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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 Poon *Morgan Stanley, Research Division - Equity Analyst*
Alex C. Yao *JPMorgan Chase & Co, Research Division - Head of Asia Internet & New Media Research*
Dapeng Gong *Citigroup Inc., Research Division - Assistant VP & Equity Research Analyst*
Ellie Jiang *Macquarie Research - Analyst*
James Lee *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*
Jiong Shao *Barclays Bank PLC, Research Division - Analyst*
K. Y. Cheung *Goldman Sachs Group, Inc., Research Division - MD*
Natalie Wu *Haitong International Research Limited - MD*
Parash Jain *HSBC, Research Division - Head of Transport Research, Asia-Pacific*
Thomas Chong *Jefferies LLC, Research Division - Equity Analyst*
Tianxiao Hou *TH Data Capital - Founder, CEO & Senior Analyst*
Wei Xiong *UBS Investment Bank, Research Division - Research Analyst*

PRESENTATION

Operator

Good day and thank you for standing by. Welcome to Trip.com Group 2023 Q3 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Senior IR Manager, Michelle Qi. Please go ahead.

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

Thank you. Thank you, Maggie. Thank you, everyone. Good day and welcome to Trip.com Group Third Quarter of 2023 Earnings Conference Call. Joining me today on the call are Mr. James Liang, Executive Chairman of the Board; Ms. Jane Sun, its 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 involves 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 statement except as required under applicable law.

James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the third quarter of 2023 as well as outlook for the fourth quarter of 2023. 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, Michelle. Thank you, everyone, for joining us on the call today. We are pleased to see the global travel market showing strong recovery in the third quarter. The Chinese travel market in particular has experienced a significant rebound driven by high demand during the summer season.

Our business has consistently performed well, breaking previous records in hotel and air bookings. Additionally, outbound travel is rapidly recovering, thanks to improvements in international airlift and travelers' robust desire for international experience. So we anticipate a continuously strong demand for outbound travel in the coming year and are committed to enhancing our product offerings to meet this demand. We also accelerate our global business growth by expanding and scaling our global OTA platform.

While globalization remains a crucial aspect of our business, Trip.com Group recognizes the significance of AI innovation in our long-term strategy. The pandemic has accelerated the digitization of travel industry, and advancements in AI technology have transformed consumer expectations.

In response to this trend, we have developed our unique AI technology, which is specifically designed for the travel industry. This, combined with our extensive travel knowledge, enables us to create a reliable database of accurate travel data and provide actionable recommendations for travelers. Moving forward, we will continue to enhance our capabilities and integrate AI into all aspects of our business, providing personalized booking experiences and tailored to recommendations.

In conclusion, travel is unique in that it is an inherently human-centric experience with insatiable demand. We will continue to push forward with our globalization and AI innovation to pave the way for the company's accelerated growth.

With that, I'll turn the call over to Jane for operational highlights.

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

Thanks, James. Good morning, everyone. As a quick overview, our net revenue in Q3 grew by approximately 100% year-over-year and has exceeded the 2019 level by 31%. The strong travel demand and robust momentum in the travel bookings that we saw in the second quarter continued to extend into the third quarter. Our business performance continued to elevate and reached the new record amounts with hotel booking increased over 97% versus last year and air bookings increased by about 70% year-over-year.

In the China domestic market, travel demand remained strong. Over the past 3 quarters, Chinese consumers have been increasingly prioritizing travel spending over other discretionary spending. The positive trend that we saw in the second quarter continued all the way to the third quarter. Our domestic hotel reservations grew by over 90% year-over-year and 70% versus 2019 level. Long-haul hotel bookings have been the fastest year-over-year growth rate of 133%, and our short-haul hotel bookings were also 66% above last year's level.

While Chinese travelers remain keen to explore their home country, propensity to travel abroad continue to ramp up, thanks to the steady improvement on the supply side. In Q3, while the overall Chinese outbound market recovered to only about 50% of the prepandemic level, Trip.com Group's outbound hotel and air ticket reservations have already recovered to 80% of the prepandemic level continue to lead the market by approximately 30%.

APAC regions, such as Hong Kong, Macau, Thailand, Singapore, Korea, Japan, remain top outbound destinations due to the higher recovery in flight capacity and easy visa application. Trip to long-haul destinations, such as Europe, have also seen the fastest growth rate when compared to where they were in the previous quarter. Increasing number of the overseas partners are gearing up to welcome Chinese travelers. In particular, hotels in more than 15 popular destinations, including Dubai, Paris, Kuala Lumpur have offered tailored services, such as Chinese language support and payment. These positive trends have enhanced the consumers' confidence when they travel abroad. We saw -- we look forward to seeing further growth in Chinese outbound travel next year.

Turning to our global business. We continue to see resilience in the global travel demand, especially in APAC regions, which is the key market and powerhouse of the growth. Air ticket booking on our global OTA platform has nearly doubled year-over-year and 80% above 2019 level. Our overall hotel bookings on the global platform also hit a new record high and more than doubled 2019 level. Following the country's goal to promote inbound tourism and roll out of favorable policies, we have also seen triple-digit growth in inbound travel through our global platform.

Travelers worldwide are increasingly opting for destination abroad, which continue to drive the global travel momentum and presents great opportunity for travel companies with global offerings. Benefiting from the positive trend, our global business continues to excel and our focus remains on fostering organic growth in the mid to long term.

Our global OTA platforms have experienced significant growth with its contribution to the growth -- to the group steadily increasing and now representing nearly half of our total overseas business. We see substantial potential for further expansion to serve users globally as well as significant upside for profitability.

Notably, in Q3, 60% of our global booking came directly through our global mobile app. Our APAC market, we have seen 70% of the orders are booked through our mobile app, which is even higher than the global booking. To further capitalize on this opportunity, we have developed a comprehensive road map that leverage our strengths and resources to drive continuous growth.

Our strong foothold in APAC markets, coupled with our unwavering commitment to customer services, enable us to deliver exceptional product and service offerings to our users. Recognizing the immense potential in APAC region, we are dedicated to further enhancing our brand awareness to solidify our market position.

Notably, we have achieved significant market share growth in key areas, such as Hong Kong, Korea, Southeast Asia. And our strong product to provide comprehensive one-stop shopping service also enable us to capture some opportunities ahead. We are also applying the same strategic approach to expand to the rest of the world by leveraging our product and service capability.

In terms of accommodation, we have enhanced our product capabilities by achieving a more balanced mix between our traditional strength in long haul and newly developed expertise in short haul in response to evolving travel needs in the post-pandemic area. Our focus remains on the positive product innovation, aiming to deliver great value to both our customers and partners.

Additionally, partners have the opportunity to join our TripPLUS program, which enables them to connect with our high-quality and loyal customers through our branded membership. Furthermore, we are expanding our user base by pushing forward with our lower-tier cities penetration. With these efforts, we aim to create to deliver the best possible value to both of our customers and partners.

Thus, the appetite for travel continues to grow. The further AI in application in travel is expected to focus on efficiency and highly personalized solution to tailor-made individual travelers' needs. This vision not only signified the next phase of travel industry but also underscore the profound impact of AI in making travel more convenient, personalized and memorable for everyone. So far, we have launched a series of AI tools to refine travel booking experience.

Early this year, we have seen double order conversion rate improvements and also helped our users retention. We have also achieved remarkable sales service rate with the help of AI chatbot, which can handle numerous increase using text and voice accuracy to enhance the service. This streamlined approach results in improved self-service resolution.

As the recovery of the travel industry is promising, we continue to embrace the sustainability as a component of our long-term growth strategy. The remained -- we remain committed to the environmental friendly, community-friendly and family-friendly.

First, for environmental-friendly, we provide sustainable travel products dedicated to supporting to enhancing communities we are serving. We have taken significant steps to incorporate sustainable travel products into its various product lines, including light current tools and corporate travel. Over 16 million users have already chosen the sustainable travel options, favoring the company's low-carbon products.

We also are focusing on low-carbon hotel standards as part of our ongoing commitment to promoting our sustainable travel industry initiatives. Trip.com Groups have engaged with nearly 1,000 hotel partners and launched its low-carbon hotel standard initiative, which aims to encourage eco-friendly partner practices and facilitate a shift towards a more sustainable travel ecosystem by collaborating with these hotels.

For community-friendly initiatives, we also have pushed forward with building countries' retreats across the country to nurture travel talents and improve local travel services quality while also creating job opportunities and contributing to the global common prosperity.

For family-friendly, we have implemented a subsidy program aiming to alleviating childbirth expenses in order to support our employees to achieve work-life balance. With our ongoing efforts to prioritizing these initiatives, we are proud to continue to make positive impact society at large.

In conclusion, we are encouraged by the robust travel demand across all business segments, and we anticipate this outbound travel will continue to be primarily a catalyst for the growth in the short term. Looking forward, our global business bolstered by enhanced offering and improved profitability will become the pivotal pillars in the long run. Considering these promising prospects as well as the efficiency gain achieved during the quarter and going forward by implementing of our AI initiatives, we remain an optimistic outlook for the market and we are confident in the opportunities that lay ahead of us.

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

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

Thanks, Jane. Good morning, everyone. For the third quarter of 2023, Trip.com Group reported a net revenue of RMB 13.7 billion, representing a 99% increase from the same period last year and a 22% increase from the previous quarter, primarily due to strong recovery in the travel market. Accommodation reservation revenue for the third quarter was RMB 5.6 billion, representing a 92% increase year-over-year and a 30% increase quarter-over-quarter, which is 36% higher than the 2019 level. Both domestic and outbound hotels have seen robust growth and outpaced the industry.

Overall hotel bookings have achieved a record high and have grown over 60% above the prepandemic level. Transportation ticketing revenue for the third quarter was RMB 5.4 billion, representing a 105% increase year-over-year and 11% increase quarter-over-quarter, which is 44% higher than the 2019 level. This is mainly due to robust recovery of outbound air and strong growth in domestic and global air business.

Packaged tour revenue for the third quarter was RMB 1.3 billion, representing a 243% increase year-over-year and an 84% increase quarter-over-quarter, recovering to 81% of the 2019 level. Domestic packaged tour has outgrown the 2019 level, while recovery in the outbound packaged tour was still lagging behind.

Corporate travel revenue for the third quarter was RMB 591 million, representing a 60% increase year-over-year and remained flattish quarter-over-quarter, which is 76% higher than the 2019 level with air ticketing bookings increased by double-digit above 2019 level and hotel bookings threefold the 2019 level.

Excluding share-based compensation charges, our total adjusted operating expenses were 19% higher than the previous quarter and 20% higher than the same period in 2019. Adjusted product development expenses for the third quarter increased by 23% from the previous quarter and increased by 29% compared with the same period in 2019.

Adjusted G&A expenses for the third quarter increased by 9% from the previous quarter and increased by 21% from the same period in 2019. This is mainly due to increase in personnel-related expenses. The increase was mainly related to performance-based bonus in recognition of the exceptional performance achieved in the quarter, while the total head count of our product development and G&A teams were significantly lower than during the same period in 2019.

Adjusted sales and marketing expenses for the third quarter increased by 17% from the previous quarter and increased by 11% compared with the same period of 2019. The sequential increase was due to increased marketing activities that were in line with the higher seasonality.

Adjusted EBITDA was RMB 4.6 billion for the third quarter compared with RMB 1.4 billion in the same period last year and RMB 3.7 billion in the previous quarter. Adjusted EBITDA margin was 34% for the third quarter compared with 21% in the same period last year and 33% in the previous quarter.

Diluted earning per ordinary share and per ADS were RMB 6.84 or USD 0.94 for the third quarter of 2023. Excluding share-based compensation charges and fair value changes of equity securities investments and exchangeable senior notes, non-GAAP diluted earning per ordinary share and per ADS were RMB 7.26 or USD 1 for the third quarter.

As of September 30, 2023, the balance of cash and cash equivalents, restricted cash, short-term investment, held-to-maturity time deposits and financial products was RMB 79 billion or USD 10.8 billion.

Given the rapid business growth this year has significantly strengthened the group's cash flow and we believe the company's share price is undervalued, as of November 20, 2023, we repurchased USD 120 million of our shares and reduced our share count by 0.5% versus last year. Our Board of Directors has also approved a regular capital return policy, which is scheduled to commence in 2023 -- 2024. We are proud of this accomplishment as it reflects both our commitment to returning capital to shareholders and our confidence in the long-term outlook of the travel industry in our own business.

To conclude, we are pleased with the continued momentum in the travel market and our team's solid execution in the third quarter. We are well prepared and will remain key to drive long-term growth and to maximize return for shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Brian Gong from Citi.

Dapeng Gong ***Citigroup Inc., Research Division - Assistant VP & Equity Research Analyst***

Congrats on decent third quarter results. And thanks for sharing the exciting progress of generative AI adoption at Trip.com. I have a quick question on lease. Could you elaborate how the adoption of AI technology differs between our -- through international platform, Trip.com and our domestic C trip within the group?

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

Thanks for your question. We implement a consistent AI adoption strategy across all markets, focusing on improving productivity and efficiency in marketing, engineering and customer services. Our goal is to offer users a smart AI assistant that can simplify and enhance their trip planning and the research experiences. Through natural language interfaces and actionable recommendations, we aim to help users plan their trips more effectively. Successful practices from each market will be shared and promoted across others, ultimately becoming a global standard within our organization. Thank you very much.

Operator

Next, we have Alex Poon from Morgan Stanley.

Alex Poon ***Morgan Stanley, Research Division - Equity Analyst***

Congrats on a very strong quarter. For my question, could you share some details about the travel performance after the Golden Week? And how should we interpret the momentum into Q4 and into 2024?

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

Sure. Quarter-to-date, China hotel [RevPAR] number and domestic air passenger volume was slightly below that of 2019, which reflects a normal seasonality post the summer. We continued to outpace the industry average growth with our domestic hotel bookings surpassing 2019 level by around 60%, and our outbound hotel and air reservations recovered to around 80% of the 2019's level. Our global OTA platform has maintained a triple-digit growth over 2019 despite tough comparables.

Look into the next year, 2024, our users' short booking window makes it challenging for us to forecast the 2024 industry momentum. However, we are confident in our ability to consistently outpace the market growth.

For the China -- in terms of a different market, for the China's market, we expect robust growth in the outbound travel business due to further recovery of outbound flight capacity, along with steady growth in domestic business. And for the global market, we anticipate our global OTA platform, Trip.com, to maintain high-speed growth, while Skyscanner and other overseas brands continue to grow healthily despite recent headwinds in the EMEA region. Thank you.

Operator

Next, we have Natalie Wu from Haitong International.

Natalie Wu ***Haitong International Research Limited - MD***

Congratulations on a very solid quarter. My question is regarding the outbound. We all acknowledge that outbound will continue to be the strongest driver in short term. I'm just wondering the recovery pace of outbound light recently seems to be a little bit slower than the market has initially expected. So just wondering, is there any reason behind? Is it due to insufficient consumer capacity? So just wondering, when does the management anticipate full recovery of the outbound business?

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

Yes. So we're confident in the recovery of outbound. If you look at our demand and supply side, the demand already exceeded 2019 level. However, on the supply side, there are 2 major hurdles. The first one is the Visa application process takes a little bit longer for certain regions, such as Europe, United States, et cetera. However, after the APAC meeting, I think there will be improvements on the Visa application side.

The second one is the flight capacity. As of Q2 -- as of Q3, the flight capacity only recovered 50%. We hope going forward, the flight capacity will further improve. So with the Visa application process being improved as well as the increased flight capacity, we believe next year, outbound will grow even stronger compared to this year. Thank you.

Operator

Next, we have Simon Cheung from Goldman Sachs.

K. Y. Cheung ***Goldman Sachs Group, Inc., Research Division - MD***

I have 2 questions. I think in the consumer space, the trade-down seems to be a buzzword for everyone. Wondering whether you have to observe a similar trend for this trade-down, whether it's for corporate travel or for leisure travel. And -- but in the same token, to the extent that I think outbound travel is a higher-ticket item, how do you feel this trade-down trend would affect the pace of outbound travel going forward? That's the first question.

And then the second question is, I think you have been able to preserve your sales and marketing expenses as a percent of your revenue quite steadily at around 20% for quite a few quarters. I remember in the last couple of quarters, you've been talking about maybe having to spend a bit more going forward. How are you thinking about this in the near term? And correspondingly, we've been -- keep hearing all these own competitions, whether you can have -- share any comment on that front as well.

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

Sure. So for the first question, in the leisure segment, we have -- to be honest, we have seen no signs -- so far, we have seen no signs of consumption downward. And the average travel spending on our platform continues to exceed the 2019's level both for new and existing users on a like-for-like basis.

In the business segment, corporate travelers has also been spending more than what they did back in 2019. Looking at the long run, we are still confident in China's travel demand because on the supplier side, the ongoing expansion of air, rail and highway networks, along with investments in other travel infrastructures in China, lay a strong foundation for the travel industry prosperity. While on the demand side, we see leisure travel spending evolving from cyclical to more secular driven by increasing disposable income and a consumption shift from goods to services and experiences. In addition, OTA stands to gaining from increased online penetration.

Although the business travel is typically more close tied to the economic activities and maybe impact by economic concerns, but we also see significant opportunities for us as more businesses will adopt managed corporate travel services to optimize their travel budget.

For the sales -- for the second question, the sales and marketing expenses, our marketing efficiencies have seen significant improvement this year primarily due to enhanced conversion and cross-selling efforts. Additionally, we made significant savings due to the strong release of pent-up demand. We do expect an increase in marketing spending as a percentage of revenue in the Q4 following a typical low seasonality in the next -- in the fourth quarter and also as part of our efforts to normalize the marketing spending to stimulate future growth.

And in the long run, we are quite consistently to have -- to commit it to an ROI-driven marketing investment approach, striving to balance the efficiency gains and the long-term investment needs in the overseas markets as well as the opportunities in the lower-tier cities in China.

And with regard to the competition with the content platform, I think, so far, what we observed, the competitive landscape in China domestic market is generally steady with some seasonal fluctuations in the marketing intensities among players. And I think OTA and content platform have totally different core competence. Content platform excel at producing creative content and sharing information, make them effective at promoting training products. However, most of the content platform, they lack very strong back-end system to fulfill the booking capabilities, while OTA's core competence in the -- firstly, in the supplier chain -- standard supplier chain and also, more importantly, the capabilities to provide reliable services.

Therefore, of course, we will always be sensitive in terms of the competition in the market. But at the end of the day, what we need to always focus is to strengthen -- further strengthening our core competence. Thank you.

Operator

Next, we have Alex Yao from JPMorgan.

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

First of all, congrats on a rock-solid quarter. Year-to-date, you guys have delivered very impressive margin improvement relative to the historical level. Can you talk us through how did you achieve the current margin structure? For example, can you break down the margin structure across domestic outbound, international to international between now and the same period of 2019? And as we look into 2024, apparently, the outbound, which is a higher-margin business, will very likely outgrow the domestic business. How should we think about the margin structure into '24 and beyond?

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

Thank you, Alex. In general, our -- because we have very strong brand awareness and market share in the China market for both the China domestic as well as China outbound, we have a very healthy margins to serving the China market. And in the international market, we grow very fast. But still at current stage, we are still in the investment cycle. But at the same time, we will balance the investment versus improving and towards a more healthy margin for the international market.

Yes, you are correct. Moving into the year 2024, we think the outbound travel percentage as a percentage of the total revenue contribution to the whole group were definitely going forward. And outbound, traditionally is a more healthy or higher-margin business for us.

But I think the margin level that we achieved this year, there's some some special factors impacted because especially in the first half of this year, the strong rebound is, to some extent, out of our own expectation. So in terms of readiness on both the service as well as the sales marketing, we have a comparatively limited preparation to serve the much higher-than-expected outbound rebound -- market rebound.

So to be honest, our operating margin, especially high operating margins especially for the first half of this year, is even higher than the normalized level. So next year, with the business moving into a more normalized level, we should make investment is -- enough investment in both the service as well as the sales marketing effort. Our marketing expenditure will increase slightly to fuel the future growth of the business. Our margin level -- operating margin level will trend down a little bit compared with first half of this year.

But in general, there's other factors like the increase of outbound, and continuously improve the margins in the international market will also help us to balance the total operating margin moving into the next year.

So in the longer period, we think we will definitely achieve we -- previously, we have -- give guidance to our shareholders that to achieve the margin level toward like -- to the 20% to 30% level. We already achieved that level this year, and we have the full confidence to continuously to maintain a healthy margin level moving forward. Thank you.

Operator

Next, we have Jiong Shao from Barclays.

Jiong Shao ***Barclays Bank PLC, Research Division - Analyst***

I have 2, if I may. And let me add my congrats as well for the strong results. You have had, I think, at least 3, 4 quarters of very strong results since the COVID restrictions got lifted. I think some of the investors are a bit worried that, oh, is this because the pent-up demand jump, and then growth would be tapering off like some of your peers have seen in the West. I was hoping you could share with us your thoughts about why sort of that's not going to be the case, why the growth -- you mentioned about growth to continue in '24 and beyond. If you can share with us your thoughts around the longer-term sort of 3-years horizon growth drivers, growth rate, that would be great.

And a related question to the margin question you just expanded earlier. Your gross margins reached like 82% for the last 3 quarters. Is there any reason -- and you talked about investment in sales and marketing, but that's sort of below the gross margin line. Is there any reason we should not expect the gross margin stay where they are? And were there structural reasons behind a recent increase in gross margins?

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

Thanks for your question. First of all, we look at our growth in the long term. So there are a couple of baselines we look at. The first one is the GDP growth rate. So if the GDP growth rate is somewhere between 4% to 5%, we believe the travel industry will outpace the GDP growth rate by a couple of percentage because people who can afford travel normally makes more higher income. So GDP -- travel probably will grow at about 8% to 10%.

And we will also outpace the travel industry growth by being more efficient by moving more off-line to online. So somewhere around 3 to 4x the GDP growth rate is what our team is aiming at. Therefore, we cannot say the short term what we want to do. But in the long run, that is the goal for our team to strive for. So we always plan our business 3 years, 4 years out in order to make very consistent investment.

If you look at the COVID 3 years, our engineering team made tremendous progress during the slowdown season. That is why when the industry recovered, we're able to take care of the pent-up demand. So we believe the growth into the next 3 to 5 years is very sustainable.

Secondly, on the margin, we believe the healthy and sustainable gross margin is our goal. In the short run, if you want to even grow the market and margin higher, we can do that. But we didn't want to do it in a way that we sacrifice the long-term investment. So we are committed to grow our business with healthy margin between 20% to 30%. And we will continuously make long-term investments, particularly in the area of product engineer and also customer services. So that's the promise we have for our customers, for our partners and for our shareholders. Thank you.

Operator

Next, we have Wei Xiong from UBS.

Wei Xiong ***UBS Investment Bank, Research Division - Research Analyst***

Congrats on a solid quarter. My question is regarding our pure international business, especially on the Trip.com side. I was wondering, could management share the current revenue contribution from Trip.com to the group revenue? And how should we think about this growth in the next 3 to 5 years? Also, in addition, what are our strategies to continue achieving such a high growth?

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

Sure. Trip.com represents approximately 6% of the total group revenue in the Q3, and its revenue contribution has been steadily approaching that of Skyscanner. And we expect the Trip.com to surpass Skyscanner in terms of revenue contribution in the near future.

With regard to the growth strategy in the next 3 to 5 years, we expect that Trip.com will maintain a robust mid-double-digit growth rate, becoming one of the primary growth driver for the whole group. In terms of different markets in Asia, Trip.com is targeting to become the leading OTA. The combined size of its top market in the Asia Pacific region exceed that of the Mainland China in terms of total gross booking. And Trip.com has already established a pretty solid foothold in this region with comprehensive local operations.

Despite starting with comparatively small market share, trip.com is confident in expanding its presence through its all-in-one mobile app, competitive offerings, high-quality services. And we are continuously -- we will continuously to grow our brand awareness in this region.

And in the Euro market, our near-term focus is more on the air travel. The air market in Europe is about twice the size of China's in terms of gross booking. This represents a significant opportunity for the group to capitalize through synergies among different brands within the group. Furthermore, we are strategically expanding our service offering into other markets while upholding our ROI return standards. Thank you.

Operator

Next, we have James Lee from Mizuho.

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

Can you guys maybe talk about, maybe elaborate your strategy and plans to continue gaining share in the OTA space? Where do you see the most substantial opportunity? Now in relation to those opportunities, are the kind of the foundational investment already made to drive those share gains? Or do you need to kind of accelerate the investment pace to capitalize that opportunity?

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

Thanks, James. We look at different regions with different angles. For domestic, we further provide excellent products for our high quality of the customers by enhancing our customer services and product innovation. And for the third tier, fourth tier cities, we further penetrate into these cities by offering the product that -- with lots of incentives in service and pricing. So we believe domestic China will still have a long way to go in terms of serving 1.4 billion customers.

The second opportunity is outbound customers with the supply side, which includes the visa applications as well as the flight capacity improving. We will be able to take more customers abroad and enable them to see the rest of the world.

The third priority is the global customers. Because the inventory we developed for our outbound customers can also be utilized by our global customers, we will be able to empower the customers from overseas to travel abroad. So different segments, we look at different opportunities. But for each segment, we feel there is a lot of upside for us to drive to. And we will make sure we make investment to address our customers' needs. Particularly in product and engineering and services, our customers from different regions will have different requests. The majority of the investments are being made. We just need to continuously making improvements so that our customers' new requests are being addressed. Thank you.

Operator

Next, we have Parash Jain from HSBC.

Parash Jain ***HSBC, Research Division - Head of Transport Research, Asia-Pacific***

If I may, shift your focus more towards capital return policy, and it's a very, very welcome move. Just wanted to understand how shall we think about your balance sheet, let's say, in 2 years' time or in the medium to longer term. Would you still want to carry a net cash balance sheet? Or given steady state of your business, given the yield difference between the China market and the rest of the world, do you think that you probably will be slightly more aggressive in terms of share buyback and return policy?

And secondly, for your international-international business, how do you see the M&A market? And do you see any opportunity for Trip.com or Skyscanner to jump frog in terms of overall relevance for the group through M&A?

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

Sure. Thank you. For the first question, our Board of Director has approved a multiple share buyback plan several years ago and with no expiration date. As previously discussed, there was approximately USD 505 million of the quote still unused before our current repurchase. And in the last quarter, the rapid business growth in this year has significantly improved our cash flow.

Additionally, we have increased our overseas cash reserves, ensuring we have sufficient funds for the buyback without affecting our regular operations. And the recent share price volatility due to purely external factors has resulted in a generally low valuation, making it a suitable time for us to make this buyback.

And going forward, we plan to proceed with the buyback without a specific time line or price target as long as our overseas cash reserves remain sufficient for operational needs as well as the short-term debt obligations.

And with regard to the M&A strategy for the international market, we are quite confident that we already have the -- almost the best asset in the international market to fuel our growth -- future growth. So we were pretty much focused to grow our market outside of China from the organic growth and, most importantly, to achieve the -- maximize synergies among different brands within the group. Thank you.

Operator

Next, we have Thomas Chong from Jefferies.

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

Congratulations on a solid set of results. My question is about the trend in operating expenses. Given that we have seen product development expenses increase significantly quarter-on-quarter and versus 2019, what factors actually contribute to this growth? And how should investors project this pattern going forward?

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

Thank you, Thomas. The product development expense is primarily comprised of personnel-related costs, especially the engineering team. In Q3, the total number of employees in product development remain significantly lower than the levels in 2019. And the increase in expenses was mainly due to the performance-related -- performance-based bonus in recognition of the outstanding achievement during the quarter. And we anticipate that the absolute dollar amount of the product development expenses will decrease sequentially in the Q4 just because of the seasonality.

And as Jane explained, we are targeting to grow our business in the long run. So going forward, we are continuously to balance our growth -- healthy growth as well as to control our total cost at a reasonable level that we achieved in the past few quarters. Thank you.

Operator

Next, we have Ellie Jiang from Macquarie.

Ellie Jiang ***Macquarie Research - Analyst***

I just would like to understand a bit more about our overseas product, Trip.com. Could you comment on Trip.com's current profitability? And how will it look like in the next 3 to 5 years or in the longer run?

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

Sure. Taking into account all the markets that Trip.com is currently operating in, Trip.com has already achieved the breakeven on a contribution margin basis, excluding fixed costs and the shared cost on the group level. Moreover, our business contribution continuously -- with our business continues to scale up the profitability will consistently improve across markets.

With regard to the margin of different markets in Asia Pacific regions, Trip.com is project to be breakeven within the next 2 to 3 years on a net profit level. While in the rest of the world, our current primarily -- primary focus is still to increase Trip.com's incremental contribution to the group, which has been showing consistent improvement in the past few years. Thank you.

Operator

Next, we have Tianxiao Hou from TH Capital.

Tianxiao Hou ***TH Data Capital - Founder, CEO & Senior Analyst***

Management, congratulations on a good quarter. This is Tian. So I have 2 questions. One is related to the profit level. So you mean the profit level can maintain the current and continue to improve? So I just want to understand, what part of your P&L can drive up the improvement? How the revenue and cost and expense structure will be to lead that improvement? That is the first question.

The second question is related to your AI. So my understanding is the AI at this point is much more a cost center and is much more like a revenue or profit center. So can management elaborate a little bit about your AI? In which part of your AI practice is a profit center or revenue center?

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

Sure. Our CFO, Cindy, will take the first question, and I will take the second question.

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

Okay. In terms of -- yes, in terms of the long-term profitability of the business, we expect to overcome our current short-term high base and to drive the long-term margin expansion mainly through operational scalability as well as the favorable revenue mix.

For example, in the long run, we think AI probably is one of the key drivers for us to help us to continuously to improve our operational efficiency in the service center. And we are -- in the long run, we are confident of achieving a margin that is comparable to our international global peers. Jane?

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

So for the second question on AI, we use AI for mainly 4 areas. The first one is to improve user interface. I think the Trip Genie really enable our customers to find their relevant and telemed products much easier.

The second one is to improve the efficiency for our engineering team by using copilot. The third one is also to improve our efficiency for content generation and make sure all the content and the recommendation list are accurate and based on the reliable data.

And lastly, we also are using AI to further improve our efficiency for customer service team. So these are the 4 areas, which we are fully utilizing our AI capability, and we will make investments accordingly. Thank you.

Tianxiao Hou ***TH Data Capital - Founder, CEO & Senior Analyst***

Okay. May I ask one more question? So the question is about your announced share repurchase plan. So I understand you guys think the valuation is undervalued, and I agree with you. And -- but isn't there a better use of U.S. dollars?

For example, the U.S. government's short-term debt is already reaching almost 6% of yield. So if you buy back your own shares, you're sure you can generate more than 6% yield. I just want to think about -- want to ask the question. So do you think buyback share versus investing in the better yield, which one is the better option?

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

Yes. Thank you for your question. To be honest, we are -- ever since we established, we always in the travel industry. And I think the reason that our investor invest us is not because we have the expertise to making investment rather, actually, we are the expert in the travel industry. So we should be, as always, be very consistently focused on our core business, which is travel and make investment in ourselves is the opportunity -- is the best opportunity for our shareholders. Thank you.

Operator

There are no other questions at this time. I will now hand the conference back to Michelle for closing remarks. Thank you.

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

Thank you. Thanks, 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 the fourth quarter of 2023 earnings call. Thank you and have a nice day.

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

Thank you.

Operator

Thank you. This concludes today's conference. Thank you all for participating. You may now disconnect.