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EDITED TRANSCRIPT

CTRP - Q3 2017 Ctrip.Com International Ltd Earnings Call

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OVERVIEW:

CTRP reported 3Q17 net revenues of CNY7.9b or \$1.2b, net income attributable to Co.'s shareholders of CNY1.2b or \$185m, and diluted earnings per ADS of CNY2.10 or \$0.32.



NOVEMBER 02, 2017 / 12:00AM, CTRP - Q3 2017 Ctrip.Com International Ltd Earnings Call

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PRESENTATION

Operator

Great day, ladies and gentlemen, and thank you for joining the Q3 2017 Ctrip.com International, Ltd., Earnings Conference Call. My name is LaToya. I will be moderator for today. (Operator Instructions) As a reminder, this conference is being recorded replay purposes.

Without further ado, I will now hand the call over to the Head of Corporate Affairs, Victor Tseng. Please proceed.

Unidentified Company Representative

Thank you. Good morning, and welcome to Ctrip's third quarter 2017 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 risk 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 statement, except as required under applicable law.



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James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the third quarter as well as the outlook for the fourth quarter of 2017. After their prepared remarks, we will have a Q&A session.

With that, I will turn the call over to James for our business update. James, please.

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

Thank you, Victor. And thanks to everyone for joining us on the call today. Ctrip group reported solid growth in the third quarter. Net revenue was up 42% year-over-year in the third quarter. The strong performance was mainly driven by healthy organic growth and addition of Skyscanner. Non-GAAP operating margin reached 22% for the quarter, improving from 18% both a year ago and a quarter ago.

Before we start, I'd like to highlight that we recently celebrated our 18th year anniversary. And into this 18th year of travel journey, Ctrip has already established itself as a leading travel player, yet we are only touching the tip of the whole travel opportunity. In the following discussion, I would like to emphasize Ctrip's growth opportunity globally and our unrivaled value proposition for our user base and supply chain progress.

First, the global travel market offers another long leg of growth for Ctrip in the years to come. According to the World Travel and Tourism Council, global tourism spending in 2016 reached USD 5 trillion. The China outbound travel business forms an important part of the global travel market and continues to spur overall market growth. In addition, against the backdrop of the belt road initiative progress, Ctrip has already pioneered interregional tourism.

In 2016, Ctrip serviced 10 million Chinese going to destinations around the belt road routes and 3 million inbound tourists from those countries and regions. We're excited and in a great position to capture the global travel opportunity while continuing to benefit from China's domestic travel growth as well. In the years to come, we'll continue to take steps to enhance our global presence.

Secondly, I'd like to emphasize Ctrip's unrivaled value proposition in the travel industry. The foundation we built upon includes: first, Ctrip has dedicated to driving travel innovation since our inception 18 years ago. The competencies and talents we've accumulated through the years will be hard to replicate. We believe focusing on our core competency is the only way to deliver sustainable value to the users and partners.

Second, Ctrip has established the deepest travel ecosystem through investments and partnership. The travel industry has a long and a complex value chain, which covers multiple nonstandard travel categories and require precise linkage to deliver an excellent travel experience. We are the most efficient and the most capable at creating long-lasting win-win partnership with our supply chain partners.

Third, Ctrip has the most comprehensive and price competitive one-stop travel offering with the broadest geographical reach. We're able to deliver this value to the users due to our sheer scale and open platform.

Fourth, Ctrip has the best-in-class service, the 24/7 customer service, a guaranteed experience and the international SOS system, to name a few; truly elevates the overall experience as we provide to our customers. Our customer service center is recognized by most of the major industry association as the best in China. These are the key elements of how we've become the #1 player in China today.

This strong foundation allows us to overcome challenges and come out even stronger each and every time. Lastly, some updates on Ctrip's recent innovations on products and services and technology.

We recently launched an "in-destination offering", where our users can easily access, compare and book local services and products. This new offering is presented to meet the needs of both domestic and outbound travelers, Ctrip's strengths in AI, Big Data and intelligent hardware are crucial advantage in providing superior travel experience. Whether through fast check-in via official recognition technology, or features such as "Smart Home" to pre-set room temperature or PM 2.5 air filtering control and "Smart Keys" with keyless room entry, Ctrip customers enjoy an unprecedented level of customization and convenience throughout their travels.



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Ctrip leverages the 50 trillion bytes of data generated daily by 300 million travel-related users to analyze and understand demographics, customer demands and travel behavior. As the first OTA to use machine learning to forecast travel trends, Ctrip has the capacity to study the buying behavior of our customers on both Ctrip and third-party platforms. Our investments in artificial intelligence drives continuous service improvements, personalized recommendations and overall optimization of travel resources for our customers.

Looking ahead, we intend to further position ourselves to capture a greater share of the booming global travel market. Our successful track records and our ability to stay inquisitive and innovative will further solidify our competitive moat.

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

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

Thanks, James. I'm pleased to share the updates on Ctrip's main business with you.

First, on hotel and other accommodations. Total revenue growth accelerated in the third quarter to 36% year-over-year, demonstrating our strong execution in penetrating into lower-tier cities and expanding internationally. At the end of the third quarter, Ctrip's domestic hotel coverage reached 590,000 hotels, increasing by approximately 16% year-over-year.

In lower-tier cities, we are growing even faster. Qunar's hotel revenue in the third-tier and fourth-tier cities have maintained over 80% growth rate for three consecutive quarters this year. We continue to make great strides in Asia Pacific accommodations. We are able to offer great products for outbound customers.

In addition, we further strengthened our presence in alternative accommodation sectors by leading the series E -- a series E round for Tujia, China's largest provider for alternative accommodations. We believe with a gradual change in Chinese attitude and continuous improvements of the product, alternative accommodations will achieve rapid growth in the following years and become an essential part of the travel accommodation industry. Tujia has seen exponential gains in the domestic market this year, with transaction volumes growing over 300% year-over-year.

Internationally, especially in Asia, Tujia has grown exceptionally, increasing fivefold. It now covers 650,000 online listings in approximately 350 domestic destinations and 1,000 foreign destinations.

Second, on transportation ticketing services, total transaction volume grew by 41% year-over-year in the third quarter, supported by strong volume growth and inclusion of Skyscanner financial. The air ticket team business delivered solid performance, led by strong international air ticket growth momentum.

Driving international air ticket volume growth in the third quarter was from our International Business Unit, which continued to grow impressively at triple digits. We are realizing great synergies achieved through Skyscanner direct booking.

This quarter, the total tickets Ctrip sold through Skyscanner increased over 250% year-over-year. Skyscanner's direct booking platform has rolled out smoothly and continues to see more adoption by travel partners. The total number of transactions made through direct booking grew almost threefold from May to September this year.

Ground transportation achieved strong year-over-year growth in the third quarter. I would like to note that Ctrip has recently made adjustments to streamline the booking process for our transportation products. Especially for air ticketing, we are committed to providing an easy and straightforward booking experience moving forward. Despite the short-term impact on revenue, we have determined to firmly uphold customer centricity and strive for the most superior travel experience.

Third, on packaged tours. Packaged tour revenue was up 27% year-over-year, driven by healthy volume growth. The online penetration rate for packaged tour is still very low in China. Therefore, off-line stores are a great supplementary channel for us to provide hands-on services support and to reach out to the customers who are harder to convert online.



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In addition, these stores help us to further enhance brand awareness and new incremental user acquisition capability, especially in the lower-tier cities. We're driving offline store growth through a franchise model that is easily scalable and profitable, with limited capital requirements. In the near term, the contribution from these stores will be small. In the long term, they're expected to become a meaningful part of our packaged tour business.

We continue to see consumption upgrade during this year's Golden Week holidays. Total orders of customized trips increased 200% year-over-year, and over 90% of Ctrip's travelers choose 4- and 5-diamond-rated packaged tour packages compared to 80% last year.

Fourth, on corporate travel. Corporate travel business grows 22% year-over-year in the third quarter. Corporate travel management for small and medium-sized enterprise and SME has become new growth engine for Ctrip's corporate travel business. Ctrip first launched an SME online corporate travel management platform 3 years ago. As of today, a one-stop and closed-loop platform has attracted over 130,000 SMEs.

According to a third-party research report, the managed corporate travel market in China grew double digits in 2016 and still accounts for less than 5% of the overall SME business travel account function. As the #1 player in the industry, we have the most extensive supply chain to provide seamless services to our SME clients.

In the past 18 years, thanks to the hard work and dedication of our employees, Ctrip has grown into a leading and trusted player in the travel market. We have overcome many difficulties and challenges and come out stronger each time. We will work -- we will always uphold the highest level of diligence and integrity and strive for long-lasting value for our customers, partners and investors.

With that, I will turn the call to Cindy for financial highlights.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you, Jane. Thank you, Jane. For the third quarter of 2017, Ctrip reported net revenue of RMB 7.9 billion or USD 1.2 billion, representing a 42% increase from the same period of last year. Net revenue for the third quarter of 2017 increased 23% from previous quarter.

Accommodation reservation revenue for the third quarter of 2017 was RMB 2.8 billion or USD 424 million, representing a 36% increase from the same period of 2016, primarily driven by an increase in accommodation reservation volume. Accommodation reservation revenue for the third quarter of 2017 increased 22% from the previous quarter, primarily driven by increase in accommodation reservation volume and seasonality.

Transportation ticketing revenue for the third quarter of 2017 was RMB 3.4 billion or USD 515 million, representing a 41% increase from the same period of 2016, primarily driven by increase in ticketing volume and the consolidation of Skyscanner. Transportation ticketing revenue increased 15% from the previous quarter primarily due to an increase in ticketing volume and seasonality.

Packaged tour revenue for the third quarter of 2017 was RMB 1 billion or USD 155 million, representing a 27% increase from the same period of 2016, primarily driven by increase in volume growth of organized tours and self-guided tours. Packaged tour revenue for the third quarter of 2017 increased 69% from the previous quarter, primarily due to seasonality.

Corporate travel revenue for the third quarter of 2017 was RMB 203 million or USD 30 million, representing a 22% increase from the same period of 2016, primarily driven by expansion in travel product coverage. Corporate travel revenue for the third quarter of 2017 increased 2% from the previous quarter.

Gross margin was 83% for the third quarter of 2017 compared to 78% for the same period of 2016 and 82% for the previous quarter.

Product development expenses for the third quarter of 2017 increased by 18% to RMB 2.2 billion or USD 328 million from the same period of 2016 primarily due to an increase in product development personnel-related expenses. Product development expenses for the third quarter of 2017 increased 7% from the previous quarter. Product development expenses for the third quarter of 2017 accounted for 28% of the net revenue.



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Excluding share-based compensation charges, non-GAAP product development expenses for the third quarter of 2017 accounted for 25% of the net revenue, which decreased from 27% for the same period of 2016 and the previous quarter.

Sales and marketing expenses for the third quarter of 2017 increased by 58% to RMB 2.4 billion or USD 357 million from the same period of 2016, primarily due to an increase in sales and marketing related activities. Sales and marketing expenses for the third quarter of 2017 increased 19% from the previous quarter. Sales and marketing expenses for the third quarter of 2017 accounted for 30% of the net revenue.

Excluding share-based compensation charges, non-GAAP sales and marketing expenses for the third quarter of 2017 accounted for 30% of the net revenue, which increased from 26% for the same period of 2016 and remained consistent with the previous quarter.

G&A expenses for the third quarter of 2017 increased by 25% to RMB 674 million or USD 101 million from the same period of 2016 primarily due to an increase in G&A personnel-related expenses and consulting expenses. G&A expenses in the third quarter of 2017 increased 11% from the previous quarter. G&A expenses for the third quarter of 2017 accounted for 9% of the net revenue.

Excluding share-based compensation charges, non-GAAP G&A expenses accounted for 7% of the net revenue, which remained consistent with the same period of 2016 and the previous quarter.

Income from operations for the third quarter of 2017 was RMB 1.4 billion or USD 204 million compared to income of RMB 447 million for the same period of 2016 and income of RMB 645 million for the previous quarter. Excluding share-based compensation charges, non-GAAP income from operations was RMB 1.7 billion or USD 262 million compared to RMB 1 billion for the same period of 2016 and RMB 1.2 billion for the previous quarter.

Operating margin was 17% for the third quarter of 2017 compared to 8% for the same period of 2016 and 10% for the previous quarter. Excluding share-based compensation charges, non-GAAP operating margin was 22% compared to 18% for the same period of 2016 and 18% for the previous quarter.

Income tax expenses for the third quarter of 2017 was RMB 313 million or USD 47 million compared to RMB 221 million for the same period of 2016 and RMB 529 million for the previous quarter. The change in group's effective tax rate is primarily due to the change in profitability in the subsidiaries with different tax rates and certain non-tax-deductible losses, including the share-based compensation charges.

Net income attributable to Ctrip's shareholders for the third quarter of 2017 was RMB 1.2 billion or USD 185 million compared to net income of RMB 24 million for the same period of 2016 and net income of RMB 327 million for the previous quarter.

Diluted earnings per ADS were RMB 2.1 or USD 0.32 for the third quarter of 2017. Excluding share-based compensation charges, non-GAAP diluted earnings per ADS were RMB 2.7 or USD 0.41 for the third quarter of 2017.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Alvin Jiang with DB.



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Alvin Jiang - Deutsche Bank AG, Research Division - Research Analyst

I have one question on air ticket business. We noticed a strong growth in Skyscanner. Could you give us more color on Skyscanner's recent development, like on revenue margin, take rate, user traffic, et cetera? And also for -- just for housekeeping, could you update us the impact from those product change in air ticket cross sales?

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

Yes. I'll take the first part of the question. Skyscanner has been growing very rapidly, and it has a very broad global reach. So not only strong -- Skyscanner has strong presence in Europe but also in Asia Pacific, in Middle East and America. And we are working with them very closely to increase Ctrip's presence on Skyscanner. So our volume -- our air ticket volume sold through Skyscanner has increased over 250% year-over-year. And we expect that trend to continue. So we'll be benefiting -- Ctrip's air ticketing volume will be benefiting from Skyscanner's growth and our increased presence on Skyscanner.

Xiaofan Wang - Ctrip.com International, Ltd. - CFO and EVP

And for the second question, the impact. Customer centric, as always, is one of the core values we have firmly upheld since our inception and one of the most important reasons Ctrip can become a clear leader in the very competitive China travel market. We are best positioned in this industry to provide seamless bookings and high value for money selections. Meanwhile, we heavily treasure feedback from our users and keep refining our offerings as being the most convenient and efficient travel booking platform. In the short term, the change in booking process will be a headwind for our air ticketing revenue growth. The impact was reflected in our Q4 guidance. Transportation revenue year-on-year growth is expected to decrease from 41% in the third quarter to 25% to 30% in the fourth quarter, and we expect the negative impact on air ticketing revenue will gradually decrease in the following quarters. Despite the negative impact on air ticketing revenue in the short term, we believe a customer-centric approach will help Ctrip further solidify our industry value proposition. In return, we are still very confident to achieve a healthy margin profile in the mid-to long term.

Operator

Your next question comes from Binnie Wong with Bank of America.

Wai Yan Wong - BofA Merrill Lynch, Research Division - Research Analyst

(inaudible) First question on the hotel -- so first question is on the hotel and the outbound growth. We interested to see the hotel growth (inaudible) this quarter at 36%. How will you comment on trends you have seen in the high-end and low-end hotels? And any benefits from the rising RevPAR on the hotel industry in general? And with regards to hotel, can you also highlight on your outbound hotel strategy in view of the recent investment by Priceline into one of our competitor? A follow-up question on the cross-selling in-purchase now is that, given our booking interface, the air booking interface has been changed since early October, and we are already 1 month since the change. How do you see the revenue and margin impact? Are those consistent or similar what you have guided earlier with regards to that?

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

Thanks, Binnie. On hotel business, we have 2 very important fields, and we're making great progress on both fields. One is domestic; one is outbound. As we discussed earlier, the penetration into the second-tier and third-tier cities have been very strong, and Qunar's platform volume growth has been more than 80% year-over-year. So we will increase our presence in the third-tier and fourth-tier cities by increasing our branding efforts to make sure our product is well known by the people who just started to travel with Ctrip. And we expect to gain more market share in the lower-tier cities aggressively. Secondly is on the outbound business. As James said that we have very strong outbound air ticket business. Coupled with the strength of Skyscanner, we're able to identify where the customers will be landing in each region. And we'll push the hotels with very targeted



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customer group to increase the conversion. And our customer service level is also very high. We call the service level "the sun never sets" because our customer travels around the world 24 hours times 7. Our service representatives are with our customers everywhere they go. With the technology, with the service and with the air ticket [direction,] it will enable us to lock down the high-end customers to each region very nicely. And so far, as we demonstrated in our financial results, both domestic and outbound have grown very healthily and we expect to keep up with the strong momentum going forward.

Operator

Your next question comes from Wendy Huang with Macquarie.

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

I just want to get some clarity on the margin impact from the recent regulations and also the deceleration in the revenue guidance you implied. So basically, with the removal of a portion of the value-added services, I think, probably the cost associated with ticket booking is still there. So should we expect the gross margin actually to trend down sequentially in Q4? And also, is there any [refinding] cost on the (inaudible) sales we should expect in the G&A cost line in the fourth quarter? And also how long this impact would last? Is it just a 1-quarter impact? Or should we expect it to persist in the next few quarters as well?

Xiaofan Wang - Ctrip.com International, Ltd. - CFO and EVP

Yes, we expect the maximum impact on air ticket revenue growth from the change of air ticketing booking process will be in the fourth quarter 2017 and first quarter 2018. But the impact will gradually decrease in the following quarters due to the fast-growing international air ticketing. In terms of the non-GAAP operating margin, the sequential -- there will be a sequential decrease of non-GAAP operating margin for the fourth quarter but which was mainly due to the weaker seasonality. Of course, part of the reason also coming from the negative impact from the air ticket revenue growth. So in the fourth quarter, we expect our non-GAAP operating profit will be in the range of RMB 850 million to RMB 950 million.

Operator

Your next question comes from Gregory Zhao with Barclays.

Xiaoguang Zhao - Barclays PLC, Research Division - Assistant VP

So actually my question is about Meituan team's recent (inaudible) rating and Priceline's recent participation. So in my view, actually Meituan is still focusing more on China's O2O market and competing with Alibaba in multiple fronts, so how shall we think about Meituan's competition with us, especially on the hotel front? And how's the impact? Do we have any way to quantify the impact if they're able to compare the potential impact or the competition with all the previous price war and the competition we experienced with eLong and Qunar involved with (inaudible) 3 or 5 years ago?

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

Yes. I think, Meituan has lots of businesses, but Ctrip is very focused, 24 hours nonstop. We think nothing else except for travel. And so there are a couple things we are doing to further penetrate into the domestic market. First of all, we will increase our brand investment into the lower-tier cities to make sure people who can afford to travel is aware of Ctrip's brand. Secondly, Ctrip offers transportation products, which goes to these lower-tier cities, such as bus, cars, high-speed railways, and that will help us to reach to these lower tier city's customers very well. And thirdly, we also established many offline stores, which will also increase our local presence. So our strength is not only in the product front, also in the branding awareness. We'll spend more resources to make sure customers will use these services. And for us, based on our customer survey, normally a



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customer, once they have used Ctrip, the stickiness is very strong because our service is excellent, and it's 24 hours, nonstop. And also our product is very comprehensive. Basically, whatever you need during your trip, Ctrip will have it. So with that strength, I -- we are very confident that Ctrip's market share will grow aggressively into the lower-tier cities.

Operator

Your next question comes from Jin Yoon with Mizuho.

Jin Kyu Yoon - Mizuho Securities Asia Limited, Research Division - Research Analyst

Just a couple of questions. First of all, I think Cindy, you said that the impact from the value-added services change will fade gradually over the next few quarters. What's driving that eventual fade-out? Is it just a revenue mix on the top line? That's the first question. And the second question is, again, with the value-added service changes, what

(technical difficulty)

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

The line was cut off, operator. Maybe we can answer. Yes. Answer the first question. Yes, the second part of your question was cut off. We heard your question, "what was the reason for the impact to fade-out." What's the second part of your question?

Jin Kyu Yoon - Mizuho Securities Asia Limited, Research Division - Research Analyst

Yes. Sorry about that. The second part is, with the revenue's potential being lost with the value-added services, is there any way to recoup that via, let's say, taking take rates from merchants now or ads or anything like that? Is there any discussion internally about that?

Xiaofan Wang - Ctrip.com International, Ltd. - CFO and EVP

Thanks. Thank you, Jin. Yes, the impact will gradually decrease in the following quarters, mostly thanks to the faster-growing international air ticket business, especially as James said, the synergies between Skyscanner and Ctrip. Skyscanner will bring more traffic to Ctrip platform, especially on the international air ticket. And the Skyscanner -- Ctrip has already launched direct-booking platform for Skyscanner, which has been rolled out very smoothly and continues to see more and more partner's participation. And the total number of transactions made by direct booking grew almost threefold from May, which is the month we launched the direct booking engine through September, the recent -- the end of the recent quarter this year. And Ctrip is currently the biggest direct booking partner. And the vast majority of Ctrip booking from Skyscanner are already under the direct booking model. So overall speaking, the direct booking engine, which significantly increased the conversion rate, on average, the direct booking -- the conversion on the -- for the conversion has been uplifted by almost 50%. And the total air tickets Ctrip sold through Skyscanner increased over 250% year-on-year in the third quarter, while the overall non-China-related international air ticket growing to -- continues to grow very impressively at triple digits volume growth during the third quarter.

Operator

(Operator Instructions) Your next question comes from Natalie Wu with CICC.



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

I have a question regarding your lower-tier city expansion. Just wondering how much budget will you set aside for lower-tier city expansion next year, including the brand investment, transportation services build-out and as well as the offline stores you plan to open? And also, another question is actually regarding the hotel business. Because for the -- like 36% growth of the hotel revenue in the third quarter, I'm just wondering how much is contributed by volume and how much is contributed by the blended net take rate increase.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you, Natalie. In terms of the strategy in the lower-tier market, as always, Ctrip never just focus on sales and marketing expenses as we believe the most important thing is to provide the most appropriate product offerings to serve the local market. For example, we have built the most comprehensive product offering, the most extensive, i.e., the most extensive hotel coverage, the train and bus ticketing services as well as weekend travel product, which fits perfectly for customer demand from the lower-tier cities. And on top of that, we recently launched an in-destination offering where our users can easily access, compare and book local services and products. For example, Ctrip now offer gourmet services, which significantly increase user stickiness on Ctrip's platform while they are [on the go].

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

Yes. Of course, with the faster product offer, we also need to put aside a certain percentage on the sales and marketing budget. But in addition to the traditional digital channels as well as very effective branding campaigns in the lower-tier cities, we -- Ctrip also partnered with Traveling Bestone. We opened extensive offline stores, mostly in the comparatively lower-tier cities, which is a pure supplementary to Ctrip's online marketing channels. But as always, we carefully monitor the return on investment for each of the marketing channel. For the offline store -- for example, for the offline stores, the capital requirement is very limited, and this also is a very profitable and scalable business model for Ctrip. So in the lower-tier cities, we've made very good progress through online channel strategy. In the third quarter, Ctrip's DAU grew around 60% year-on-year, and Qunar's hotel revenue in the third- and fourth-tier cities maintained a very strong growth of over 80% year-on-year. Your second question, our hotel -- very strong hotel revenue growth was mainly driven by the hotel volume growth.

Operator

Your next question comes from Kevin Kopelman with Cowen Company.

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

Could you give us an update on how you're thinking about the accommodations revenue growth for the fourth quarter. And then also could you talk about your initial thinking on 2018 non-GAAP operating margin percentage? Do you still expect that to be over 20%?

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

Thank you. Our net revenue for the fourth quarter is expected to grow at about 25% to 30% year-on-year. The deceleration is mainly due to the negative impact from the change of the air ticketing booking process. As I said, we expect the maximum impact on the air ticket revenue growth from the change of the booking process will be in the fourth quarter 2017 and first quarter 2018. And the impact will gradually decrease. For each of the business line items, accommodation reservation will grow about 25% to 30%. And transportation ticketing will grow at about 20% to 25%. Packaged tour business will grow 30% to 35%. And corporate travel will grow 10% to 20%. In terms of margins, in the fourth quarter, we expect non-GAAP operating margin will be in the range of CNY 850 million to CNY 950 million, and we will provide a guidance for the -- for next year in the following quarters. But in the mid- to long term, we expect the negative impact from change of the air ticketing booking process on margins will diminish thanks to the decreased impact on revenue as Ctrip's continuous improvement in operational efficiency.



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Operator

Your next question comes from Jed Kelly with Oppenheimer.

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

Can you just touch on -- I think, you said earlier, you had 590,000 domestic hotels. Can you give us how you think about building out your global hotel supply directly for establishing partnerships?

Xiaofan Wang - Ctrip.com International, Ltd. - CFO and EVP

Sure. Ctrip is very customer centric, so our strategy is really centered around what customers need. So every day, we look at the search results by our customer, and we develop our service and product offering according to customers' inquiry. To an extent, customer need a certain product, we will develop it. The new products, such as high-speed rail train, bus, et cetera, were all based on the customers' demand. That's how we started our business. And for the hotel, it's the same thing. Every day, our team look at what the customers' focus. And to an extent, there are demand in certain area, then we will make sure not only we have hotel offering, we have shopping, we have packaged tour, we have cars, we have bus, everything to come along with it as a group offering. So that's our strategy in the past, and going forward, it's going to be our strategy going forward as well.

Operator

Your next question comes from Alicia Yap with Citigroup.

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

I have follow-up questions related to the hotel business growth. So can you give us more color, like which segment specifically drove the outperformance? I understand you mentioned about Qunar hotels actually grew about 80%. So what is the current split between the hotel revenues from Qunar versus Ctrip? And also, international versus the domestic growth rate in each area, if you can give some color would be great. And also, any potential you can give us on latest update on the room night volume on the entire Ctrip platform as of the latest?

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

Sure. Ctrip has multibrands. So Ctrip brands is mainly focusing on business travelers and high-end leisure travelers. And Qunar brands is mainly for young people, new travelers. So with different brands, we have different strategy. So particularly when we intend to penetrate in the lower-tier cities, I think Qunar's brand is doing very well. They understand young people's psychology when they do the pricing strategy and branding strategy, so their growth has been very strong into the lower-tier cities. In terms of the outbound, that's also a focus for Ctrip, because our international air ticket grows so well, we understand where our customers want to go and we offer a comprehensive product not only for air ticket and hotel, but also for food, for shopping, for cars, for many attraction tickets, et cetera. So the comprehensive products that's offering for our customer who are going abroad has been proven to be very attractive because they only go there once a year. They want us to give them the best recommendation based on our Big Data analysis. So, so far, I think our service product offering has win the market share and we'll keep up our efforts for that.

Xiaofan Wang - Ctrip.com International, Ltd. - CFO and EVP

And our revenue growth -- strong revenue growth was mainly driven by a very strong volume growth.



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Operator

Your next question comes from Ronald Keung with Goldman Sachs.

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

Actually, just following on the hotel question as well. Yes, that you guided 25% to 30% for the third quarter, came at a strong beat at 36% and very strong volumes. I just wonder as you guide 25% and 30% again for the fourth quarter, are you expecting more competition or some commissions or coupon movements that you're assuming? Or should we be expecting higher growth like the third quarter trend? Or is there anything that makes you expect that to slow a bit in the fourth quarter?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you. We guided a slower-than-normal growth rate mainly because we expect that the maximum impact on the air ticket revenue growth from the change of the booking process will be in the fourth quarter and probably will be also in the first quarter next year. But the impact will gradually decrease in the following quarters.

Operator

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

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

So my question's related to your offline franchise model. So certainly, there are lots of e-commerce guys who talk about new e-commerce, new retails. So I wonder what's the thought behind your franchise model to develop O2O or online approach? And how many stores do you have now? And where are they? And going forward, how many stores do you want to have? And where are the locations? So what's Ctrip's contribution financially to them? And what do you get from them? That's my question.

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

Yes. Offline store -- our model is franchise model, so it's very light. The things we offer to them is our products that is very comprehensive. And the local stores, it's very hard for them to develop such a comprehensive product if Ctrip do not support them. What they can give to us is the access to the local market because these store owners normally select the location at the center of a small town. We help them to design the outlay. It increases our local presence for consumers to know more about Ctrip. And these customers probably historically haven't had a chance to get to know our brand. But we are very confident once they use our product, they will become loyal customers as we have proven in the first-tier and second-tier cities. So it's a win-win partnership between Ctrip and these local stores. And based on our analysis, within 1 year, these store owners can already make profit in these stores. And going forward, the profitability will increase. So it's really -- this will really drive lot of value for these store owners, and they also bring great customer access for Ctrip brand.

Operator

Your next question comes from Chi Tsang with HSBC.

Chi Tsang - *HSBC, Research Division - Head of Internet Research of Asia Pacific*

I wanted to ask about Priceline. Because clearly, you guys are very, very well positioned to compete versus all players domestically. That said, however, the Priceline investment was surprising. So I'm wondering, as their partner in China, do they consult with you? Can you give us an update



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on the strength of your relationship. And I'm also wondering if, as Skyscanner improves its positioning, is that a threat to Kayak and Priceline sort of years down the road?

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

I think our growth has always been based on our organic growth, and we believe Ctrip's comprehensive product is really the key to win against all the other products. I think, Skyscanner's partnership with Ctrip also give us good access for the air ticket market globally. And as James said, the global travel industry will be around 5 trillion. That's a huge number, and should allow multiple players to be a winner in this industry. So we are very positive as long as our product is solid and we understand what customer need and we offer the best service to support our customers 24 hours nonstop around the world. We will be able to give the best product and services to our customers and grow rapidly going forward.

Operator

Your next question comes from Alex Yao with JPMorgan.

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

Victor, congratulations to the new role.

Unidentified Company Representative

Thank you.

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

I want -- I'd like to dig a little deeper into the sales and marketing expense. Apparently, you guys have been ramping up the sales and marketing, particularly in lower-tier cities. So this year versus last year, we actually see increasing sales and marketing as a percentage of revenue. How do you think about the sales and marketing trends for the next couple of quarters or, let's say, for -- to the end of next year? Should we continue to see this expense item represent increasingly more of revenue? And then also, can you give us a breakdown in terms of the top 3 sources that you spend these sales and marketing budget? Is it more on the traffic acquisition side? Or is it more on the branding side?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you, Alex. So in terms of sales and marketing expenses, we never set a hard budget limit on the sales and marketing. The only data we look at is the return on investment. As long as the return on investment in each of the channel is positive for us, we will continuously to make investments. So in the next couple of quarters, as always, we will look at the different alternatives, both online as well as branding campaigns. And also, we work with Travelling Bestone to open more offline stores. As long as those channels, they are very profitable for us, we will continuously to make investments so that we can continuously to gaining our market share, especially in the lower-tier cities.

Operator

I will now turn the call over to Victor Tseng for closing remarks. Please proceed.

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Victor Tseng - *Ctrip.com International, Ltd. - VP of Corporate Affairs*

Thanks to everyone for joining us today. You can find the transcript and webcast of today's call on ir.ctrip.com. We look forward to speaking with you on our fourth quarter 2017 earnings call. Thank you and have a good day.

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

Thank you very much.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now all disconnect. Enjoy the rest of your day.

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