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CTRP - Q3 2014 Ctrip.Com International Ltd Earnings Call

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OVERVIEW:

Co. reported 3Q14 total revenue of CNY2.3b and diluted earnings per ADS of \$0.22. For 4Q14, Co. expects to continue the net revenue growth YoY at rate of approx. 30%.



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Chi Tsang *HSBC - Analyst*

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PRESENTATION

Operator

Ladies and gentlemen, welcome and thank you for joining the third quarter 2014 Ctrip International Earnings Call. My name is Ryan; I'll be the operator on the event. (Operator Instructions) And as a reminder we are recording the event for replay. Now I'll turn the call over to Ms Michelle Qi, IR Manager of Ctrip.

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

Thank you, Ryan. Thank you, all for attending Ctrip's Third Quarter 2014 Earnings Conference Call. Joining me on the call today we have Mr. James Liang, Chairman of the Board and Chief Executive Officer; Mr. Min Fan, Vice Chairman of the Board and President; Ms Jane Sun, Chief Operating Officer; Ms Jenny Wu, Chief Strategy Officer; and Mrs. Cindy Wang, Chief Financial Officer.

We may during this call discuss our future outlook and performance which are forward-looking statements made under safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties.



As such, our results may materially differ from the views expressed today. A number of potential risks and uncertainties are outlined in Ctrip's public filing with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements except as required by applicable law. James, Min, Jane, Jenny and Cindy will share our strategy and business updates, operating highlights and financial performance for the third quarter as well as our outlook for the fourth quarter of 2014.

We will also have a Q&A session towards the end of this call. With that, I will turn to James for our business update. James, please.

James Liang - *Ctrip.com International, Ltd - Chairman of the Board and CEO*

Thanks, Michelle. Thanks, everyone for joining us today. We are pleased with the solid results in the third quarter of 2014. Net revenue grew by 38% year-over-year driven by accelerated volume growth. Accommodation business achieved 69% year-over-year growth in the room nights and 56% in revenue.

Transportation ticketing business reached 98% year-over-year growth in volume and 32% in revenue. In the past two years we have invested heavily in technology and especially in mobile platform, where we are still catching up with the best travel companies in the world in terms of overall technology capability, we are already one of the leading players in terms of mobile products design and functionalities. Our efforts have led to fast growth in mobile downloads and increased mobile user activeness.

By the end of the third quarter, accumulated downloads for the Ctrip travel app reached 350 million and activated accumulated downloads reached 150 million, increasing 75% and 50% quarter-over-quarter respectively. Over 5 million daily unique users accessed the Ctrip travel app on peak days. Total mobile transactions in the third quarter of 2014 nearly tripled from the same period a year ago.

During the third quarter, approximately 40% of Ctrip's total hotel transactions were booked through PC-based internet and 45% through mobile channels, compared to around 40% and 30% respectively a year ago. PC-based internet bookings contributed approximately 45% of Ctrip's total air ticketing transactions and mobile channels contributed 35% compared to around 40% and 15% respectively a year ago.

For many other products, mobile is the primary booking platform from day one. Transactions made through mobile platforms passed 80% of rail ticket bookings in the second quarter. Recently bus ticketing and attraction ticketing also reached similar levels.

One of the advantages of the Ctrip travel app is it offers a one-stop solution. With a download of a single app, Ctrip customers can access a full range of travel tools that they can utilize throughout their trip. Our aim is to enable all travelers to process all of their travel-related effortlessly through the Ctrip app, including pre-travel arrangements, reservations, on-the-ground services as well as post-travel support.

This is an ambitious task that requires tremendous work. On the front end, we will continue to invest in technologies to deliver a more personalized and smooth experience. Behind the scenes we are building an open platform to work with all our partners in every single travel segment, which will enrich our product selections and improve our pricing competitiveness.

Through this open platform, Ctrip is committed to supporting our partners with our well-trusted brands, large loyal customer base and seamless user interface to [pump] incremental bookings. We also renovated our IT infrastructure and technology to better serve our partners to take care of the customer service and payment transactions with high efficiency. Furthermore, with our huge records of customer behavior data, we are able to provide constructive suggestions to help our partners to improve their business efficiency.

Ctrip's open platform is in its early stage. We are excited to see that being open has helped Ctrip attract more customers and improve the utilization of the traffic.

Customers are more likely to find a product that fits their interest on the Ctrip platform which offers a large selection of products and prices. This translated to a higher conversion rate and a better customer satisfaction.



As of the end of third of quarter, we work with approximately 1000 hotel agencies, 600 of the top air ticketing agencies and over 300 local travel agencies in China. The total transaction value of hotel bookings through our open platform was over RMB1 billion during the quarter.

We believe our open platform will become a significant part of Ctrip's business. We will continue to invest in our open strategy to improve customer experiences and also partner some more effective solutions.

The promising potential of the travel market and the fast evolution of technology in China has unveiled unprecedented opportunities as well as new challenges. Many new players have moved in and devoted substantial resources and efforts. New business models are emerging with ambitions to break into the travel market and change the market landscape.

As the largest OTA in China, Ctrip needs to be innovative to stay competitive and ensure our continued success. We have set up multiple programs and incentives to encourage our employees to think outside the box. We have also developed an evaluation system to quantify the cost and benefits of implementing these ideas.

Most importantly, we've built an entrepreneurship mechanism within the Company to incubate new business. We have set up multiple entrepreneurial units for these initiatives, the majority of the decision-making power decentralized and assigned to the business unit level to ensure business efficiency. Just like the start-up companies, the leaders and the employees of entrepreneur units need to work harder and take more risks.

Meanwhile, all units rely on the Company to share the resources and platform for branding, IT, sales and marketing, customer service, payments and other necessary support functions. Combining the strong drive and efficiency of start-up companies with the resources and support from an industry leader we believe our initiatives have a better chance to stand out in their respective areas.

We will continue to make bold investments balanced with thorough evaluation towards our long-term market leadership. With that, I will turn to Min for the industry highlights and investment opportunities.

Min Fan - Ctrip.com International, Ltd - Vice Chairman of the Board and President

Thanks, Jim, thanks everyone listening. Finally, we are getting into a sweet spot for outbound travel growth. International travel has been one of the fastest growing segments for Ctrip.

To build an extensive global travel resource network, we have actively expanded and strengthened our international partnerships and made multiple investments in different travel segments. Through our expanded partnership with Priceline Group, we will collaborate on multiple travel products, including hotel, air ticketing, local activities, car rental and dining.

(Inaudible) international travel company, one of the largest outbound travel wholesalers in China. Ctrip and (inaudible) will leverage each others strengths to further enhance our advantages in international tourist and travel packages.

Cruises are one of the most cost-effective and effortless outbound travel products for Chinese travelers. Cruise travel in China is expected to grow over 30% per year on average over the next 5 to 10 years. As the largest cruise agency in China, Ctrip has sent over 120,000 guests on cruises so far and gained more than 10% of market share in China.

Last week Ctrip and Royal Caribbean Cruises signed a definitive agreement to form a strategic partnership through SkySea Cruises, a joint venture that is designed to serve the Chinese cruise market. The new company has acquired its first cruise ship, the Celebrity Century.

We believe SkySea Cruises will be an innovative cruise company, combining the international expertise with tailor-made products and services for Chinese travelers. With our investment in SkySea Cruises, Ctrip will have a strategic foothold and influence in the fast-growing market and the only player in China.



Outbound travel is a promising market and we will keep working hard to solidify and expand our leadership in this area. With that, I turn to Jane for operational highlights.

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

Thanks, Min. Thanks, everyone. I'm pleased to share the updates of Ctrip's main businesses with each one of you.

At the end of the third quarter Ctrip has further expanded its hotel coverage to approximately 170,000 domestic hotels and 510,000 international hotels. Room nights grew 69% year-over-year in the third quarter of 2014. International hotel grew more than 90% year-over-year despite the continued impact of the weakness in the Southeast Asian market.

We are devoted to provide more value to our customers and our partners. We now offer wholesale managers a free and cloud-based property management and marketing system for wholesale managers. The system supports wholesale managers to manage their inventory, price and booking with convenient PC and mobile-based tools. It is designed to help our partners to accommodate higher demand in a cost-efficient manner.

Besides bookings made through Ctrip, the system also helps provide free guidance to help them with their [yield] management based on our extensive customer data. In the third quarter, we launched a new wholesale channel that covered about 50,000 wholesalers in over 700 cities in China. The reception has been very positive and we will keep improving the system according to the users feedback.

The total volume for transportation tickets grew 98% year-over-year in the third quarter of 2014. Air tickets contributed to the majority of the booking volume and the revenue for the transportation ticketing business. We have added more than 160 international airlines. This brought the number of our total international air partners to over 300 and greatly expanded our service coverage to all regions and destinations around the globe.

Train ticket volume grew over 300% year-over-year. Rail transportation is 10 times larger than the air ticket market, in terms of the number of trips. Bus ticketing business are in early stage. Our team is working very hard to expand our coverage and improve our customer experience.

The booking volume of our organized and self-guided tours grew 52% year-over-year in the third quarter of 2014. Including a new initiative, the new number of the travel served by our group tour and self-guided tour grew about 300% year-over-year.

Organized tours from our open platform from new vendors grew approximately 15 times its volume from a year ago during this quarter, and 30 times during the October Golden holidays.

During the third quarter of 2014, local attraction ticket volumes grew over 600% year-over-year and almost tripled the volume from the previous quarter. The expanded local attraction ticket offered a variety of things to do in destinations for independent travelers, such as mobile or Wi-Fi hotspots, day tour, bus tour, theatre tickets.

Things-to-Do is a mobile-arranged product, initiated with a global view. Within six months, our Things-to-Do team has already signed up for more than 10,000 products, covering 200 destinations worldwide.

Our cruise booking business has continued its strong momentum, delivering three-digit growth in the third quarter. In September Ctrip launched a new cruise booking platform. The new system directly connects Ctrip with all major cruise companies, making Ctrip the world's largest cruise reservation platform in Chinese language.

With the real-time information and feedback directly from cruise companies, Ctrip's customers can search, compare, reserve, and even choose cabins online via Ctrip's mobile app.

Ctrip's corporate travel maintained a strong momentum at a growth rate of 45% in the third quarter, providing corporate travel solutions for around 4000 companies in China. Most of our corporate clients are among China's largest firms as well as global multinationals.



For small and medium enterprises, we launched our new corporate management system in the second quarter. It enables SMEs to self-register and manage their travel needs, including searching, booking, authorization, and creating reports through web or mobile-based platforms. The system has received great feedback.

Within five minutes of its launch the system has already attracted 13,000 registered SME clients. Approximately 90% of the SME transactions were booked through PC online or mobile platforms.

We are pleased by the strong performance across business lines, and we are excited to start a new journey with many new business initiatives. We will continue to be diligent and deliver strong growth in the years to come. Now, I will turn to Jenny for financial highlights.

Jenny Wu - *Ctrip.com International, Ltd - Chief Strategy Officer*

Thanks, Jane. Thanks, everyone. For 3Q, Ctrip's total revenue of RMB2.3 billion was up 38% year-on-year and 24% Q-on-Q. Accommodation reservation volumes increased 69% year-on-year, exceeding our guidance of 50% to 60% increase year-on-year, with revenues of RMB950 million, up 56% year-on-year and 26% Q-on-Q.

Transportation ticketing volumes increased 98% year-on-year, exceeding our guidance of 60% to 70% increase year-on-year, with revenues of RMB800 million, up 32% year-on-year and 10% Q-on-Q.

Packaged tour revenues of RMB358 million increased 12% year-on-year, driven by 52% increase in volume for our self-guided and group tours. Packaged tour revenues increased 74% Q-on-Q.

Corporate travel revenues of RMB104 million were up 45% year-on-year, driven by the increased corporate travel demand from business activities. Corporate travel revenues increased 15% Q-on-Q.

Net revenue of RMB2.1 billion were up 38% year-on-year and 24% Q-on-Q. Gross margin was 72% versus 75% a year ago and have been consistent Q-on-Q.

Product development expenses increased 83% year-on-year and 28% Q-on-Q to RMB612 million due to an increase in product development personnel-related expenses. On a non-GAAP basis, which is excluding share-based compensation charges, product development expenses accounted for 26% of net revenues versus 20% a year ago and 25% a quarter ago.

Sales and marketing expenses increased 69% year-on-year and 25% Q-on-Q to RMB598 million due to an increase in sales and marketing-related expenses. On a non-GAAP basis, sales and marketing expenses accounted for 27% of net revenue, versus 22% a year ago and have been consistent Q-on-Q.

G&A expenses increased 40% year-on-year and 25% Q-on-Q due to an increase in administrative personnel-related expenses. On a non-GAAP basis, G&A expenses accounted for 8% of net revenue versus 7% a year ago and have been consistent Q-on-Q.

Operating income decreased 71% year-on-year and (inaudible). On a non-GAAP basis, operating income decreased 45% year-on-year and increased 11% Q-on-Q.

Operating margin was 4% versus 19% a year ago, and 5% a quarter ago. On a non-GAAP basis, operating margin was 11% versus 27% a year ago and 12% a quarter ago.

The effective tax rate was 23% versus 22% a year ago, primarily due to the increase in amount of non-tax deductible share-based compensation charges as a percentage of our income as a whole. The effective tax rate decreased from 32% in the previous quarter, primarily due to the decrease in amount of non-tax deductible share-based compensation as a percentage to our income as a whole.

Net income decreased 42% year-on-year and up 61% Q-on-Q. On a non-GAAP basis net income decreased 27% year-on-year and increased 44% Q-on-Q.

Diluted earnings per ADS were \$0.22, or \$0.36 on a non-GAAP basis. As of 3Q, the balance of cash and cash equivalents, restricted cash and short-term investment were \$1.8 billion.

Lastly, on guidance. For the fourth quarter 2014 the Company expects to continue the net revenue growth year-on-year at a rate of approximately 30%. This forecast reflects Ctrip's current and preliminary view, which is subject to change. With that, we are opening the lines for questions. Operator, please help. Thank you very much.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, your lines are open. (Operator Instructions) Our first question here comes through from Dick Wei, Credit Suisse.

Dick Wei - Credit suisse - Analyst

Hi, good morning. Thank you for taking my question. My question is on the -- maybe in the fourth quarter guidance, I wonder if management can share more about the volume and pricing trend across various business lines. And maybe any outlook for 2015, that would be great as well. Thank you.

Jenny Wu - Ctrip.com International, Ltd - Chief Strategy Officer

Sure. Thank you, Dick. On the fourth quarter guidance, as we have mentioned, overall we're happy to deliver our [top line] by 30% year-on-year and if we can deliver that that means for the full year we could deliver (inaudible) annual growth which is higher than our gross profit and also implied a strong market share gain by our team.

By the product line for the hotel, for the accommodation reservation business, the volume growth was around 40% to 50% year-on-year and the commission -- the bare price declined by roughly 5% and then the commission per room night will decline by 5% to 10% year-on-year, and then the revenue will grow roughly 25% to 30% year-on-year.

For the transportation business, the volume growth will be 55% to 65% and the revenue growth will be 25% to 30%. Among that is the growth mainly driven by our air ticketing business. For the packaged tours, the revenue growth will be 15% to 25% and the corporate travel, revenue growth will be 25% to 30%. So combined together the net revenue for Ctrip will grow roughly 30%.

Operator

Alex Yao, JP Morgan.

Yong Wang - JP Morgan - Analyst

Hi, it's Yong calling for Alex. Thanks for taking my question. My question is regarding your investment plan into 2015. So 2014 is a strategic investment year for Ctrip. So as we are entering 2015, just wondering if you could share with us your initial thoughts on what are the key investment areas you are focusing on. Also if we assume stable competition into 2015, how should we think about the margin trend? Thanks.



Min Fan - *Ctrip.com International, Ltd - Vice Chairman of the Board and President*

Yes I think 2014 is definitely an investment year and 2015 will continue to be an investing year but I think investing with also emphasis on efficiency. As we have a lot of innovations in many new areas, I think some of the innovations were brought on successfully, some of them were not.

So we will adjust to maximize our efficiency in the investments we make. At the same time, I think 2015 will continue to be a very competitive year as you all realize all the -- our competitors have very rich valuations, much richer than Ctrip and they have a lot of resources to also invest. So I think it will continue to be an investment year but also competition for which Company will have the highest efficiency.

Jenny Wu - *Ctrip.com International, Ltd - Chief Strategy Officer*

Just to add to that and indeed as James mentioned, encouraged by the great achievement through this year's investment and then meanwhile witness them even more aggressive competition from peers. Basically we reviewed our strategies and decided to gain market share at a faster pace should continue to be our top priority in the coming year. We will continue to make bold investments to further strengthen our achievements in mobile internet, open platform, technology, brand awareness and innovation.

Along with this decision, we are speeding up investments like (inaudible) and the last in 4Q this year, we were running to loss for our bottom line with non-GAAP operating margin to be enacted 12% to 17%. Even with -- we take the medium of the level; it will be enacted at 15%. This means a decline of 26 percentage points Q-on-Q and 35 percentage points year-on-year on the margin side. And for more details in the first (inaudible) our gross margin declined roughly 2 percentage points Q-on-Q and 3 percentage points year-on-year largely due to the hotel coupon, the part of mixed change and the rising of reservation costs.

Among that, hotel coupons impact is roughly 1 percentage point as it was increased from 80% to 20% of the total hotel commission revenues in 4Q. The impact from product mixed change and rising reservation costs, the volume contribution from lower margin products is increasing, such as the group buying and the new products. Secondly, for sales marketing, it will build margin by an additional 9 percentage points Q-on-Q and 12 percentage points year-on-year due to increased branding campaign and the product promotion coupled with lower seasonality in 4Q versus 3Q.

Thirdly, for product development, it can make the growth margin by an additional 13 percentage points quarter-on-quarter and 18 percentage points year-on-year which is due to the headcount increase in IT and the business development team. The increase is to support our new business unit and strengthen our IT investment. In 3Q (inaudible) we have been hiring more ground staff for our penetration into lower tier cities and more IT people for our new business. With the majority of the hiring actually to be [aboard] in the end of the third quarter and in 4Q. The 4Q will book the full cost of impact. Fourthly, our G&A (inaudible) the margin by additional 2 percentage points Q-on-Q and on year-on-year due to our new business unit extension.

So to sum up, for the overall margin decline, it is largely due to our staff (inaudible) up investments. For the sequential margin decline, it is also partially due to the weak seasonality and more work here. I think since the beginning of this year, we have made great investments and also grabbed greater achievement. In the past three quarters, we are very pleased to see we have expedited our market share gain and achieved accelerated growth across all our major business lines. We not only strengthened our leadership in our last two hotel and air ticketing business, but also become the clear leader in many of new initiatives. We have built up solid core competency in mobile internet technology services and innovation.

We also started to enjoy a certain level of operating leverage. After [careful] evaluation, management team believes at this moment rather than taking a little relax, we should build the momentum to further lift the entry barriers and to further strengthen our leadership. Although it means the margin recovery will be prolonged for more quarters, we believe through this effort we can effectively build much solid foundation for Ctrip to achieve and sustain market leadership. The long term value will be much more significant and more [involved].

The [feasibility] of the coming quarter is quite low based on our experience for this year. If we could continue making the solid investment and effective internal consul, we would expect operating leverage gradually to kick in, in the next few quarters. Thus, we may see margin to be stabilized



Q-on-Q in Q1 next year and being sluggish year-on-year for the full year 2015. We will give you more concrete guidance once we move into each quarter. Thank you.

Operator

Philip Wan, Morgan Stanley.

George Meng - Morgan Stanley - Analyst

Hi, good morning everyone. Thank you very much for taking my questions. This is George calling in for Philip. I have a question on the competition especially on the accommodation side. But first, congratulations on the strong open platform growth. If you think about your business models now, you're doing more open platform than your competitors by apparently doing more OTA. I think one of the unique advantages that you have, your company does not have is the hotel wholesalers where you controlled.

So I'm just wondering if you plan to leverage this advantage more to attract users and also in the meanwhile block your competitor maybe by acquiring more hotels? Can you just remind us of the contribution of the accommodation revenue from the wholesalers now? If that contribution is growing, is it possible that maybe auditors will make you book gross revenue going forward because of the inventory risks associated? Finally, can you share with us the long term strategic thoughts on the different positioning of your own hotel business and the open platform hotel business? Thanks.

Jane Sun - Ctrip.com International, Ltd - COO

Sure. I think in terms of pricing and of coverage, we're very aggressive to make sure our price is the most competitive in the market. Wholesale is one of the means that we have been taking. The revenue contribution to our total pool is insignificant. However, they give us the leverage and also coverage on the pricing. So it enables our customers to get the price in the market. In terms of the open platform, not only the wholesale is one of the strategies we are taking to make sure our price is very competitive.

We also reach out to many other smaller players in the market to make sure whatever is available in the market; Ctrip will get it because we are the largest player in the market. Ctrip also have the most competitive pricing that is given to the other players online. So that's the first thing we did very well in the quarter and continuously it's our focus. Secondly, is the coverage, our open platform is growing very fast. So our goal is to grow that portion very aggressively to make sure we have [to time] market and make sure we get the coverage in a very short period with very competitive strategy --with very competitive pricing structure as well.

Meanwhile, with the strong pricing and coverage, it enhances our customers' satisfaction rate and empowered by our high quality of the services, the quality of our customer and earnings power in our platform is much stronger than the other players in the market. So going forward into 2015, the best pricing, best coverage, best service will still be our strongest competitiveness into the market.

Operator

Chi Tsang, HSBC.

Chi Tsang - HSBC - Analyst

Good morning, thank you for taking my question. I was wondering if you could give us a sense of your expectations on pricing for packaged tours next year. Obviously this year has been impacted by the (inaudible) situation. What's your current outlook for any type of recovery in pricing for packaged tours? Thank you.



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

Sure. I think the packaged tours in terms of transaction volume and headcount grow very well. Almost every quarter would deliver more than 50% year-over-year growth. This year (technical difficulty) has suffered a little bit unstableness including what happened in Malaysia, what happened in Philippines and also in Vietnam. So going forward into 2015, if the political situation is stabilized, we are very positive that the recovery on the pricing will be achievable and we will continue to work on our open platform to make sure into the second tier and third tier cities. We'd reach out to the smaller vendors and make sure their pricing and also coverage is on our vacation package platform to enable our customer to get the best price and best coverage for the product. So we are very positive in terms of the pricing going into 2015.

Operator

Fei Fang, Goldman Sachs.

Fei Fang - *Goldman Sachs - Analyst*

Hi, thanks for taking my question. We have seen continued micro headwinds in the domestic economy with slowing growth and lower demand in some of your peer internet verticals including advertising. What's your assessment of the travel demand in 2015? Thank you.

James Liang - *Ctrip.com International, Ltd - Chairman of the Board and CEO*

We are still very optimistic about the travel demand as people don't spend money buying houses or even buying cars because they cannot buy houses and they cannot buy cars in big cities, anyway. I think they will -- even though their income is growing maybe single digits, actually we think that the income growth is actually going to be higher than the GDP level growth. Their travel consumption will be at least double of their GDP and the income growth. Particularly on the high end of the market where we have the advantage for example upon travel or high end hotel air ticket consumptions, I think at least double the growth rate of the income. So we are still very optimistic about the travel demand.

Fei Fang - *Goldman Sachs - Analyst*

That's great, thank you.

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

Thanks.

Operator

Alicia Yap, Barclays.

Alicia Yap - *Barclays - Analyst*

Hi, good morning everyone. Thanks for taking my questions. My question is regarding your accommodation volume. So can you maybe share with us the breakdown of each of the hotel categories? For example, the percentage from the four and five star hotels, percentage from three star and below, your group buys, your wholesale volume and also percentage from like open platform, and any of these percentage from the volume that you may actually take inventory risk.



In relation to that, can you actually tell us, what is the current accounting booking for your hotel inventory that you take inventory risk, is that on a growth or the net basis? Thank you.

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

Sure. In terms of the category, we are very diversified. We try to -- not to have concentration of the risk in our business. So from five star, four star, three star and also hostel as we discussed before, the revenue is very evenly spread. No segment will -- we will not concentrate on one segment. That is why no matter what happens in the market, our model is very resilient.

Secondly, we do not normally take inventory risk. We only -- most of the customers we have guaranteed allotment. So unless it's really during the peak, peak season for one or two hotels that you need to buy, but most of the hotels, we just need to have a guaranteed allotment with the hotels to ensure the availability and based on our volume, hotels will prioritize Ctrip's customers in order to get a great volume from us. So in that, the booking on accounting is similar to the commission rated hotels.

In terms of the contribution into the future, I think Ctrip started with the business travelers and we are very aggressive moving into the travel, leisure travel business. So for our teams, have hired people in the second tier cities, third tier cities, to make sure all these inventory are reflected in our platform in a timely manner. In addition, not only we have our own sales contracted team, we also open it to the market. So to an extent, in the market, there are other players with better inventory availability. We'd be happy to lift their inventory onto our platforms as well. That is why our growth rate in the past few quarters has demonstrated a very strong growth. Although our base is very large, our growth rate has been (inaudible) at around 69% for last quarter. I think the concerted effort into the pricing and coverage are the main reasons contributing to our strong growth.

Jenny Wu - *Ctrip.com International, Ltd - Chief Strategy Officer*

Sure. To add more colors here. You know, we achieved a volume growth of 69% year-on-year. Actually that's the highest growth rate in the past decade for Ctrip. This is primarily driven by our superior services, the enriched hotel package offering and increased price competitiveness. Now you see we're offering a full range of hotel products covering postpaid, prepaid, group buying, package and [office] prices, and also providing regular hotel accommodation, vacation rentals and hostel facilities.

Not only have the regular (inaudible) hotel business has maintained the strong growth, but also we are very pleased to see many of our new initiatives that we have been [milking] in the past two years are growing up to become strong growth drivers. For example, our international hotels grew 19% year-on-year. It's part of the continual impact of the [investing] in the Southeast Asian market. Our group buying business saw the volume growth more than double year-on-year to reach the tier one league. Our prepaid hotel grew volume about 200% year-on-year to contribute about 20% of our total (inaudible).

We are very pleased to bring forward Ctrip's hotel business (inaudible) at the (inaudible) growth, strong growth engine and Ctrip's is to be the best partner of choice for both our customers and our suppliers.

Operator

Eddie Leung, Merrill Lynch.

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

Hi, good morning. I have two questions. The first one is about the trend of commission by per ticket as well as by per hotel room night. Could you share more color with those in commission trend in the third quarter, and how much the impact was from industry pricing changes and how much the impact was from couponing?



Then secondly, you mentioned that there could be a pretty big increase in headcount calls in the fourth quarter. So just wondering how many headcounts you have right now and what's the change into the fourth quarter? Thanks.

Jenny Wu - *Ctrip.com International, Ltd - Chief Strategy Officer*

Okay. First of all, on the commission trend, and for the air ticketing, you know, airlines usually adjust their commission rates from time to time, and based on the market supply and demand. That's why we see commission rates fluctuate in different seasons. Also, air commission rates usually includes a fixed part and also a flexible part. Recently the airlines adjust down the fixed part and to improve their sales and marketing efficiency.

For Ctrip, we see some commission rates decrease post this structure change. However, the impact overall is very limited given our large volume. Now, our overall commission rate for air ticketing is still relatively simple, somewhere around 4% to 5%. We received the (inaudible) but higher starting bonus given our large scale and wider (inaudible) spectrum.

Going forward, no matter how the market evolves, Ctrip will continue to work hard to provide better value for our customers and the large (inaudible) to our cost, and will remain the most efficient and effective distribution channel for all airlines. We believe that's our core competitive advantage and also the highest entry barrier.

Yes comparing to the higher commissions, airlines are also increasingly interested to promote tickets with marginal travel components. Ctrip is the best partner for airlines with our wide product offering and high operating efficiency. As for the air ticketing (inaudible) and for our hotel. For our hotel, you know, our hotel revenue is -- has two components -- is (inaudible) of the volume growth and the ADR. So the overall ADR trend first of all, our blended ADR has two components. The one is the selling price of the room nights and the second one is commission rate that hotels give to us.

For us, our focus is to gain market share and penetrate into leisure travel market aggressively. So first of all, we expect our blended selling price may trend down, but it will be very gradual and modest. This is largely due to our product mix change. The blended selling price is naturally impacted by the penetrations into our -- increasing penetration into the lower tier cities and the lower end hotel markets. For the existing hotels, actually the selling price will increase with inflation going forward. We will also expand into the international markets which will further help us tap into the potential of higher end of the hotel market.

For the -- and then for the blended commission rate, now it's roughly 10% to 15% less and this is also driven by the product mix change. Also for China hotel market, it's very fragmented. Commission rates are usually around 14% to 15% which is still -- will be sustainable for the mainstream hotel products. But we are growing some new products with lower commission rate such as group buying products. This kind of [action] will [actively] impact the blended commission rates. So we believe the overall commission rate will be between 10% to 15% in the mid to long run -- especially on a commission rate.

Secondly, on the headcount. On the headcount, now we have roughly 30,000 people in our Group and the major increase is for our IT personnel and for our business management people. For the -- on the year-on-year basis, these two segments receive headcount increase over 70% on year-on-year basis. We have roughly 3000 IT people now and roughly 5000 business development personnel now. We had a very good achievement in putting the operation efficiency and automation and so if -- although you see the tremendous volume growth, but our -- for our call center, the customer service people, the growth is still capped -- is still lower than our growth rate.

Again, most of these new [ad] actually come on board in late third quarter and 4Q. So 4Q we will book the full quarter's impact. That's largely one of the key reasons for the margin decline in 4Q and gradually, when we -- when this new team may become more functional and for our new business (inaudible) team of (inaudible) then we could expect certain operating leverage will gradually kick in.

Operator

Michael Olson, Piper Jaffray.



Michael Olson - *Piper Jaffray - Analyst*

Hey good morning. You've talked a lot about group buy and your cruise line and some other new initiatives that you're investing in. You know, the cruise line in particular would have been an example of a category that we may not have expected you to enter directly several quarters ago.

Are there other categories that you're looking at that could cause further investment that you'd like to add to your portfolio offerings or do you feel that at this point you have all the categories addressed and don't anticipate further investment in new categories but just deeper investment in the categories you have? Thanks.

James Liang - *Ctrip.com International, Ltd - Chairman of the Board and CEO*

Yes we are generally very active or take a very open attitude towards investing in China's travel markets. I think the different types of investment opportunity; some are more asset heavy, such as the cruise business [we're in]. Others are more asset light, for example tour operators. Some just have a lot of traffic on the front end. We categorize at the front end traffic generating investments.

So (inaudible), I think depends on the timing. Sometimes some of the investments are more -- more I think of the richly -- more richly valued than some other types. Currently the traffic assets are very richly valued. Some of the asset heavy-- assets actually not as richly valued. Some of the asset light resource type of investments is somewhere in between.

We take a more -- very open approach, but very strategically think about the kind of valuation, the kind of timing that we want to invest in. Also, in terms of synergy I think Ctrip is always looking at the leaders in each category. Those leaders usually have a very strong market power and be very valuable partners in many of our products and many of our value chain that provides our service to our customers. On a synergy level we also--this is a consideration.

That's kind of a -- we cannot comment on specific investments, but that's our philosophy of our investment strategy.

Jenny Wu - *Ctrip.com International, Ltd - Chief Strategy Officer*

Sure, just to add more comments here, (inaudible) at Ctrip our goal is to build a one stop travel platform for our customers. Our vision is that no matter who they are, they come to Ctrip's platform they will find the most comprehensive product at the best prices with the best services.

To achieve that goal the comprehensiveness of current offerings is key, so to achieve that we have -- internally we are having a lot of innovation and (inaudible) lot of new projects. Externally we are very open and actively searching for the good candidates.

For our investment, our investment philosophy is always we are very open -- on the other hand we are very focused. We are always focused on the travel related areas. We are constantly looking for the new talent and technology resources and good things that could strengthen the strength of our flagship.

We also -- when we handling the investments and we also have very scientifically managed the system and we have very strict internal evaluation systems. Also, we are skillful about the best approach to make the balancing the growth and the financial impact.

For example the so called heavy asset investments, in the early years when we invest in (inaudible) and (inaudible) and our (inaudible) investment in this cruise line. We all adapt this kind of strategic investment style and we -- the overall impact for our P&L is very manageable.

Overall our platform is still very much asset oriented. Going forward as a leader in the online travel market in China, we are very -- (inaudible) into what we're (inaudible) in this market. We want to be backer of healthy industry together with everyone.

As long as the new investments can help us to achieve this goal, to build the best one stop web platform, we are open for that.

Operator

Jiong Shao, Macquarie.

Jiong Shao - Macquarie - Analyst

Thank you for taking my questions. Really appreciate the detailed commentary about the margin for quarter four. Your operating expenses I think was up 30% sequentially in Q3 and it's going to be up another 30% sequentially in Q4, which is also going to be over 100% growth year over year.

I was just wondering, following up on operating expenses how much of the expenses in Q4 is going to be more headcount related? How much is more sort of marketing, promotion driven that's a follow up.

My question is on the internet finance related. I think given you now have tremendous amount of [G&Ds] through your platform, could you talk about your thoughts around perhaps your own payment and then you have launched some internet finance products recently. Could you also give us an update on what you have done and where you are thinking about doing in the next few quarters? Thank you.

Jenny Wu - Ctrip.com International, Ltd - Chief Strategy Officer

Sure, and Jiong as I mentioned for the [sales] marketing in 4Q the--(inaudible) the margins by additional [9] percentage points Q-on-Q. This is largely the majority of expenses is related to our brand campaign and product promotion.

Only a very -- the headcount increase for that segment is very minimum. This year we making the very deep penetration into the lower tier cities. We already achieved a great achievement there and the branding campaign is especially meaningful for the lower tier cities.

So on the [absolute] dollar amount actually if you look at the 4Q versus 3Q it is largely similar. So the market impact from self-marketing this quarter also billed to the soft -- to the (inaudible) in 4Q versus 3Q.

On the part of the (inaudible) and the [G&A] part -- the majority -- on the Q-on-Q basis the highlighted (inaudible) were in the marketing of additional (inaudible) Q-on-Q and the 2% Q-on-Q for G&A.

The majority of that is due to the headcount increase and especially on IT and on the business development. We actually --if you look at our headcount increase, Q-on-Q in 3Q, the overall headcount increase for that segment -- for IT and PD, actually go over [1200] and we will hire more in 4Q.

The majority of that were the full cost impact will emerge in 4Q. A (inaudible) [seasonality], so you'll see the very old and significant amount of impact. Those people when they came in, they gradually will fit into our systems and they will start to become more functional.

So after one to two quarters we will expect the great performance from each of the new investments. That's why we expect in Q1 next year our marketing will be largely Q-on-Q for last year, but we could expect certain recovery in the quarter two accounts.

For 2015, for the full year we still can expect margins to be roughly flat on a year-on-year basis.

Operator

Ella Ji, Oppenheimer.



Ella Ji - *Oppenheimer Co - Analyst*

Good morning, thank you for taking my questions. I have two questions, first your 4Q guidance for the accommodation and transportation particularly the volume are both indicating sequential deceleration from the prior three quarters. Can you provide some colors of that?

Secondly, relating to your operating expenses I think management mentioned that you are having-- investing a lot in new projects -- you called it Little Tigers. I wonder if you can break out your operating expenses increase -- I mean how much of that is for the investment -- the new initiatives and how much for your existing business. Thank you.

Jenny Wu - *Ctrip.com International, Ltd - Chief Strategy Officer*

Sorry I missed your first question. Would you please repeat?

Ella Ji - *Oppenheimer Co - Analyst*

Sure, the first question is relating to your 4Q guidance. For the volume for both accommodation and transportation the year-on-year growth of the volume are both indicating a sequential decline from the rest of the year. I just wonder if you can provide us some colors of that.

Jenny Wu - *Ctrip.com International, Ltd - Chief Strategy Officer*

Sure, actually our growth is still very solid and very healthy. 4Q tends to be our softest season. And seasonality wise 3Q is strongest every year and 4Q is kind of soft.

Something new this year is that we see gradually the Chinese (inaudible) become more mature and we are trying to avoid the traffic jam during the peak season in the (inaudible).

So we find out a lot of travelers actually plan and take the (inaudible) they take a vacation in summer and cut out by (inaudible) traffic and the (inaudible) that we see in Golden Week this year.

This is kind of a new sign and it's too early to see if (inaudible), but it's added an additional layer to the softness of 4Q. Overall we still see the very strong volume growth for our hotel and for our (inaudible) and transportation business.

Sorry, what was your second question?

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

Yes I can address the second -- in terms of the operating margin -- we guide net income on GAAP basis for Q4 around [RMB]400 million to [RMB]500 million loss on GAAP basis. The main reason is because we're very aggressive in terms of our investment into the market technology, second tier city penetration and new businesses.

So to address your question the new Baby Tiger program contributes to about 8% or 9% of the margin impact. Also for IT that's about 8% in terms of the margin impact. Also we hired a lot of people to penetrate into the second tier cities and third tier cities to make sure all the inventories in these cities supports our fast growth.

That is another 3% of the impact into the margin. So this investment in the short term might impact our Q4 margin. In the long term will enable us to take a greater leadership into the market. So we are very [perceptive] in making these investments up front to make sure we lay out a solid foundation going forward into the next two years.

Operator

Tian X Hou, TH Capital.

Tian X Hou - *T.H. Capital Research - Analyst*

Hi, good morning Management, I have a question relating to your platform model. I wonder in terms of air, how much -- what percentage of air volume comes from your platform and also in terms of the hotel, what percentage of volume comes from your platform model.

Also, for those transactions happens from your platform model, is there any difference accounting treatment from than normal OTA business? That's my question.

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

Sure, the open platform is our major strategy going forward. Again, to enable us to give us the leadership for time to market and enable us to get the best price in the market with the greatest coverage within a very short time period. For air, it's more than 60% of our revenue is coming from the open platform already.

For hotel, it's a very new, but it's a process -- it's somewhere around 5% to 10% and growing very fast as well. For package tour it's about 15% and moving again triple digits very fast. Because we have a very strong service platform IT system, with our API is connected with these smaller vendors. They can see great volumes for our customer.

Lots of vendors very much like our platform and are very willing to put their product onto our platform. We think that's a great strategy for us to go forward.

Secondly, our service platform is also very strong, so not only we have an open platform, we also guarantee certain level of services for our customers. Therefore from our customer's side they get the best price and best coverage with the guarantee of Ctrip brand and Ctrip service. So our customers also very happy with our open platform product.

Thirdly, because of the product comprehensiveness and price competitiveness the quality of our customer and earnings power is very strong. Normally we can upsell products at much stronger level than the other platforms.

Operator

Yu-Heng Fan, China Renaissance

Yu-Heng Fan - *China Renaissance Securities - Analyst*

Hi, good morning thanks for taking my questions. I have a follow up question for the open platform. You mentioned in your prepared remark, you have a 1 billion G and D transaction from the open platform. I wonder if management can share what would be the overall G and D and the (inaudible) contribution from the open platform to your core hotel business. Thank you

What would be the take away differentiation between the open platform and your

own -- the value on inventory? Thank you.

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

The direct contribute -- the direct sign to hotel commission rate stabilized between 10% to 15%. On the open platform it depends on the vendor. If the vendor give us a very good attractive inventory we work with them to make sure it's a win/win proposal.

Sometimes it's a tiered proposal. If we give them certain volume, they give us certain [tick rates]. Again, it's an individual basis and we talk with them to make sure they gain -- they have financial gains on these arrangements and make sure it's a win/win partnership.

Operator

Fawne Jiang, Brean Capital.

Fawne Jiang - *Brean Murray Carret & Co - Analyst*

Thank you for taking my question -- question is actually under competitive landscape near term, mid-long term. Just wondered James, how do you look at the main long term competitive landscape in the space, particularly and in the near term it seems like all the players are aggressively going after market share?

Do you see that as a race to the bottom, so essentially it's a competition -- eventually you will see weaker player will be eventually out of the market or you see at some point all players will most likely be playing a more I guess a fair game and scale back the aggressiveness. Do you see the potential of driving or encourage further industry consolidation down the road?

James Liang - *Ctrip.com International, Ltd - Chairman of the Board and CEO*

Yes, so looking ahead in the short term or midterm year or two years, I think we will face the continued pressure as more players are putting more resources into this very promising high growth market.

As you know Alitrip has recently entered this market with a new brand and Amazon just entered it. (Inaudible) So we may seem them at some point in the future in China. I think at some point as the market, or certain parts of the market will have more mature growth rate and people will -- I think all the players will start to think more rationally and it's time to make some profit.

At that point we will see some consolidation in the market. For example (inaudible) this year, we invested in [Tongchen] who is really becoming a partner now. They actually is working with us. They don't directly get into the hotel business anymore. They are working with us as a distribution channel for our hotel business.

This sort of arrangement I think once the market slows down a little bit we'll see more of in the future. That will probably be a year or two years from now.

Operator

Aaron Kessler, Raymond James.

Aaron Kessler - *Raymond James - Analyst*

Yes hi guys, a couple of questions. First on the transportation growth, it's slowed somewhat from its 39% in Q2, about 32% in Q3. I was just wondering if there was anything at one time that made it slow down or just maybe the overall -- maybe the air market slowed a little bit more macro related.



Jane, can you just maybe update us on some of the long term property margin expectations and maybe how much the couponing will determine what that long term property margin is? Thank you.

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

Sure, so for air activity, I think the momentum is still very strong. In Q3 last year the base was a little bit higher, so there's no specific one time even there, but it's -- the market only delivers a single digit growth rate year-over-year.

In terms of the margin in the long term, Q4 we invest very heavily to lay out a solid foundation for the future years. Our goal in the long term should be continuously improve our internal efficiencies. The money we save from internal efficiency will enable us to respond to any competition in the market.

If there is any irrational competition on pricing, we will be able to respond very swiftly. The key for us is to remain very competitive internally in terms of operating efficiency. With that efficiency and the cash balance we have on the balance sheet, we will be able to offer the best and most competitive pricing structure for our customers.

In the long term, our goal is to recover the margin to a range somewhere between 20% to 30% regularly. If you look at the international player, when the market stabilizes I think that's a reasonable range to achieve.

Aaron Kessler - *Raymond James - Analyst*

Thank you.

Jenny Wu - *Ctrip.com International, Ltd - Chief Strategy Officer*

Sure and I just think -- you mentioned the transportation model growth and I want to highlight that amount that the key growth driver steal from our air ticketing business. In 3Q (inaudible) you know, our volume growth is about 40% year-on-year basis, which is the highest growth in the past several years and is over three times the industry average.

Also, for our train ticketing net growth is over three times on a year-on-year basis. When we are building up our larger and larger base it makes it harder for us to deliver faster and even higher growth rate but we are kind of accelerating here. That's due to the consistent efforts for our team.

We are very confident that we can continue this kind of trend and further invest our leadership versus the peers.

Operator

Okay and we have no further questions in the queue, so I'll turn it back over to Michelle for any closing comments.

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

Thank you everyone for joining us on the call today. A replay of the call will be available as usual on the IR website, shortly after the call has been completed. We appreciate your interest in Ctrip and look forward to convening with you again next quarter. Thank you very much.

Operator

Great, thank you everyone for your time and participation and have a great rest of the day.



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