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CTRP - Q2 2016 Ctrip.Com International Ltd Earnings Call

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OVERVIEW:

Co. reported 2Q16 net revenues of CNY4.4b or \$664m, net loss attributable to CTRP's shareholders of CNY521m or \$78m, and diluted earnings per ADS of negative CNY1.13 or negative \$0.17.



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PRESENTATION

Shiwei Zhou - *Ctrip.com International Ltd - Senior IR Director*

Good morning and welcome to Ctrip's second quarter 2016 earnings conference call. Joining me today on the call are James Liang, Chairman of the Board and Chief Executive Officer; Ms. Jane Sun, Co-President and Chief Operating Officer; Ms. Cindy Wang, Chief Financial Officer; and Ms. Jenny Wu, Chief Strategy Officer.

During this call, we may discuss our future outlook and performance which are forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today.

A number of potential risks and uncertainties are outlined in Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements except as required under applicable law.

James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the second quarter, as well as the outlook for the third quarter of 2016. And we will have a Q&A session after the prepared remarks.

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



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

Thank you, Shiwei. Thanks to everyone for joining us on the call today.

The second quarter continued to be a strong quarter, despite some change in our operating environment. Net revenue was up 75% year-over-year, driven by solid organic growth and inclusion of invested company.

Operating margins also saw healthy improvements. The non-GAAP operating margin exceeded 4% in the quarter, materially higher than our original expectation.

In today's call, I will focus on three areas: enhancing our one-stop online travel platform; increasing incremental travel inventory coverage; and improving operating efficiency. Let's first talk about enhancing our one-stop online travel platform.

At the beginning of B2C -- as the leading B2C travel platform, we have built the largest base of Chinese travelers. Our leading position has been further strengthened with the industry transition to the mobile.

Due to the limited real estate on the smartphone screen, most users download one or two apps for each category. Ctrip and Qunar are the most popular travel apps in China and have a very large user base. We attract travel suppliers to list their products on the platform because of the large user base.

At the end of 2016, second quarter, we had more than 16,000 partners across major product categories. The comprehensive product offerings make Ctrip a one-stop travel platform. Users can find almost everything related to travel on our platform so they become more engaged, visiting us more often, spending more time per trip and purchasing more products.

Eventually, more active users attract more suppliers, and more suppliers attract even more users. As a result, the virtuous cycle is established.

With such a strong one-stop travel platform, we are a strategic partner for many travel suppliers. A case in point is that we are the largest third-party distributor of admission tickets for Shanghai Disney Resort.

Now, let's move on to increasing international travel inventory coverage. We have begun to serve customers outside of the mainland China, starting from greater China area.

Many of these markets have a large and fast-growing mobile population. To better serve our customers international and travel needs, we need to focus our efforts on creating a more comprehensive international travel product offering. Our current international products cover from international air tickets, to international hotels, rental cars, local attractions and shopping.

And lastly, I would like to discuss improving our operating efficiency. We have seen meaningful improvements in sales and marketing spending in the last several quarters.

With the easing irrational pricing competition, fewer marketing dollars went to hotel coupons. As a result, we are seeing positive impacts on marketing ROI and operating margins.

We are also benefiting from the increasing contribution from mobile channels. More than 70% of our orders are generated from mobile platform, which has higher ROI than traditional channels. In addition, about 90% of the mobile traffic comes from the mobile apps and the majority of this traffic is organic.

Technology is another important tool to improve our operating efficiency by automating business operations. For example, we introduced automated customer support for the air ticketing business in early 2014. The automated service now accounts for almost 40% of all ticketing customer service volume, significantly reducing the need to hire additional call center agents.



In the next two or three years, we expect non-GAAP operating margins to expand meaningfully from the current level of 4%. We are very excited about this margin expansion and we will share more with you in the coming quarters.

Travel continues to be a very promising industry, driven by increasing GDP per capita in many markets across the globe. By focusing on enhancing our one-stop travel platform, increasing our international inventory coverage, and improving operating efficiency, we will leverage the industry tailwind and create more value for our shareholders.

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

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

Thanks, James. Hello, everyone. This is Jane.

I'm pleased to share updates on Ctrip's main businesses with you. We would like to remind investors that this quarter's growth rate reflected the negative impact of the adoption of VAT tax.

At the end of the second quarter of 2016, Ctrip's domestic hotel coverage reached 460,000 hotels, increasing by almost 40% over a year ago. Total revenue of hotel grew 61% compared to the same period last year, driven by both volume growth and the inclusion of an invested company.

The Group's hotel business saw strong margin expansion in the quarter, driven by both revenue growth and operational efficiency. From the first quarter to the second quarter, non-GAAP operating margins increased significantly. We will continue to use profit generated from mid- to high-end hotels to further strengthen our growth in the low-end segment.

A new development in the quarter was the listing of Joint Wisdom on the New Third Board of China. This company provides the technology platform to support hotel operators with property management, direct booking and data analysis. It helps hotels to improve their business operations and strengthen our relationship with them.

Second, on transportation ticketing service, total transportation revenue grew 90% year-over-year in the second quarter, also benefiting from organic volume growth and the inclusion of an invested company. Train ticketing maintained its healthy growth momentum, with volume growth exceeding 250%, driven by a strong execution and a few investments we made last year.

Bus ticketing continued to generate strong volume growth. The market is highly fragmented with large volume. Ctrip is a strong aggregator and it is becoming the hub for this market.

Air ticketing was adjusting to the change in the air ticketing distribution system. With the new policies introduced on July 1, we expect to see a more transparent and better-regulated ticket sales environment. Ctrip welcomes the change and will work very closely with the airlines to create a healthy ecosystem.

Third, packaged tour. Packaged tour revenue grew strongly, up 44% year-over-year, due to healthy volume growth.

One of the highlights in the packaged tour business is the faster growing customer-made tour business. With Chinese travelers becoming more affluent and sophisticated, they want to personalize their travel experience. Part of our efforts to meet such a demand is the online tour guide booking services, which allows customers to pick their own tour guide.

Another highlight in the quarter is our productive working relationship with Shanghai Disney Resort. During the peak days, we sold more than 10,000 admission tickets a day, a very impressive achievement considering the resort was opened only two months ago.



We have further strengthened our relationship with key offline partners. In the quarter, we signed a strategic collaboration agreement with Beijing Tourism Group, a Chinese travel conglomerate with significant tourism resources. With our brand, scale, reach, and backend support, Ctrip is the ideal platform for offline tour and attraction operators to accelerate their business volume.

Fourth, corporate travel. Despite the slow growth in the corporate travel industry, Ctrip corporate travel business continued its healthy growth trajectory.

During the quarter, Ctrip became the first travel service management company in China that is certified for the ISO 27001 standard by the British Standards Institute. This certification has strengthened our brand image and will give our corporate customers, especially foreign corporate accounts, more confidence when they use our products.

Overall, we have achieved strong operating and financial results in the second quarter. We will continue to focus on execution and achieve our operating targets in the coming years. With that, I will turn the call over to Cindy for financial highlights.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Thank you, Jane. Thanks everyone.

For the second quarter of 2016, Ctrip reported net revenues of RMB4.4 billion, or \$664 million, representing a 75% increase from the same period in 2015 primarily due to the consolidation of the financial results of Qunar starting from the end of last year. Net revenues for the second quarter of 2016 increased 6% from the previous quarter.

Accommodation reservation revenues for the second quarter of 2016 were RMB1.8 billion or \$267 million, representing a 61% increase from the same period in 2015 and a 10% increase from the previous quarter, primarily driven by an increase in accommodation reservation volume and the consolidation of Qunar's financial results.

Transportation ticketing revenues for the second quarter of 2016 were RMB2 billion or \$301 million, representing a 90% increase from the same period in 2015 and a 3% increase from the previous quarter, primarily driven by an increase in ticketing volume and the consolidation of Qunar.

Packaged-tour revenues for the second quarter of 2016 were RMB474 million or \$71 million, representing a very healthy 44% increase from the same period in 2015, primarily driven by an increase in volume growth of organized tours and self-guided tours. Packaged-tour revenues for the second quarter of 2016 decreased 15% from the previous quarter, primarily due to seasonality.

Corporate travel revenues for the second quarter of 2016 were RMB147 million or \$22 million, representing a 22% increase from the same period in 2015 and a 27% increase from the previous quarter, primarily driven by increased corporate travel demand from business activities.

Gross margin was 72% for the second quarter of 2016, compared to 71% in the same period in 2015 and 73% in the previous quarter.

Product development expenses for the second quarter of 2016 increased by 116% to RMB1.7 billion or \$259 million from the same period in 2015, primarily due to the consolidation of Qunar. Product development expenses for the second quarter of 2016 decreased by 28% from the previous quarter, primarily due to the decrease in share-based compensation charges.

Excluding share-based compensation charges, product development expenses accounted for 31% of the net revenues, which increased from 29% in the same period in 2015, primarily due to the consolidation of Qunar. Excluding share-based compensation charges, product development expenses for the second quarter of 2016 decreased from 32% in the previous quarter.

Sales and marketing expenses for the second quarter of 2016 increased by 97% to RMB1.3 billion or \$202 million from the same period in 2015, primarily due to the consolidation of Qunar. Sales and marketing expenses for the second quarter of 2016 decreased by 13% from the previous quarter, primarily due to the decrease in share-based compensation charges.



Excluding share-based compensation charges, sales and marketing expenses accounted for 29% of the net revenues, which increased from 26% in the same period last year, primarily due to the consolidation of Qunar. Excluding share-based compensation charges, sales and marketing expenses for the second quarter of 2016 decreased from 33% in the previous quarter, primarily due to a meaningful improvement in operating efficiency in sales and marketing related activities.

General and administrative expenses for the second quarter of 2016 increased by 95% to RMB510 million or \$77 million from the same period in 2015, primarily due to the consolidation of Qunar. General and administrative expenses for the second quarter of 2016 decreased by 45% from the previous quarter, primarily due to the decrease of share-based compensation charges.

Excluding share-based compensation charges, general and administrative expenses accounted for 8% of net revenue, which remained very consistently with the same period last year and the previous quarter. Loss from operations for the second quarter of 2016 was RMB396 million or \$60 million, compared to income from operations of RMB61 million or \$10 million in the same period last year and loss from operations of RMB1.8 billion or \$283 million in the previous quarter.

Excluding share-based compensation charges, income from operations was RMB182 million or \$27 million, compared to RMB214 million or \$35 million in the same period in 2015 and RMB8 million or \$1 million in the previous quarter.

Operating margin was negative 9% for the second quarter of 2016, compared to 2% in the same period in 2015, and negative 44% in the previous quarter. Excluding share-based compensation charges, operating margin was 4%, compared to 8% in the same period last year and breakeven level in the previous quarter.

Income tax expense for the second quarter of 2016 was RMB53 million or \$8 million, compared to RMB31 million or \$5 million in the same period of 2015 and RMB94 million or \$15 million in the previous quarter.

Net loss attributable to Ctrip's shareholders for the second quarter of 2016 was RMB521 million or \$78 million, compared to net income of RMB143 million or \$23 million in the same period in 2015 and net loss of RMB1.6 billion or \$245 million in the previous quarter. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB57 million or \$9 million, compared to RMB296 million or \$48 million in the same period last year and RMB257 million or \$40 million in the previous quarter.

Diluted earnings per ADS were negative RMB1.13 or negative \$0.17 for the second quarter of 2016. Excluding share-based compensation charges, diluted earnings per ADS were RMB0.12 or \$0.02 for the second quarter last year.

As of June 30, 2016, the balance of cash and cash equivalents, restricted cash and short-term investment was RMB18 billion or \$2.7 billion. With that, operator, we are opening the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from the line of Binnie Wong with Merrill Lynch. You may proceed.

Binnie Wong - Merrill Lynch - Analyst

Hi, management. Good morning. Thank you for taking my questions.

I think in your opening remarks, you mentioned the Company is excited about the margin expansion. We expect non-GAAP OM to expand meaningfully, so I just want to get more clear in terms of what are the assumptions behind? Is it more coming from the synergies from the integration improvement in the sales and marketing or the product development, and less couponing as we see?



Second is that the pro forma 3Q growth implies around 25% to 29% Y-on-Y, so what is our growth assumptions in terms of the accommodation and in the transportation segment? Lastly, a more housekeeping question, can you comment that in 2Q, what are the volume growth and commission level you see in transportation and in accommodation?

And also, recall in the coupon level in hotel, last quarter, you said it is around high-single digit, how is that trending? Because we looked at -- some of your peers, are also expanding aggressively into high-end hotel.

So will that change the coupon level? How does that impact our strategy? Thank you.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Thanks, Binnie. Ctrip expects to continue with a very healthy net revenue growth trajectory at around 70% to 75% year-on-year in the coming third quarter. For each business line items, we forecast that hotel will grow around 50% to 55% year-on-year driven by a very strong volume growth, as well as improving revenue per room night.

Transportation ticketing also will grow nicely at around 90% to 95% year-on-year, driven by a strong growth in all the transportation revenue stream. Packaged tour business will also have a healthy growth at around 35% to 40%, and corporate travel will maintain a very healthy growth at around 10% to 20% year-on-year.

But please be noted that Ctrip has started to implement VAT tax from the second quarter. So, above revenue for each business line item this year, and net revenue excluding VAT tax, while the comparable revenue numbers for last year, gross revenue including business tax.

Regarding the margin, moving into the third quarter, which is traditional peak season for Ctrip, we have -- we are very confident that -- to further improve our non-GAAP operating margin in the range of RMB700 million to RMB800 million level, thanks to a very healthy top line growth as well as a material improvement in the operational efficiency across all expense lines. I think most of the -- our revenue growth helped because of the very healthy volume growth across all the business lines.

Regarding the hotel coupons, in the first quarter of this year, our hotel coupons significantly reduced from the peak level at around 20% to high single digit. And in the second quarter we see a continuous but very modest decrease coupon level from the high single digits from the first quarter.

If you're talking about the trend of the hotel coupon, we believe, especially in the mid- to long-run, there is still room that we can further reduce our coupon levels. But for Ctrip, because there's still some competitors or potential competitors in the especially mid- to lower-end of the hotel market, our strategy is to use the profit that's generated from the high-end -- mid to high-end hotel to subsidize some of the mid- to lower-end of the hotel range. So that we can have the most competitive prices, especially in the mid- to lower-end of the hotel market, to prevent any potential competitors trying to enter into this space.

Binnie Wong - *Merrill Lynch - Analyst*

Thank you. So you think in terms of the growth expectations, we'll see more also on the volume growth side rather than on the commission level, there's also in air and hotel, and that's also because of the air ticketing, do we start to see some recovery too? Thank you.

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

Yes. For air ticketing, on July 1, everybody is on the same ground, and the change in the air ticketing business is beneficial for OTA because OTA provides the best service and utilizes all the standard pricing for the market.

All the other players will have the same starting point to use the qualified agent for their platform. So we see the air ticketing has stabilized, and going forward it will be improved throughout the year.

Operator

Our next question comes from the line of Jed Kelly with Oppenheimer. You may proceed.

Jed Kelly - Oppenheimer - Analyst

Great. Thanks for taking my question.

Looking at your product and development expense, is there an opportunity to extract more synergies out of that expense item, once you work through the Qunar acquisition? It looks like it trended up another 4% sequentially.

Just can you give us some visibility around that expense item? Thank you.

Jane Sun - Ctrip.com International Ltd - Co-President, COO

Yes. R&D is key for our future product development, so it's the investment for future products and engineering investment. So that's very key for our future success.

With our successful integration among our invested company, the leverage is high, because once the platform is built, we do not need to add as many engineers and product managers into the platform. The scale that we can achieve will be significant going forward. So there is scalability to be achieved going forward.

Operator

Our next question comes from the line of Wendy Huang with Macquarie. You may proceed.

Wendy Huang - Macquarie Research - Analyst

Thank you. Congratulations on the solid results.

For the transportation segment, you mentioned that there is an increasing revenue contribution from the new business and the recent investments. Can you elaborate the percentage of the contribution from this part? And also, what kind of recent investment you have made in this category recently?

Also, could you further clarify on the air ticketing volume growth in the second quarter as versus that's implied in your Q3 since you have different components in your transportation segments right now? That's my first question.

Cindy Wang - Ctrip.com International Ltd - CFO

So, within the transportation ticketing category, we have the air ticket business, the train ticket business, as well as the bus ticket business. We see very healthy volume as well as the revenue growth for the air ticketing business. But compared with air ticketing business, the volume growth for the train business as well as the bus ticketing business is much -- the growth rate is much higher because they're from a comparatively lower base.

In terms of volume contribution, now, because of the high market -- high base of the total train business, the volume contributed from the train ticketing had already exceeded air ticketing business. But in terms of revenue contribution, it's still comparatively small.

And we have made investments in, for example, Qunar, the investment we made last year, it will help us to grow our air ticketing business both in the volume as well as the revenues. And we also made a small investment in a company for the train ticketing business last year. That is the investment we are referring to.

Operator

Our next question comes from the line of Ronald Keung with Goldman Sachs. You may proceed.

Ronald Keung - Goldman Sachs - Analyst

Thanks, James, Jane and Cindy. Just two questions, one on air ticketing.

Can you just go through the July 1 new policy, given that third-party agents are not selling, so less -- you don't really have third-party agents unless authorized by airlines, are you taking more inventory yourself now? And maybe if you could give us the split between direct and marketplace tickets that you sold in the second quarter.

My second question, as a following on air ticketing side is, have you seen any impact in long-haul and leisure travel demand given the recent security concerns in Europe and some of the Zika concerns in Southeast Asia? Thanks.

Cindy Wang - Ctrip.com International Ltd - CFO

Thanks for your question. For the change that took place in July 1, I think it is positive for the whole industry because the pricing becomes very transparent and the environment becomes more clearly regulated and very easy to operate in. So we will work closely with the airlines to make sure we provide the best technology and service to service our common customers and make sure our common customers are better satisfied.

We do not need to take inventory. We just sell as an agent in this market.

And your second question is the long-haul ticket. Yes, in Europe, because of the unexpected events took place in Istanbul, Nice, all the other countries in Europe, the volume in Europe was not as strong as before.

However, we do see a strong demand in North America. So, some of the volume was offset by our increase in North America.

So for Ctrip, I think it's important for us to provide a very comprehensive product which covers the whole globe. So in case there is unexpected events taking place in one region, the other region will be able to compensate this impacted region. So that's our strategy.

And our comprehensive product offering definitely helps us to achieve that. Thank you.

Operator

(Operator Instructions). Our next question comes from the line of Tian Hou with T.H. Capital. You may proceed.

Tian Hou - T.H. Capital Research - Analyst

Good morning, management. The question is related to your hotel business. So I wonder, what's the volume growth in your 2Q hotel growth, and also in Q3 what the volume growth could be?

So, under that total volume growth of hotels, how much is from domestic, how much growth come from overseas? That's my question.



Cindy Wang - *Ctrip.com International Ltd - CFO*

Yes. Thanks, Hou.

Our hotel revenue has a very healthy growth in both the second quarter and we forecast that we can continue to have a very healthy revenue growth toward the second quarter. And the hotel revenue growth was mainly driven by our very healthy volume growth.

In terms of the domestic hotel versus international, domestic hotel contributed roughly 10% to 15% of our hotel revenues -- sorry, international hotels contribute roughly 10% to 15% of our hotel volumes and contributes 15% to 20% of our total hotel revenues. International hotel has become a key driving force of our hotel, both the volume as well as the revenue growth before and we are very confident that we can further increase our market share and especially in the international hotel space.

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

Thank you.

Operator

Our next question comes from the line of Alex Yao with JPMorgan. You may proceed.

Alex Yao - *JPMorgan - Analyst*

Hi, good morning everyone. Thank you for taking my question. Just a quick one, on the low-end hotel strategy and the competitive landscape.

So you guys have been through a lot of competition over the past few years and most of the competition ended up you guys either making the investment or taking over the competitors. Can you talk about how you see the competition in the low-end hotel ultimately turn out to be?

And if such investments or M&A doesn't take place in this space, should we expect to see a persist of lower margin and coupon in this segment? And also, how important is the lower-end hotel to your overall growth strategy? Thank you.

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

Yes. In the past we have competed with competitors, they're relatively the low-end market but they are still I think more, we'll categorize as travel demand, now the new competition is really some sort, kind of a local lodging demand, and that's even lower in terms of revenue, in terms of room price and profit, than of past competitions. So I think this is a very low-end business. But the volume is very high.

So this is actually something that we haven't been really -- put a lot of effort. I think this will be a very interesting incremental -- potential incremental addition to our volume going forward. So we will invest, pursue this incremental market aggressively in the future.

I think that will definitely add a lot of volume to us, but because it is a very low-end market, we won't expect them to be adding a lot of margin or profit to our business, but I think this will be an interesting growth story in the long run. So I think -- actually we're reasonably excited about the prospect of this part of the business, because really incremental for us.

Operator

Our next question comes from the line of Natalie Wu with CICC. You may proceed.



Natalie Wu - *CICC - Analyst*

Hi, good morning, management. Thanks for taking my question.

My question is regarding the transportation ticketing business. Is there any shift between the split of agent and OTA model in terms of air ticket business that has been observed since July 1 change?

And if yes, can management share with us the latest split on this please? So, besides, what's the contribution from train tickets both in terms of revenue and GMV in the second quarter?

Cindy Wang - *Ctrip.com International Ltd - CFO*

Yes, for the international -- yes, the new policy has been introduced starting from July 1, so in terms of the volume split from the OTA model versus open platform, yes, on both Ctrip and Qunar's platform, there's a pretty significant decrease of the volume from the open platform model. But because Ctrip is OTA, we have both the OTA model as well as the open platform model. So at the same time we see the very significant increase on our OTA models.

The recent data -- before the open platform model contributed roughly 60% of our total air ticketing volumes, now the recent data is significantly reduced to roughly 30%. But overall speaking, we see this as a very healthy and good adjustment, especially for Ctrip business, because we had the OTA and all the other open platform model, I think they will be more materially impacted by the policy changes.

And from July -- from this year actually, Ctrip provides our air ticketing business to some of the open platform model, especially the invested company. So we strongly believe that our volume will maintain a very healthy growth, and at the same time, we can -- we have room to further slightly -- at least maintain our current take rate and still have room to further increase our take rate -- overall take rate through cross-selling.

Operator

Our next question comes from the line of Alvin Jiang. You may proceed.

Alvin Jiang - *Deutsche Bank - Analyst*

Hi, good morning, management. Thank you for taking my question. My question is on hotel business.

I think Cindy mentioned that the hotel business were both driven by the volume growth and also the revenue per room night. But when we look at data from hotel industry, I think the revenue per room night is -- for industry is actually declining. So, does that mean we are -- maybe we're changing our product mix or we're increasing our commission rate?

And also for the low-end hotel market, what's our detailed strategy in this market to gain more market share or more volumes? Thank you.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Yes. I think Ctrip is very strong in the mid- to high-end, is a leading and dominant player, especially in the mid- to higher-end of the hotel market. And even during last year where we had very fierce competition in the market, Ctrip team we have -- using the big data to do lot of yield management, especially in the mid- to high-end hotel space.

Based on customers' review history and booking history, we promote the right products to the right customers, so that overall speaking we increase both the ADR as well as the revenue per traffic. That helped us a lot last year.



And this year, with more data, with more experience that we accumulated in the past several years, we -- our yield management project further improved. So that will help us to increase our revenue per room nights.

And the second reason of course is the reduced coupon, especially when you look at the year-over-year, last year, the second -- third quarter, our coupon peaked at around the 20% level, in the last second and third quarters. So, on a year-over-year basis, the net take rate after the coupon, the commission per room night increased. That's the major two reasons why Ctrip can continuously increase our -- both the volume as well as the revenue per room night.

Operator

Our next question comes from the line of Alicia Yap. You may proceed.

Alicia Yap -- Analyst

Hi, good morning, James, Jane, Cindy and team. Thanks for taking my question.

So I actually have a follow-up question on the industry landscape and also Ctrip's strategic priority. So with the hotel and the consolidations and will actually help to remove the pricing irrational in the market, but then we have been hearing recently more and more the noises about the rising threat and the competition from Meituan and Alitrip.

So, just wanted to get management's view, how should we think about the competitive landscape going forward? Do we need to -- do we have to worry that Ctrip may need to fight the potential stronger competitors down the road?

Related to that, what is management's current operation priority, which business segment you'll need to put more resources, investment, and which business segment that you see higher growth opportunity? Thank you.

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

Yes. On the air ticketing side, Alitrip is the next biggest competitor, although their volume is a few times smaller than us.

The competition -- air ticketing is really on service and integration with the airline -- fulfillment and service platform. Because as you know, on the airline pricing, the airlines really do not allow any kind of meaningful -- this is after the heavy-handed (technical difficulty) so it's really a competition on service and technology.

I think we have built a very large lead over the years and Qunar also is very good. And recently we had closer relationship with some of the airlines, so this will further strengthen our leadership position in this area. So we are actually pretty comfortable about air ticketing business.

Meituan is -- actually the air ticketing side is very small. So as I said, Meituan is more of a local restaurant and some lodging business, but it's -- they're getting to third, fourth-tier cities, I think they have (inaudible) something like that. So their growth is really, I think a lot of them is geographically expanding to territories, areas that we haven't been really put a lot of effort in.

So I think this hotel/lodging (inaudible) is actually very interesting to us. I think if we can get a piece of that successfully, it will be really incremental for us, although I think this business is very low margin, it will add up to volume. And in the future, these users might be able to generate travel-related demand.

But in the short run, I don't think this will be incremental volume for us. So we'll pursue this market aggressively, and this is clearly an opportunity for us.



Operator

Our next question comes from the line Eric Wen. You may proceed.

Eric Wen - Blue Lotus - Analyst

Yes. Hi, thanks management, and congratulations on the good margin improvement. I have one question.

Okay. My question is, can you help us understand the impact of new technologies like cloud computing to our upstream supply base, especially low-end accommodation options and the open platform business models, and whether this will introduce additional risk of competition in the future? Thanks.

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

Well, cloud computing is a big word. It's just as simple as the hotels, so the air ticketing connecting with us. Either they're manually connecting with us, by, for example, confirming our bookings using a mobile phone, or they have a system, they build automatic connection with us.

So we are doing that. So with the airlines we're building these connections so that the information flow will be seamlessly going from our customers to their airline systems or the internal airline systems directly.

And for hotels who are already doing that, for small hotels, I mean it's just as simple as they're using their forms to connecting with us. So it's connecting, through us, connecting directly with the customers, and we are doing that too. Thank you.

Eric Wen - Blue Lotus - Analyst

Thanks.

Operator

Our next question comes from the line of Amanda Chen with Morgan Stanley. You may proceed.

Amanda Chen - Morgan Stanley - Analyst

Hi, good morning. Thank you for taking my question. My question is regarding your international expansion plan.

We know that you have made some investment in the emerging market. Besides that, I'm wondering, what's your view on the developed countries? We know that you recently invested in some small offline travel operators in the US to help you expand the overseas inventory coverage.

Beside this small investment, how do you view the relevant country market competitive landscape and how are you positioned in that? Will you further enhance your relationship with Priceline or any other big international platform in the US or Europe? Thank you.

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

Yes. Well, we are looking at, first of all, is to build our product coverage advantage. So we want to -- not just the hotels, with the help of Priceline, we are actually pretty good at international coverage of hotel, but also on the air tickets we are building our partners across the world.

Travelfusion is a very good addition for our airline products worldwide, and we're looking for more partners. And for the packages, we recently invested in -- not recently, actually we've been invested -- companies that are providing packages to our Chinese customers in the US and worldwide.

So we'll continue to look for these opportunities to further build our competitive advantage and entry barrier for our Chinese customers, the products that use -- outbound products used by our Chinese customers. And we're also looking at some opportunities in emerging countries.

I think these, especially in Asia, these countries will probably have the same kind of requirement as the Chinese customers. So they will probably be using the same kind of hotels, same air ticketing in this part of the world. So for the emerging markets, we are interested in looking at the opportunities to getting this market.

Reasonably, we had some success in Hong Kong and we're gradually expanding outside of greater China. That's going to be our strategy going forward in the next one or two years. Thank you.

Operator

Our next question comes from the line of Jialong Shi. You may proceed.

Jialong Shi - Nomura Securities - Analyst

Hi. Good morning, James, Jane, Cindy and Shiwei.

Thanks for taking my call. I have two quick follow-ups.

For the air ticketing business, if we just look at Ctrip alone, so what is the year-over-year growth rate for your total air ticketing volume in July and August? Is it decelerating or accelerating since the new policy was introduced in July?

And for the hotel business, Cindy mentioned earlier international hotel represents 10% to 15% of total hotel volume. Just wonder if the international hotels are those international hotels in China or in overseas markets.

Is this for Ctrip alone or Ctrip plus Qunar? Thank you.

Cindy Wang - Ctrip.com International Ltd - CFO

Yes. So we see -- our -- we already gave the guidance for the transportation ticketing revenues.

We forecast in the third quarter our transportation ticketing revenue will grow 90% to 95% year-on-year, which is mainly driven by very healthy volume growth in air ticketing transportation as well as the bus ticketing. So for the international hotels, we mean hotels -- we mean the bookings that customer made in the hotels outside of mainland China, that's our definition of international hotels.

International hotel has been a very strong growth driver for us in the past two to three years. And with more and more product offerings we accumulated, we are very confident that we can further outpace the industry growth to become a leading, dominant player in international hotel space.

Operator

Our next question comes from the line of Ming Xu with UBS. You may proceed.



Ming Xu - UBS - Analyst

Morning, James, Jane, Cindy and Shiwei. So, congratulations on a strong quarter.

So I have a question on the air -- the relationship with the airlines. So I think, James, you mentioned a few days ago on an industry forum that you -- the investment in China Eastern Airlines help to build -- help to improve the trust with the airline companies and also you are working with Chinese airline to improve the yield management and that you are not interested in directly operating an airline company.

So my question is, number one, so do you already see that the investment in China Eastern Airlines help to build the trust with the other Chinese major airlines? And number two, how is -- what is the progress in your -- in the efficiency -- in the improvement in yield management in China Eastern Airline goes on?

And then thirdly, I think that Qunar actually mentioned that they will probably operate, start their own low-cost carrier business sometime going forward. So, how do you see -- so, could you maybe elaborate for us the difference in strategy between you -- between Ctrip and Qunar? Thanks.

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

Yes. I think the Qunar news or rumor is probably very old news, old rumor actually.

So, Qunar is actually not doing airline or low-cost airline. I think the overall strategy for airlines is really, as I said, we're not interested in operating an airline but we are interested in building relationships that will strengthen our cooperation and partner -- and technology and service integration with the airlines.

It's only a few months that we have -- since we have been invested in China Eastern, so we have a lot of projects going on. And not just with the China Eastern, because I think the position -- Qunar and Ctrip, has made it clear that we are partner with the airlines.

And we will work with them to strengthen their -- to execute their sales marketing strategy, to help them to increase the yield. What's good for Chinese airlines sometimes is good for all the other airlines.

One airline could be good for other airlines as well. And the technology platform we build for one airline may be relevant for other airlines to follow.

So I think the relationship with the China Eastern Airlines will -- actually in some -- in a lot of cases help to strengthen our relationship with other airlines, especially those state-owned large airlines, they actually have a lot of -- first of all, they have common shareholder, and second, they have a lot of cooperation with each other too, although they are competitors. But on the yield management issue, they actually have this common interest as well.

So overall, I think this is really strengthening our relationship with not just China Eastern, in other airlines as well. And we will see the benefit in the next few quarters. Thank you.

Operator

Our last question comes from the line of Juan Lin with 86Research. You may proceed.

Juan Lin - 86Research - Analyst

Hi, good morning, James, Jane, Cindy and Shiwei. Thanks for taking my question.

My question is related to your air ticketing -- I'm sorry, transportation ticketing. So, out of the 45% take rate for air ticketing, what is the mix of the recognition from the airlines versus your non-commission?

And then for the non-air transportation ticketing business, what is the current take rate? And are you expecting to greatly improve significantly due to the cross-selling efforts? Thank you.

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

Yes. We -- from three years ago, airlines started to cut the fixed portion of their air ticketing commission, but if you look at the history of our take rate for the air ticketing business, you see a very stabilized take rate, which is as a result of our continuous efforts to increase our cross-selling product on Ctrip's platform.

Part of the reason actually is thanks to Ctrip's very successful one-stop shopping center model. And air ticketing normally is the traffic source where you book a trip, the first thing you are thinking about is to book air ticket.

And after you book air ticket, you'll probably need an airport pickup, you probably need to book hotels. And you can find all these products on Ctrip's platform.

And we -- our air ticketing team, they are very diligently increasing more product offerings, for example, the coupons for the product that customer needs. And our air ticketing (technical difficulty) use a lot of big data, the customers' historical user behaviors, to promote the right product to the right customer. As a result, you see a very healthy revenue growth -- we see a very healthy revenue growth from the cross-selling.

Now the -- within the 4% to 5% take rate, actually the commission coming from airlines is less than half. So, majority of our take rate already coming from profit that we cross-sell, variety of products that customers need, based on customers' demand.

Operator

I will now turn the call back over to Shiwei for any closing remarks.

Shiwei Zhou - *Ctrip.com International Ltd - Senior IR Director*

Sure. Thank you everybody for joining on the call today.

We will continue to communicate with you guys in the future. Let us know if you have any more questions, you can reach out to us. On our Ctrip website there's contact information.

And that's it for the call today.

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

Thank you very much.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Thank you.



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

Thank you.

Shiwei Zhou - *Ctrip.com International Ltd - Senior IR Director*

Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you so much for your participation.

You may now disconnect. Have a great day.

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