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Q2 2018 Ctrip.Com International Ltd Earnings Call

EVENT DATE/TIME: SEPTEMBER 06, 2018 / 12:00AM GMT



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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Second Quarter 2018 Ctrip.com International, Ltd. Earnings Conference Call. My name is Serena. I will be the moderator for today. (Operator Instructions) As a gentle reminder, this conference is being recorded for replay purposes.

Now I will hand the call to Chief Communications Officer, Victor Tseng, to begin. Victor, over to you.

Victor Tseng

Thank you. Good morning, and welcome to Ctrip's second quarter 2018 earnings conference call. Joining me today on the call are Mr. James Liang, Executive Chairman of the Board; Ms. Jane Sun, Chief Executive Officer; and Ms. Cindy Wang, Chief Financial Officer.

During this call, we will discuss our future outlook and performance, which are forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in 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, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the second quarter of 2018 as well as the outlook for the third quarter of 2018. After their prepared remarks, we will have a Q&A session.

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

Jianzhang Liang *Ctrip.com International, Ltd. - Co-Founder & Executive Chairman*

Thank you, Victor, and thanks to everyone for joining us on the call today. I'm pleased to announce that Ctrip delivered solid results in the second quarter of 2018. In line with the principles I discussed in the last earnings call, our teams continued to put the customer at the center of everything we do. Ctrip is synonymous with the highest-quality travel experience. We will continue to make investments in improving customer satisfaction as we believe this strategy will create more customer lifetime value over the long run. Today, I will explain our strategy of applying both higher customer acquisition and customer retention rate.

First, we'll aggressively drive new customer acquisition. Our focus is twofold. First, continue to innovate in product and services to fulfill ever-changing demand from travelers. For instance, our data tells us that customers like to travel in families. As a result, we've introduced travel products that's suitable for children and elderly, with family-friendly booking options.



Second, fully leverage our omni-channel travel strategy of more than 7,000 franchise off-line stores across 300 cities to create unique points of contact to engage and better convert potential travel customers that are harder to reach through online channels. Second, we'll boost user engagement and cross-selling opportunities. Today, Ctrip offers over 60 tailor-made products and services that not only cover the basic hotel and the transportation booking but also fully address travelers' in-destination needs including dining, shopping and local activities both in China and abroad. As a result, over 40% of today's traffic converts to in-destination demand during peak times and in-destination traffic keeps growing over 50% year-over-year in the second quarter.

We are seeing more engagements throughout the travel funnel and are already benefiting from those cross-selling opportunities. For example, the peer-trained cross-selling ratio increased significantly from a single digit to over 20% in the past couple of years. With AI and a smarter product innovation, there is still much room to improve our capability to service our customers throughout their whole travel itinerary.

Third, we'll enhance customer loyalty. We further upgraded our service system in the past few months by improving customer guarantees and the facilitation capability. These efforts have netted about 20% improvement in our NPS results from April to July this year. We recently introduced hotel rewards club or (foreign language) in Chinese program to reward our loyal members with hotel booking discounts and extra benefits. The program already covers tens of thousands domestic hotels, and today, we've helped save our customers, on average, over RMB 2 million on a daily basis.

In summary, we work hard, and that's a large and loyal travel user base, and cultivates a strong travel brand recognition. These efforts are unparalleled in the travel industry. And our work is far from done with a vast pool of potential new customers in front of us and a large existing base of loyal customers for us to serve even better, we have a clear vision to further expand our leadership in travel and to be the best, not only in China, but in the world.

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

Jane Jie Sun *Ctrip.com International, Ltd. - CEO & Director*

Thanks, James. Ctrip reported solid results in the second quarter of 2018. In particular, accommodation revenue grew healthily at 21% year-over-year despite our large base. This was driven by consistent growth in volume and steady take rates. We have continued to reinforce our leadership position in the mid- to high-end stock hotel market. And meanwhile, we are aggressively gaining market share in the low-stock hotel market. We are also helping hotel operators boost sales with our intelligent hotel booking system while further strengthening our price competitiveness in the low-stock hotel category. These efforts helped drive accelerated year-over-year volume growth of around 40% in the low-end hotel market.

Transportation revenue grew 1% year-over-year as strong volume growth across multimodal transportation product categories was offset by air ticketing booking process adjustment as we discussed in the previous quarter. Excluding Skyscanner, international air tickets achieved approximately 40% year-over-year volume growth due to the robust growth in the second quarter for both outbound travel and Trip.com. We are growing around 2x faster than the overall Chinese outbound growth rate. Skyscanner's total revenue maintained at a healthy pace of year-over-year growth of approximately 30% in the second quarter, driven largely by robust traffic growth.

Non-GAAP operating profit of RMB 1.2 billion came at the high end of our second quarter guidance. This is the testament of our scalability, which was offset by domestic ticketing process adjustment and our strong investment in the customer-centric efforts.

Today, I would like to share some of the progress we have made during the past quarter regarding the customer service improvement, supply empowerment and international expansion.

First, our customer -- our service improvement. Unrivaled service quality is the key differentiator between Ctrip and other players. As James said earlier, Ctrip team have made great strides in identifying travelers' pain points and developed prior service standards, which consistently exceeded our customers' expectation. We have upgraded our service guarantee across a number of products. We now promise full refund for visa and related air ticket fees in case customers' visa application is denied. In addition, our air and hotel protection program promises free cancellation of hotel bookings due to flight delays and cancellation if customers book both hotel and

flight ticket from Ctrip on our platform. We have promised to be proactively in tackling customers' problems, even if it is not contractually Ctrip's responsibility. Recently, we announced that when a customer's booking cancellation policy states it's a noncancelable hotel rooms on our platform, we will provide a refund assistance, which Ctrip will negotiate with the hotel to reduce the loss on behalf of our customers.

Second, on the supply empowerment. By leveraging the 50 trillion bytes of data Ctrip generates every day, we advanced our technology capability based on our AI research. We are able to help the suppliers identify growth opportunities, and improve their efficiency and enhance the product competitiveness. Since the establishment of Ctrip Hotel University in May, it has received an overwhelming amount of interest and participation within the organizations. We have established a hotel training center, big data research center and user research center as well as the design range of the courses, we help hotels to cultivate talent. By the end of August, we have opened over 70 online and off-line courses, which attract nearly 380,000 participants with majority of whom are the hotel decision makers. On average, hotels are able to increase their GMV by 20% after they take the training process according to the feedback we received.

Child-friendly rooms are a new niche area that we identified through big data. Ctrip system indicated that 30% of our customers travel with children and later, we have observed a growth demand for child-friendly rooms to serve these travelers. Hotels can now choose to promote child-friendly rooms as a unique selling point on our platform. As of today, we have helped co-develop child-friendly rooms in 23 cities in China. On average, the occupancy rate of these rooms are higher than normal hotel rooms and are associated with increased customer satisfaction rate.

The Ctrip institute of customized travel business is another good example of our ability to foster the development of the industry throughout the value chain. In response to the major bottleneck faced by our customized tool supply in lack of qualified trip planner, we planned this pioneering training program in May this year. And to systematically cultivate the challenge in this area, we plan to recruit and train 3,000-plus customized trip planners a year.

Third, on international business. Trip.com and Skyscanner have both continued to make remarkable progresses in their respective targets to market. Trip.com continued to perform exceptionally well in the second quarter and has now achieved triple-digit growth in air ticket volume for the seventh quarter -- consecutive quarter. We have recently launched both local activities and airport transport services in selected markets and target to expand these product lines in the other markets in the following months. This takes Trip.com another step closer to realizing one-stop shop capability and offering its customers a seamless end-to-end travel experience.

Skyscanner is already one of the largest travel platforms in the world. Despite its large base, it saw nearly 25% global MAU year-over-year growth in the quarter. Growth in direct booking on Skyscanner continued with 600% year-over-year growth as more partners migrated to the platform. While Trip.com has become the largest direct booking partner, it still only contributes low single-digit percentage on Skyscanner's total worldwide booking. We are confident that we can raise this number to around 20% to 30% in the long run by further improving Trip.com's competitiveness, pricing and a strong service capability.

Looking ahead, we are excited to achieve our long-term ambitions. Our persistence in delivering customer centricity, deep involvement in industry value chain and solid execution in our international business will create enormous growth potential in the years to come. As always, I would like to take this opportunity to thank our customers, our employees, our partners and our investors for their continued trust and support.

With that, I will turn the call over to Cindy, and she will walk you through the details of our financials. Thank you.

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Thanks, Jane. Thanks, everyone. For the second quarter of 2018, Ctrip reported net revenue of RMB 7.3 billion, representing a 13% increase from the same period in 2017. Accommodation reservation revenue for the second quarter of 2018 was RMB 2.8 billion, up 21% year-on-year, primarily driven by an increase in accommodation reservation volume.

We further expanded our total growth of hotel coverage to close to 1.4 million properties, an increase of 26% compared with the same period last year. In the second quarter, international hotels sustained a 40% room night year-over-year growth rate, more than doubling



the outbound industry growth pace.

Transportation ticketing revenue for the second quarter of 2018 was RMB 3 billion, representing a 1% increase from the same period last year. Ground transportation, including train ticketing, bus ticketing and car services, continued to grow rapidly. Air ticketing segment also maintained very strong volume growth momentum across all platforms. Similar to the first quarter, revenue growth was offset by the decrease of per air ticket segment revenue, which is related to the operating adjustment we've discussed in previous quarters.

We expect the situation will gradually improve in the second half of this year, with comparatively easier comps. We have continued to extend our multimodal transportation offering such as free airport shuttle buses and airport parking vouchers. Today, our full selection of air plus train, air plus bus, train plus bus and other car services can truly create a seamless door-to-door travel solution for customers across China.

Packaged tour revenue for the second quarter of 2018 was RMB 839 million, up 31% year-on-year, primarily driven by increase in volume growth of both organized tours and self-guided tours. We continue to see the booming development of organized tours. In mid-August, we announced the achievement of a new industry record of RMB 70 million in the GMV in a single day. What thrills us more is that 80% of the off-line store customers have never booked a Ctrip packaged tour product before, making the stores an excellent gateway for acquiring new customers. In that nation's activity have become a more crucial part in the total travel market, we recently developed a global things-to-do platform, covering over 100,000 things-to-do products in over 1,500 destinations all over the world, making it one of the largest platform of its kind. Also established an innovative product called [Foreign Language], developed by Ctrip to cover the most popular things to do in certain destinations at a packaged rate. The new product can save our customer not only cost but also time when planning a trip.

Corporate travel revenue for the second quarter of 2018 was RMB 255 million, up 28% year-on-year. The growth in corporate travel business was primarily driven by the expansion of our travel product coverage. We continue to see steady growth in corporate clients. In this quarter, we've accumulated accounts reaching over 170,000. We also generate revenue from other business including our financial business. The revenue contribution from financial products and services is still very small but growing rapidly. We may link product consumers with financial products as part of our one-stop travel shopping experience, and the purpose is to enhance the conversion rate.

Given travel's unique attribute and our very strong risk control management, this business has enjoyed very healthy profitability. Gross margin was 80% for the second quarter of 2018 compared to 83% in the same period last year. The decrease in gross margin was mainly due to the upgrade of service standard in every front of our business in order to be fully in compliance with the customer-centric principles that James emphasized in the first quarter earnings call.

Excluding share-based compensation charges, total non-GAAP operating expenses grew 30.9% year-on-year and 6.1% quarter-over-quarter in the second quarter of 2018. Non-GAAP operating profit in the quarter was RMB 1.2 billion compared to RMB 1.2 billion in the same period last year and RMB 966 million in the previous quarter. Non-GAAP operating margin for the second quarter was 16%, increased from 14% in the previous quarter, mainly related to operating efficiency improvement.

Diluted earnings per ADS were RMB 3.89 or USD 0.59. For the second quarter of 2018, excluding share-based compensation charges and fair value changes of equity security investment, non-GAAP diluted earnings per ADS were RMB 1.09 or USD 0.29 for the second quarter of 2018. As of June 30, 2018, the balance of cash and cash equivalents, restricted cash and short-term investment was RMB 57.7 billion or USD 8.7 billion.

Now turning to the outlook. For the third quarter of 2018, the company expects the net revenue growth to continue at a year-over-year rate of approximately 13% to 18%, which is calculated on the estimated net revenue of third quarter of 2018 under the new revenue recognition standard and the net revenue of the third quarter of 2017 retrospectively adjusted. This forecast reflects Ctrip's current and preliminary view, which is subject to change.

This concludes our prepared remarks. Operator, now please open the line for questions.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question, we have Alicia Yap from Citigroup.

Alicia Yap Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

My question is related to the overall macro environment in China. Many investors, I think especially the foreign investors, are worrying whether China is slowing down. And if this is true, how will Ctrip being impacted? And have you seen any of your business line being affected by any softer consumer consumption pattern over the past few months? In the event if China economy gets worse next year, which business segment of Ctrip business will get the biggest hit? And if any slowdown on the economic environment, how will that affect the pace of the margin recovery or margin improvement trend next year?

Jianzhang Liang Ctrip.com International, Ltd. - Co-Founder & Executive Chairman

Okay. Yes, there is recently a lot of pessimistic rhetoric about the Chinese economy but I think we should really put this into a long-term perspective. In the long run, I'm still very optimistic about the Chinese economy because if you look at the per capita income, China is still only a fraction of the developed countries. And in terms of the per capita capability such as innovation and industrialization, China is lower than the developed countries but China is well ahead of other developing countries with a similar level of income, for example, Thailand and then Brazil. And China will have a much better prospect of growth than these countries. So if you believe the per capita level, innovation and the industrialization is the key for future growth, China will do well. Of course, recently, there's some setbacks in terms of -- for example, in export sector. And because the sort of consumption patterns are shifting to service, then you'll see some slowdown in the manufacturing sector. But the overall wage growth and the overall consumption should be pretty healthy as we -- especially as we see in the travel sector. So as being one of the high-end service sector, travel will do much better than other sectors. We -- this year, so far, the trend we have seen is that this overall travel consumption has not slowed down significantly. There was a bit of slow down in the outbound travel because of currency issues, but we see very healthy growth in the domestic travel business. And China will likely to continue to invest very heavily in infrastructure like airports and high-speed railways, and that's very good for our business. And in the coming future, we will heavily invest into developing these products specially related to high-end domestic travel, related to high-speed railway and short weekend travel. I think, we'll see huge potential in these areas, too. So the overall -- we are still very optimistic of the consumption. And that will definitely grow faster than the overall economic growth, which I believe is still going to be healthy, too. Thank you.

Operator

Our next question, we have [Dean Tung] from HSBC.

Unidentified Analyst

My question is on the hotel business. So on the international hotels, could you comment about how you see the progress so far in terms of the growth and also how it impacts the margin? The reason I'm asking is that if we look at international hotel, it should have a bigger ticket size. But yet because we are tapping into the market, so that will be associated with higher OpEx. So net-net, how should we see the margin's profiles of international business and how that impacts us, as it grows bigger, how does it impact our overall margin -- hotel margin? And then domestically, lower-end hotel. Because I think management also gave us some remarks in terms of how the growth in the lower-end. But recall, like, lower-end naturally has a lower margin, right, in terms of the margin profile if we compare to our core mid- to high-end hotel segment. So how should we think about that?

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

Thank you. The accommodation market in China overall is huge still very fragmented with online penetration rate only about 20% to 25%. Ctrip proved to be the leader ever since we'd be in this market. And most importantly, we are the only company who has a sustainable profit in this segment. In terms of the strategy, our overall strategy in the accommodation market, for the mid- to high-end hotels, we will continuously making investment in building the most comprehensive product offerings with competitive pricing for both domestic and international hotels. And we will further solidify our leadership in the mid- to high-end hotel market. And -- for example, for the outbound market that you asked, Ctrip continue to more than double the industry growth rates in the outbound travel market segment. In the second quarter, we achieved over 40% of year-over-year growth. Although we are already a clear leader in this segment,



the lower end of the hotel market, given it's still very, very fragmented and offline-driven, Ctrip would specifically focus on volume growth and market share gaining. And Ctrip's lower-stock hotel segment continuously saw very strong volume growth at around 40% year-over-year as well. So of course, in terms of profitability, the lower end has comparatively lower profitability, but the high end market, especially the outbound, the most profitable outbound hotel market, we also have a very strong growth momentum, which, to some extent, offsets with each other and in result, we can achieve a very healthy profitability in the accommodation market overall.

Operator

Our next question, we have John from Daiwa.

Hyungwook Choi Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap

I have a question on your lower-tier city penetration strategy because if you look at your major competitor has a pretty big user base, and I know that if you have been penetrating through mostly off-line, I mean how has the management think about the long term how to convert these lower-tier city users to our online platform and hence, drive the profitability in the long term? And second on Skyscanner, if you could give a bit more detail about your direct booking revenue contribution, that would be great.

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Sure. So for Ctrip, both domestic market as well as the international market represents greater opportunity. First of all, on the domestic market, as James said, the GDP per capita for China is rising. And Ctrip is very well-positioned in the first-tier cities and state capitals and coastal cities. However, as the GDP per capita grows, we will further penetrate into the area which has strong growth in capital growth. So our strategy is a couple-fold. First of all, in the cities with strong economic growth, we have selectively opened about 700 -- 7,000 off-line stores. And these stores are very well located in the city centers, which have a couple of functions. We use the branding, we want to make sure these stores bring a very good brand awareness to the local people. Secondly, these stores also will offer a comprehensive product. And Ctrip is the only company which can launch and promote 60 products simultaneously. So for example, not only are the customers will be able to book air tickets in a nearby airport, they can also make reservations after the air ticket is booked, or when the storm is coming, we'll automatically promote the high-speed railway products to them. And for the next 5 to 10 miles, we also have bus products to offer to our customers if they choose to use flights or high-speed railway to go their hometown. So all that represents a very competitiveness -- competitive product offering to our customers. So that's our strategy, penetrating into the lower-tier cities. Secondly, on the international cities as we discussed before, Skyscanner is very well known for price-comparison capability. And for Ctrip, we are able to instill our direct booking services onto their platform. And so far, based on our observation, the customer satisfaction rate has increased significantly. Therefore, we have methodically increasing the percentage of the direct bookings on Skyscanner. And going forward in the long run, we will be able to take about 20% to 30% to make sure the customers, while using Skyscanner, will be able to book it on their platform seamlessly. That will increase further on their customer's retention, on the customer's -- returning customer's rate as well as the earnings stability. So I think our comprehensive product offering as well as the strong service capability will empower Skyscanner in the future.

Operator

Our next question, we have Eileen from Deutsche Bank.

Eileen Deng Deutsche Bank AG, Research Division - Research Associate

I have a follow-up question on the international business. Can management elaborate more on the future strategies, especially on the changes that took up with the domestic consumer spend being affected by the currency and to the outbound and the -- how about the strategies for Ctrip.com and Skyscanner to offset the risk. And if possible, can management give us revenue contribution for the entire international business.

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

Yes. So for international business, people who are making very good money will be able to afford to go in abroad, and Ctrip targets that mid- to high-end customer pool. So that portion of the customer, in relative terms, are more resilient to the currency fluctuation. So we will further extend our leadership in this field from a couple fronts. First of all, the first booking normally is international air tickets. And we have very strong hold in the international tickets because our platform connects global airlines and GDSs. That enable us to provide



the best engine to calculate the fares, switching time as well as the pricing for our customers. So that is why we grow very strongly in the international front and has become #1 in terms of total tickets booked compared to all the other players in the global space. Secondly, also with the investment in Skyscanner, they also have a very strong presence in Europe and the rest of the world, which enable us to also have access to the customers around the world. And the engine we built not only serve the Chinese customers very well but also can serve the global customers for international air tickets. And secondly, the unique product offering for Ctrip is a comprehensive product offering. So as we discussed before, not only we can book air tickets, hotel, we also offer customers whatever they need during the trip. So for example, we have local attraction tickets. We have chauffeur cars, rental cars to receive customers and bring them to their destinations. And for the customers who booked the product -- the whole trip on Ctrip, we also have one-stop shopping services. In case the -- a flight is delayed, we'll automatically inform their drivers, their -- also the service providers along the way. So when customers is traveling with Ctrip, we want to make sure they have peace in mind. And recently, there are lots of unexpected incidents globally. For example, there is earthquake somewhere. Our team will be able to reach our customer and take them back home if the customer choose to with our SOS program, which is -- which Ctrip sends out for its excellent services during these critical time. So all that offers our customer a very comprehensive service and product that is outstanding for the customer. So for the international revenue, when we start our business it was 0. Now it becomes 25% to 1/3 of our total number.

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Yes. In -- for instance for the accommodation, international hotel accounts for about 20% to 25% of the total accommodation revenue and international air ticket now contributes over 40% -- or actually close to 50% of the total air ticket revenue. And for the packaged tour business, majority of our revenue coming from the international tour. I think, we have a very consistent growth strategy, which is continuously to outpace the industry growth, especially in the less competitive outbound travel market, we achieved a double or triple the industry growth in the past few years and will continue this trend. And especially if there is any adjustment or slow down in the industry, it will be the best opportunity for a leader to be more aggressively gaining market share.

Operator

Our next question, we have Wendy from Macquarie.

Wendy Huang *Macquarie Research - Head of Asian Internet and Media*

First, the gross margin further declined to 80% this quarter. So is this a burden of the gross margin? And how should we think about it in the longer term given the revenue mix change and also some of the initiatives that you are doing? And also you are doing lots of new programs to improve the customer experience. I'm just wondering whether this is our competition pressure or is it more a longer-term impact after the (inaudible). Why are you doing so many customer experience programs in this junction? And also whether we should take this as a structural change, which actually may pressure your margin in the longer term? Lastly, if you can give some breakdown of Q3 revenue guidance, that would be helpful.

Jane Jie Sun *Ctrip.com International, Ltd. - CEO & Director*

Thank you. There is a couple of reasons why you maybe observed the -- a slightly decrease of the gross margin. The first reason is the deleverage due to the air ticket revenue adjustment, which do have some impacts on the margin. And the second reason is we opened a couple of overseas service centers to provide better local services to Skyscanner direct booking customer as well as more incoming international customers to Trip.com platform. Last but the most important reason is because of our customer-centric philosophy that James emphasized during last earnings call. Our team has been executing diligently to further enhance it in every front of our business. For example, now if a customer's visa gets rejected, we can -- we will provide full refund of related air ticket and free cancellation of the first night hotel booking in case of any flight delay or cancellation. There's no service charge at the distributor in relation to any change or cancellation in air ticket. Although actually our service team and the tech team behind the scenes do put continuous effort to make sure all customers have the best service experience when booked through Ctrip. These are just some initiatives we did and sometimes even beyond our own contractual responsibilities and will have some short-term impacts on the margin -- on the Ctrip gross margin. However, we strongly believe that from a long-term perspective, a company that creates the maximum value for customers is the right foundation to continue growing market share position. In last couple of years, we also made heavy investment in service-related technology. For example, now our AI-assisted chat bot help us to solve more than 70% -- 75% of our aftersales services. Now we have the clear vision and confidence to become the best service provider in the travel industry in the world, also in the most cost-efficient way. Though there is some short term pressures on the gross margin, in the next couple of quarters, we think our gross margin will be stabilized at around



80%. And as always, we will continuously to improve our operational efficiency across all business line items and continuously improve operating margin as we promised. Thank you. Oh, sorry.

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

In terms -- for the Q3 guidance, our Q3 net revenue is expected to grow at 13% to 18% year-on-year, showing continuous improvement from the second quarter, and although we are still going through the tough comp base because last Q3 was especially high base. But the negative impact will gradually decrease towards the fourth quarter of this year. In terms of the each business line items, accommodation reservation will grow about 20% to 25% year-on-year, and the transportation revenue will grow about 5% to 10% year-over-year. And packaged tour business will continuously to have a very steady growth rate of about 20% to 25% Corporate travel will grow at about 25% to 30%. So the total revenue will grow 13% to 18%. In terms of the -- I think it's -- probably it's still too early to give a full year guidance. But because of the comparatively lower comp base in the fourth quarter of last year, we think our growth momentum will pick up a little bit in the fourth quarter.

Operator

Our next question, we have [Amos] from 86Research.

Juan Lin 86Research Limited - Research Analyst

This is Juan Lin, from 86Research. I have one question regarding transportation ticketing. Just to clarify, so you mentioned that international air contributes close to 50% of air ticketing business. Does that include Skyscanner? And whether this is market share for revenue or volume contribution? Also, looks like domestic air ticketing revenue declined faster than the first quarter on a year-over-year basis and also declined sequentially. Just wondering how should we expect domestic air ticketing business to trend in terms of volume and revenue growth for the quarters to come. How much of the growth for outbound air was contributed by Trip.com?

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Yes. In terms of the growth trajectory for the domestic air ticket, we are still gaining market share and have a very healthy growth in terms of the volume. But, of course, the per-ticket revenue was negatively impacted a bit due to the adjustment. But, I think, the per-ticket revenue has been stabilized and our take rate on the domestic air ticket is roughly about 1% to 2% -- close to 2%, which we think will be stabilized. And the 50 -- close to 50% contribution from the international air ticket is from the revenue contribution. Because the per-ticket revenue is higher than the domestic one, so the volume contribution is still comparatively low. But our Trip.com as well as the outbound international air ticket continues to see very strong growth momentum and taking a lot of market share in the market.

Juan Lin 86Research Limited - Research Analyst

So that 50% includes Skyscanner?

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

This does not include -- it's a Ctrip number.

Operator

Our next question, we have Natalie from CICC.

Unidentified Analyst

This is [Eugene Wang] on behalf of Natalie. We have a quick question on the competition in the hotel segment. Probably your major competitor has been trying to upsell in the hotel segment moving from lower-end to the mid and high-end hotel. I wonder, how should we think about this and what is our strategy to defend our leadership?

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

Yes. So for Ctrip, our strength is in the high to -- low to -- mid- to high-end hotels, so our volume in these hotels would bring us the volume to these hotels. And we have seen very healthy growth, particularly when the economy has some slow down as we discussed and also when the currency shows some weakness, we have seen since in our team to gain market share in this segment. Secondly, in the lower-tier cities, our goal is market share gain. So we are very willing to lower the price and to gain market share and expose our brand in



the cities which normally Ctrip has not touched. So we'll be very aggressive in penetrating in the lower-tier markets by aggressively gaining market share in the lower tier. So far, in both end, we have seen strong growth in volumes as well as the revenue growth, and we'll keep up this momentum in both segments.

Operator

Our next question, we have Gregory from Barclays.

Xiaoguang Zhao Barclays Bank PLC, Research Division - VP

So my question about so currency, some headwinds. So as you mentioned in your opening remark, your outbound business are seeing very solid growth. We just want to understand if RMB depreciation generates any headwind to your outbound travel demand? And also a very quick follow-up. So would you please give us more a quantitative update of your mid- and long-term revenue growth and margin expansion outlook?

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

Yes. So outbound business represents the mid- to high-end consumers, and Ctrip always is very strong in this segment. When a market shows a little bit turbulence, that's the best time for us to gain even more market share because our customers, in relative terms, are more resilient. And secondly, our services are being enhanced every year. So we are able to span out during the time that the market shows some weakness to gain market share. Thank you.

Jianzhang Liang Ctrip.com International, Ltd. - Co-Founder & Executive Chairman

In terms of medium to long term.

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Oh, yes. In terms of the mid- to long-term, yes, consistent with the previous long-term guidance. So by the year 2020, we -- our total GMV, we'll achieve about around CNY 1.2 trillion. And our -- with the continuous improvements in the operational efficiency, we believe our non-GAAP operating margin will go back to the 20% to 30% level.

Operator

Our next question, we have Jed from Oppenheimer.

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

Appreciate the color on international volumes in the press release. Can you give us a sense what your domestic transportations volumes were this quarter versus the industry growth rate? And then can you give us some guidance around your non-GAAP operating margin for the third quarter?

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

Sure. Given the very early -- still very, very early stage of our development stage, so at this current stage, we will be still very focused on the market share gaining, and not only in the transportation category but across all the business line items. Our growth rates will achieve at least double the industry growth. And in terms of the margin guidance for the third quarter, we expect our non-GAAP operating profit will be in the range of CNY 1.8 billion to CNY 1.9 billion, implying a non-GAAP operating margin at about -- at around 20%.

Operator

Our next question, we have Jerry from UBS.

Yuan Liu UBS Investment Bank, Research Division - Co Head of HK and China Internet Research

My question is still on the operating margin. In the second quarter, actually, operating -- non-GAAP operating profit's a little bit better than we thought than consensus thought. So looks like sales and marketing was a little bit lower. So could you touch on if there were any drivers there for the better efficiency? And then as we look into the rest of the year and the next year or 2, as we get the operating margin higher, what are some of the key drivers to get us there? I would assume maybe product mix is a big driver, but any comment again on the operating expense efficiency?

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Yes. In terms of investments in acquiring new customer, we have a very consistent strategy where we look at the return on investment in each of the sales marketing channels. Once the channel can generate positive ROI for us, we will continuously to make investment in that channel. And in terms of the leverage of the operating margin in the long run, I think, each of the expenses line item will have room for the operational efficiency and scalability improvement. And again, as I said, we are very confident that our non-GAAP operating margin will be -- go back to over 20% level in the next 1 to 2 years.

Operator

Our next question, we have Peter from Wells Fargo.

Peter Coleman Stabler *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

You've spoken a bit about the competition in the lower-priced hotels. Wondering if you could talk about the competitive landscape in the Tier 1 and 2 cities, in particular with alternative accommodations and Airbnb. And then secondly, following up on a number of questions on the currency headwind, just to be clear, thus far, you have not seen any sort of deceleration in bookings or air travel growth outbound as a consequence of the currency changes.

Jane Jie Sun *Ctrip.com International, Ltd. - CEO & Director*

Sure. For the first-tier and second-tier cities, we are always very strong in these cities because our business starts from here. Secondly, regarding the alternative accommodation, Ctrip founded the largest alternative accommodation company in China, which is Tujia, and they are growing more than triple digits consecutively. Very healthy growth. So I think we are also gaining a lot of market share in the alternative accommodations as well. Thirdly, regarding the currency, we are very prudently monitoring the overall global market. However, in the relative terms as we discussed, because of our customers are relatively high income compared to the other segment, we -- our customers are relatively resilient during the time of turbulence. So we cannot say in absolute dollar amount what the market is going to be. But in the historical trend, when the market shows some weakness, Ctrip's growth rate compared to the market growth rate will expand and therefore, in these times, we will be able to gain market share in relative terms. I hope that helps.

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Yes. The recent data that we have observed has already been included in our Q3 guidance. Thank you.

Operator

Our next question, we have Kevin from Cowen.

Kevin Campbell Kopelman *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

I had a question on Trip.com. Can you give more color on the traction Trip.com is experiencing across the different geographies. Where you're seeing the biggest strengths? And to what extent is the new brand rolled out in Western Europe, the U.S. and Latin America?

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Yes. Trip.com is growing very well, although it's very small. Our product offering are mainly is seeing a couple of things. First of all, the air ticketing is very strong for us. And as we discussed, the infrastructure we developed in international air tickets serve the Chinese customers very well. And also, it can serve the global customers very well. So Trip.com takes the strength of our international air ticket and is replicating in different areas and has gained lots of traction in the target end market. Secondly, we also instilled our direct booking facilities on Skyscanner. So wherever Skyscanner has a strong presence, Trip.com also has gained lots of market share in terms of the direct booking facilities. And thirdly, Trip.com not only has 1 product for air ticket. It also offers a lot of other products such as transportation, cars, attractions, information, et cetera. So we are hoping Trip.com will become -- offers a comprehensive product, which can lead by the international air ticket but also make it very convenient for the customers while using the product on Trip.com. Thank you.

Operator

That's all the time we have for questions. I will now hand the session back to Victor for our closing remarks. Please go ahead, Mr. Victor.



Victor Tseng

Thanks to everyone for joining us today. You can find the transcript and webcast of today's call on the ir.ctrip.com. We look forward to speaking with you on our third quarter 2018 earnings call. Thank you, and have a good day.

Jane Jie Sun *Ctrip.com International, Ltd. - CEO & Director*

Thank you.

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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