem in the hotel market is preserved. Also, I think hotels have certain criteria for wholesalers. These products are not supposed to be sold individually to the end user. So we support the hotels to make sure the ecosystem for the hotel market is preserved so that's on the hotel segment, wholesaler segment.

Secondly, on your margin question, I think the margin is mainly determined by two factors. One is controllable factors, which is depending on our efficiency, our ability to generate revenue. For that I think our team is very disciplined to continue improve the processes and make sure our margin can be improved and maximized.

The second element is mainly determined by external factors, such as competition and uncontrollable events. For that item again our priority is market share. We will do whatever it takes to gain market share. So if the competition is very rational I think we will maintain a certain level of the investment. But if the competition becomes irrational because the travel market is still in the early stage, we will do whatever we can to make sure we give the best price to our consumers to gain market share.

Alex Yao - Deutsche Bank - Analyst

Thank you very much. That's very helpful.

Jane Jie Sun - Ctrip.com International Ltd - COO

Thanks.

Operator

Your next question comes from the line of Tian Hou of T.H. Capital. Please proceed.

Gina Jiang - T.H. Capital - Analyst

Hi, this is [Gina Jiang] calling on behalf of Tian. I just have a quick question. As the competitive landscape and competitors are becoming more sophisticated, what are Ctrip's thoughts on the cooperation and competition of OTAs and vertical search platforms, and do you have any plans to cooperate with these vertical search platforms? Thank you.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Ctrip's approach has always been very open to work with everybody in the travel market. We monitor each sales channel very carefully. As long as the ROI makes sense for us to invest we will consider these channels. So really it's driven by ROI calculation.

Gina Jiang - *T.H. Capital - Analyst*

Okay, thank you.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thank you very much.

Operator

Your next question comes from the line of Aaron Kessler from Raymond James. Please proceed.

Aaron Kessler - *Raymond James - Analyst*

Yes, thank you. A couple of questions. First, just to clarify, I think you said operating margin for the year flattish. Was that in reference to the Q1 levels or is that relative to 2012 levels?

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

For the second (inaudible) margin it may stay flattish Q-on-Q.

Aaron Kessler - *Raymond James - Analyst*

And for the full year? I think you said flattish also.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

We haven't given the full year guidance yet and, you know, this year, so we need to continue to invest to increase our market share and the visibility for the rest of the year is limited. So I think it's better for us to touch base on a quarterly basis where we have that assessment.

Aaron Kessler - *Raymond James - Analyst*

Okay, and just a follow up. Can you update us on any share repurchases and then also maybe leisure and business percentage at this point -- the mix at this point, thank you?

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

We spent close to \$300 million to buy back 17.5 million ADRs in the past several months and so far -- in the past quarter we did not execute any and going forward we still have like \$260 million quota for our future purchase and then we will closely monitor the market and execute it accordingly. For the mix between leisure versus the business travelers, it's roughly one-third versus two-thirds.



Aaron Kessler - *Raymond James - Analyst*

Great, thank you.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Thanks.

Operator

(Operator instructions) Your next question comes from the line of George Askew from Stifel. Please proceed.

George Askew - *Stifel Nicolaus - Analyst*

Yes, thanks very much and congrats on the strong results.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Thank you.

George Askew - *Stifel Nicolaus - Analyst*

You added -- I just really have one question. You've added an impressive number of domestic hotels year-over-year, up 74% by my math. My question is how much of your 41% hotel volume growth and market share gains in the quarter that you've seen is attributable to the higher number of hotels?

Jane Jie Sun - *Ctrip.com International Ltd - COO*

When we look at the volume growth, we have two factors that need to be taken into consideration. The first one is the coverage of the hotels. So our product team puts a concerted effort to penetrate into every city we can get into, where our travelers go to, to make sure our product has the full range of the coverage. The second element of the volume growth is how strong we can bring the new customers into our website or call center.

These two sides of the equation are equally important. We need the product to support the demand. We also the customer acquisition to send these customers to our hotel business -- hotel partners to make sure that we become a very valuable sales channel. So it's very hard to separate and to say 41%, what the percentage is due to coverage, what percentage is due to the customer acquisition. Both sides are very critical for the volume growth.

George Askew - *Stifel Nicolaus - Analyst*

Is there a number of domestic hotels that are sort of a target for the Company, you know, in the next year or two?



Jane Jie Sun - *Ctrip.com International Ltd - COO*

In China, the hotel segment is very fragmented so there is no official number that's published. But I think for the future, as the second tier and third tier cities are being developed, our team is penetrating not only from the first tier cities but also in the state capital and there a lower level of the cities.

So everywhere that the customer goes into we would have teams to develop a relationship with the hotels. So we monitor lots of indexes, such as GDP growth for the region, the city build-out rate, the hotel build-out rate, to determine where we put our efforts on.

George Askew - *Stifel Nicolaus - Analyst*

Okay, thank you very much.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Sure. Thanks.

Operator

(Operator instructions) There are no more questions at this time and I would now like to turn the conference back over to Ms. Michelle Qi. Please proceed ma'am.

Michelle Qi - *Ctrip.com International Ltd - IR Manager*

Thank you everyone for joining us on the call today. A replay of the call will be available on our IR website shortly after the call is completed. We appreciate your interest in Ctrip and look forward to convening with you in the next quarter.

Jane Jie Sun - *Ctrip.com International Ltd - COO*

Thank you very much for your time. Bye-bye.

Jenny Wenjie Wu - *Ctrip.com International Ltd - CFO*

Bye.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Good day.

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