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# EDITED TRANSCRIPT

CTRP - Q3 2015 Ctrip.Com International Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 19, 2015 / 12:00AM GMT

## OVERVIEW:

Co. reported 3Q15 total revenues of CNY3.4b or \$528m, net income attributable to CTRP's shareholders of CNY2.4b or \$380m and diluted earnings per ADS of CNY13.26 or \$2.09.



## CORPORATE PARTICIPANTS

**Cecilia Zhang** *Ctrip.com International Ltd - IR Manager*

**James Liang** *Ctrip.com International Ltd - Co-Founder, Chairman & CEO*

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

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

## CONFERENCE CALL PARTICIPANTS

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**David Jin** *Goldman Sachs - Analyst*

**Henry Guo** *Summit Research - Analyst*

**Wendy Huang** *Macquarie - Analyst*

**Bo Pang** *Oppenheimer - Analyst*

**Mike Olson** *Piper Jaffray - Analyst*

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**Justin Patterson** *Raymond James - Analyst*

**Dick Wei** *Credit Suisse - Analyst*

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**Jialong Shi** *Nomura - Analyst*

**Thomas Chong** *Citigroup - Analyst*

**Amanda Chen** *Morgan Stanley - Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the third-quarter 2015 Ctrip.com International earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to Ms. Cecilia [Zhang], IR Manager. Please proceed.

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**Cecilia Zhang** - *Ctrip.com International Ltd - IR Manager*

Thank you, Derek. Thank you for attending Ctrip's third-quarter 2015 earnings conference call. Joining me on the call today, we have Mr. James Liang, Chairman of the Board and Chief Executive Officer; Ms. Jane Sun, Co-President and Chief Operating Officer; Ms. Jenny Wu, Chief Strategy Officer; and Ms. Cindy Wang, Chief Financial Officer.



We may, during this call, discuss our future outlook and performance, which are forward-looking statements made under the Safe Harbor provision of the US 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 third quarter, as well as the outlook for the fourth quarter of 2015. We will also have a Q&A session towards the end of this call. With that, I will turn the call over to James for our business update. James, please.

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**James Liang** - *Ctrip.com International Ltd - Co-Founder, Chairman & CEO*

Thanks, Cecilia, and thanks everybody for joining us today. We had another strong quarter with great results. Accommodation reservation volume increased 50% year over year. Transportation ticketing volume again delivered a record-breaking year-over-year growth of 150%, with the air ticketing volume increasing 50% compared with the third quarter last year. We are also happy to see Ctrip's margin further improve this quarter.

Going forward we will focus on improving our capability to capture the opportunities in the leisure outbound travel, and value creation through our investments and efforts to build a healthy ecosystem of the travel industry.

China's rising GDP per capita has unleashed a huge potential in the leisure travel market. Growing personal income has stimulated the demand for leisure travel across China in recent years. When compared with developed countries, such as US, the size of China leisure market is still small. In 2014 China's GDP reached around 60% of the US GDP, while the size of the leisure travel market was only around one-third of the US.

As an industry-leading player, Ctrip is the best-positioned player with our most comprehensive product offering. Our legacy hotel and air ticketing business has maintained a strong momentum and the new Baby Tiger businesses are making strides to achieve scalability and profitability in their respective verticals.

Second, on our outbound travel, we have seen explosive growth in outbound travel across all business lines this year. In the third quarter, both outbound hotel and air businesses maintained three-digit growth. Ctrip has the richest outbound-product offerings in the market.

We have the most extensive global hotel network among industry players in China. For international air tickets Ctrip has industry-leading technology, product offerings and services. Our international train ticketing and car-rental businesses are also expanding rapidly, completing the door-to-door transportation network.

Outbound, packaged tours continue to account for over 50% of the total tours booked this quarter. Apart from packages, individual traveler products, such as local activity business, experienced a major development in the past year.

In addition, all the products sold through Ctrip will be supported by our world-class, 24/7 contact centers, service assurance and emergency aid systems globally, which effectively differentiates Ctrip from other peers and enhances customer trust and stickiness.

Third, our investment in the ecosystem of the industry. In the past several years, Ctrip has made active investments within the Company and externally, to enhance our long-term market leadership. Internally, we have incubated the Baby Tiger initiatives to seize the opportunities in the most promising travel verticals. Externally, we have invested in the best companies within the travel space that can bring additional value to Ctrip and our customers, such as new business lines or new technologies.

We have received both favorable strategic and financial returns. We will continue to decisively, yet prudently, seek new investment targets and, in the meantime, pay more attention to post-investment operations to create more synergies.

In October, Ctrip announced the completion of a share exchange transaction with Baidu and started to hold 45% voting power of Qunar. We are excited by this investment, which we believe will help build a healthy travel ecosystem in China, and enable us to focus on providing the best travel products and services to our customers.

In addition, the partnership with Baidu will give Ctrip the access to Baidu's resources, including Baidu Map, mobile and PC traffic, O2O platforms, payment and other functions that can help to enhance our user experience.

The Qunar team is young and with great potential. We would like to work with them to grow China's online OTA industry. To align the interests of both Qunar and Ctrip teams, we plan to offer current Qunar employees the ability to exchange the Qunar ADSs for Ctrip ADSs. Qunar and Ctrip are currently exploring ways in which we can effectively cooperate to enhance our respective products and services and better serve the market.

With rising personal income, China now demands to have more work/life balance and enjoy more happening beyond meeting basic living needs. Travel service is a key part of leisure entertainment to bring more happiness to people. As the country's largest leading travel player, we are devoted to make travel a happier experience. This is what we have been working hard to deliver in the past 16 years, and it continues to be our mission for the years to come.

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

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

Thanks, James. Hello everyone; this is Jane. I'm pleased to share the update about Ctrip's main businesses with you. First, our hotel and other accommodations. At the end of the third quarter of 2015 Ctrip's domestic hotel coverage reached 350,000 hotels, double the number a year ago. International hotel coverage further expanded to 860,000 hotels, a 70% increase year over year.

Our leading position in mid to high-end hotels has been further strengthened after our investment in eLong. We share each other's inventory on the backend, and in addition, we are working efficient -- effectively to transform hotel coupons into a normal marketing tool to attract new customers and to create higher loyalty for existing customers.

In the third quarter, hotel total volume grew 50% compared to the same period last year. The international hotel business maintained triple-digit growth this quarter.

Secondly, on transportation ticketing services. Total volume growth for transportation tickets surged to a record high of 150% year over year in the third quarter of 2015. On the first day of the national holiday, the number of passengers booking Ctrip's transportation products exceeded 2m, a new record that we achieved.

Air ticketing maintained a strong momentum with 50% higher volume growth over the same quarter last year. International air ticketing revenues increased approximately 100%.

Train tickets sustained its growth and achieved almost 300% volume growth on a year-over-year basis, driven by strong demand for outbound travel. We proactively offer services outside of Mainland China. So far, travelers are able to book train tickets in Europe and Taiwan from Ctrip with attractive discounts and exclusive deals.

Bus ticket is expanding significantly. In just one year, Ctrip successfully established the largest online bus-ticketing platform, covering over 1,600 cities across 28 provinces, municipality and autonomous regions. We are happy to hear that bus tickets achieved profitability this September. And the team is working hard to further expand their market share aggressively and also generate more favorable results.

A notable innovation we realized recently in the transportation business is the integrated product offering of air, train and bus tickets. As long as users are searching one of the transportation products, our system can automatically provide a recommendation to the other two operational

modes with the same date, origin and destination. It significantly helps our customers to streamline their decision-making process and to improve our cross-selling capability.

Next packaged tour business. Packaged tour revenue grew further [to a rate] 66% year over year, driven by the strong volume growth. Compared to hotel and air ticketing business, packaged tours, especially organized tours, have a much lower mobile penetration rate due to the complexity to make multiple arrangements. Our team constantly improves their users' experience and functionality on mobile, as customers are gradually migrating from PC to mobile.

In the third quarter, the number of the travelers who booked through Ctrip mobile grew over 400% year over year. Ctrip is the only company in the industry that is able to produce pre-travel briefing services through the mobile app, which creates great convenience for the group-travel customers and saves significant handling costs.

The total number of travel agencies and suppliers signing on to the platform has surpassed 10,000. They bring in hundreds of thousands products and Ctrip provides the service support around the clock.

Competition based solely on pricing has proven to be not sustainable and disruptive to the whole industry. We hope the platform could form a marketplace where players can focus more on product offerings and service quality.

Next, on the corporate travel. We just launched the latest version of corporate travel app, which allows Chinese and English language switch as well as multi-currency conversion. In addition, we have formed a strategic relationship with Concur, a leading global business travel and expense management company, to provide integrated corporate travel solutions for our customers around the world.

Finally, we would like to express our deep appreciation for the devotion of our employees and for the support from our partners. We will continue to invest in the key areas in order to achieve excellent results.

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

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

Thanks, Jane. Thanks, everyone. For the third quarter of 2015, Ctrip reported total revenues of RMB3.4b, or \$528m, representing a 49% increase from the same period in 2014. Total revenues for the third quarter of 2015 increased by 26% from the previous quarter.

Accommodation reservation revenues amounted to RMB1.4b, or \$216m, for the third quarter of 2015, representing a 45% increase year on year, primarily driven by an increase of 50% in accommodation reservation volume. Accommodation reservation revenues increased by 24% quarter on quarter.

Transportation ticketing revenues for the third quarter of 2015 were RMB1.2b, or \$190m, representing a 51% increase year on year, primarily driven by an increase of 150% in ticketing volume. Transportation ticketing revenues increased by 15% Q-on-Q.

Packaged-tour revenues for the third quarter of 2015 were RMB593m, or \$93m, representing a 66% increase year on year, primarily driven by an increase in volume growth of organized tours and self-guided tours. Packaged-tour revenues increased by 60% (sic - see press release "80%") quarter on quarter, primarily due to seasonality.

Corporate travel revenues for the third quarter of 2015 were RMB124m, or \$20m, representing a 19% increase year on year, primarily driven by the increased corporate travel demand from business activities. Corporate travel revenues increased by 3% quarter on quarter.

For the third quarter of 2015, net revenues were RMB3.2b, or [\$501m], representing a 49% increase from the same period in 2014. Net revenues for the third quarter of 2015 increased by 26% from the previous quarter.



Gross margin was 73% for the third quarter of 2015, compared to 72% in the same period in 2014 and 71% in the previous quarter.

Product development expenses for the third quarter of 2015 increased by 36% to RMB831m, or \$131m, from the same period in 2014, primarily due to an increase in product-development, personnel-related expenses. Product development expenses for the third quarter of 2015 increased by 4% from the previous quarter. Excluding share-based compensation charges, product development expenses accounted for 24% of the net revenues, decreasing from 26% in the same period in 2014 and 29% in the previous quarter.

Sales and marketing expenses for the third quarter of 2015 increased by 40% to RMB838m, or \$132m, from the same period in 2014, and increased by 23% from the previous quarter, primarily due to an increase in sales and marketing related activities. Excluding share-based compensation charges, sales and marketing expenses accounted for 26% of the net revenues, decreasing from 27% in the same period in 2014 and remained consistent with the previous quarter.

G&A expenses for the third quarter of 2015 increased by 8% to RMB261m, or \$41m, from the same period in 2014, primarily due to an increase in amortization expenses for intangible assets of newly-acquired entities. G&A expenses for the third quarter of 2015 remained consistent with the previous quarter. Excluding share-based compensation charges, G&A expenses accounted for 6% of the net revenues, decreasing from 8% in the same period in 2014 and the previous quarter.

Income from operations for the third quarter of 2015 was RMB405m, or \$64m, compared to RMB88m, or \$14m, in the same period in 2014, and RMB61m or \$10m in the previous quarter. Excluding share-based compensation charges, income from operations was RMB539m or \$85m compared to RMB225m, or \$37m, in the same period in 2014 and RMB214m, or \$35m, in the previous quarter.

Operating margin was 13% for the third quarter of 2015, compared to 4% in the same period in 2014, and 2% in the previous quarter. Excluding share-based compensation charges, operating margin was 17%, compared to 11% in the same period in 2014 and 8% in the previous quarter.

Other income for the third quarter of 2015 was RMB2.4b, or \$377m, compared to RMB108m, or \$18m, in the same period in 2014 and RMB12m, or \$2m, in the previous quarter, primarily due to the gain recognized from the deconsolidation of Tujia as a result of the loss of control of Tujia after its recent financing in this quarter. The gain is primarily recognized for the difference between the fair value and the carrying value of the investment in Tujia as of the deconsolidation date.

Income tax expenses for the third quarter of 2015 was RMB361m or, \$57m, compared to income tax expense of RMB50m, or \$8m, in the same period of 2014, and RMB31m, or \$5m, in the previous quarter.

Net income attributable to Ctrip's shareholders for the third quarter of 2015 was RMB2.4b, or \$380m, compared to RMB217m, or \$35m, in the same period in 2014, and RMB143m, or \$23m, in the previous quarter. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB2.5b or \$401m, compared to RMB354m or \$58m in the same period in 2014, and RMB296m or, \$48m, in the previous quarter.

Diluted earnings per ADS were RMB13.26 or \$2.09 for the third quarter of 2015. Excluding share-based compensation charges, diluted earnings per ADS were RMB13.97 or \$2.2, for the third quarter of 2015.

As of September 30, 2015, the balance of cash and cash equivalents, restricted cash and short-term investment was RMB17.3b or \$2.7b.

With that, operator, we are opening the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Binnie Wong, BofA Merrill Lynch.



**Binnie Wong** - *BofA Merrill Lynch - Analyst*

Hi, management. Thank you for taking my questions. So the first question is on the hotel. Can you comment on a couple of key factors that are affecting your hotels and ADR rates? Could you comment on the trend you have seen in the industry, as well as the impact from a mix shift in the hotel [tiering]? I guess, also the post-investment in Qunar, what do you see in terms of the changes to our hotel segment?

And. I guess, the second is that -- on the air, can you also share something on the industry trend you have been seeing too, on the commissions?

And lastly, is just on the investment in Qunar. What are the -- any synergies and how the new competitive landscape will change after? Thank you.

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

We will address your questions in two parts. Our CFO will address the trend and the mix and the margin. And I can talk about the synergies we can anticipate from our investment in Qunar.

Obviously, we are very excited about our investment in Qunar, because Qunar is a company that we highly respect. They have a very young and energetic team and, through our cooperation in future, we will be able to expand into the second-tier, third-tier cities rapidly and gain market share.

And on the hotels, particularly, I think Ctrip is very strong in the high-end, mid-end hotels) And Qunar's team is also very aggressive penetrating into the third-tier and fourth-tier cities. So if we work together, we will be able to serve more customers and provide excellent products to the people in China.

And secondly on the air, also on the efficiency level should be increased through our cooperation. And again Ctrip's customers, focus mainly on the reliability and the service-oriented business travelers as well as high-end leisure travelers. And Qunar's customers tend to be younger and a little bit more price sensitive. So if we work together, we will be able to provide the whole set of the products to the overall market. And that will enable to penetrate further into the second-tier and third-tier cities more rapidly.

And I will leave the questions on the margin and the trend to our CFO, Cindy.

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

For the hotel business, because even including Qunar and eLong, first of all, the three of us still account for a comparatively very small portion of the total market. So there is still huge growth potential for the three of us.

And on the revenues or margins for the hotel business, we already see cost savings from the investment of eLong. Of course, we are expecting to see further cost savings from the investment of Qunar, both on the revenue side as well as the sales and marketing sides.

And for the air ticket business, Ctrip -- of course the industry growth for the air ticket business itself is still very healthy at about 10%, the industry growth. And the key driving force for us in the future for the air ticket business, for Ctrip only, will be the international air ticket.

Now we see a significant portion of revenue contribution coming from the international routes. And Ctrip, we have the best product offerings for the international air ticket, even compared with all the Asia peers, Asia players. So we are very confident that we will further grow our market share, especially for the outbound travel-related business.

And for the -- I think because more and more of our revenue contribution will be coming from the outbound travel related, so overall speaking, our [ADRs] for the hotel business will be stabilized and the same trend for the air ticket business, because the portion from the international air ticket will increase gradually.



**Operator**

David Jin, Goldman Sachs.

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**David Jin** - *Goldman Sachs - Analyst*

Good morning, management, and congratulations on strong results. I have two questions here. Number one is regarding the collaboration with Qunar. So could you elaborate more on how should we think of the potential upsides from both topline and cost savings? And if we're [staying here], here looking forward, how should we think of your non-GAAP operating margin over the long term? That's my first question.

And the second question is specifically on the hotel side. If we think of Ctrip, Qunar and eLong as more of alliance entities, so who are the remaining competitors in the market? And, more specifically, how do you view Alitrip's direct connection campaign, with PMS provider Shiji Information? Would you think that would impact your hotel business? Thank you very much.

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**James Liang** - *Ctrip.com International Ltd - Co-Founder, Chairman & CEO*

Okay. I'll take the first part of the question. We are still pretty early in working with Qunar to realize the potential synergies, so we're examining all the areas where there's potential synergies. Just to give you example, for example, in the sales and marketing, because we now currently have very unique products in many areas, so we can probably increase the sales and marketing efficiency, or advertising, or traffic acquisition, the efficiency of traffic acquisition by a great deal.

And also in terms of the promotion and -- sales, marketing and promotion, we can eliminate some of the irrational promotions on the market, so that we realize a higher efficiency in gaining -- in customer acquisition. And in product offerings and in research and development we can also eliminate some redundancies. And in fulfillment we can better realize economic scale.

Of course how much savings in each category area, it's too relatively early to give exact numbers.

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

Yes. We are fully confident that, over the time, our margins will be going back to a more sustainable level at about non-GAAP 20% to 30%.

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**James Liang** - *Ctrip.com International Ltd - Co-Founder, Chairman & CEO*

You want to talk about the remaining? Alitrip and their PMS system integration, I think this is something we can do also, because we also have a PMS company, actually several PMS companies, that provide PMS assistance to different classes of the hotels. So actually we can connect it to these systems, realizing the efficiency and product fulfillment.

And also, even with the Shiji's PM systems, because it's really the hotels that are owning the PMS, the hotels purchase the PMS from Shiji. So it's the hotels owning these PM systems. It doesn't prevent us from connecting to these PM system as long as the hotel agrees to connect with us. Given we have the highest volume and are the most important partner for the hotels, in general the hotel will agree to connect it, whatever system they bought. Thank you.

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**Operator**

Henry Guo, Summit Research.

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**Henry Guo** - *Summit Research - Analyst*

Hi. Thanks for taking the questions. So two really quick questions. The first one is regarding the hotels. So as far as the hotel rebates, so what's the percentage of revenue in the September quarter? I remember in June quarter the hotel rebate was about 16% of revenue. So how should we think about December quarter?

And then the second question is regarding the air tickets. So what percentage of the air tickets is through the open platform in the September quarter? Thank you.

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

Yes. For the hotel coupons, last year actually, especially the second half of last year, our coupons increased significantly to about 20% to 21% of the total hotel revenue, thanks to our synergies and cost savings from the investment to eLong. Actually, this quarter our coupon has been decreased from -- actually from the second quarter of this year, our coupon level reduced gradually. And for this quarter our coupon rate is about 17% of the hotel revenue.

And open platform, air ticketing contributed from open platform, it still remained at about 60% of the total air ticket volume.

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**Operator**

Wendy Huang, Macquarie.

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**Wendy Huang** - *Macquarie - Analyst*

I know a lot of people already asked about margin question and ASP, but I still want to get more clarity on that front. So with the market being consolidated, where do you see the commission ASP to increase and how should we expect the margin rebound next year?

And also the combined share of Ctrip and Qunar in the air business has already exceeded 50%. Where do you see the combined share of Ctrip, Qunar and eLong in the hotel market in the long term?

And finally, very quickly, can you give us some update on your relationship with other hotel platforms, such Meituan and Dianping, whether it's a more competitive or whether it's a more cooperative relationship out there? Thank you.

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

Okay. I will take the question, Wendy. First of all, on the commission rate, I think our goal has always been to maintain a reasonable commission rate, so that hotels will value our channel as one of the most effective channels in the market. But what we can do with Qunar's team is that -- evaluate our effectiveness of the campaign and reduce the irrational competition, so that it will flow into our bottomline and improve our margins. So that's the first thing.

The second thing is for the market share. Overall, for travel, Ctrip and Qunar are still very, very small. Our market share is somewhere between 3% to 4% and Qunar is smaller. So there is much more room to grow. And on top of it, we also have a very big market for outbound, so that is what our focus, going forward. So we are very confident and excited about the opportunity to, not only within China, but also to build a Company that is very strong compared to the other players in the global spaces.

The third question on Meituan and other platforms, I think we are very different from theirs. We spend 24 hours, thinking nothing else except for travel. So travel is what we live on. And our expertise, and system, and service, and branding is all circled around this center. Therefore, in terms of



our branding, when people think about travel, the people who can really afford mid to high-end products will think about Ctrip. And with Qunar joining the camp, I think the low end is also very well penetrated.

The other platform will generate some volume, but I think it's not going to be 100% focusing on travel. So I think we will continue our focus in the travel business and extend our leadership in this area.

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**Wendy Huang** - *Macquarie - Analyst*

Thank you.

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**Operator**

Jed Kelly, Oppenheimer.

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**Bo Pang** - *Oppenheimer - Analyst*

Hi. Thank you for taking my question. This is Bo asking question on behalf of Jed. So basically, two question. First of all, I wonder if management can provide the revenue guidance breakdown for each category.

And secondly, since management is increasingly focusing on the outbound travel, so we want to know -- we want to get an update on the outbound travel mix, by category, as well as geography. Thanks.

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

Yes, for the -- so for each business line, items actually all contribute to very sustainable growth, for the 45% to 50% revenue forecast for the fourth quarter. So both hotel and transportation revenues were increased about 40% to 50%. And for the leisure travel, thanks to the huge demand from the leisure travel markets, our packaged tour business will gross -- revenue will gross at about 50% to 60%.

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

And for the outbound travels, still majority of the destination for Chinese travelers are within Asia Pacific areas. So for Ctrip now we have very extensive product offerings worldwide. But our team very much focused in the hot destinations for Chinese travelers, to provide the most favorable product offerings to our customers.

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**Operator**

Mike Olson, Piper Jaffray.

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**Mike Olson** - *Piper Jaffray - Analyst*

Hi, good morning. Two quick questions. You talked about long-term pro forma operating margin targets. But can you tell us what you're expecting specifically, for Q4?

And then on the Baby Tiger initiatives, where are you on profitability of those initiatives? Will they be collectively profitable by the end of this year?



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

Yes, so for the margin guidance for the Q4, we -- our team has worked very hard to increase our operational efficiencies, especially from this year. So our margin guidance will be -- yes, our non-GAAP operating margin guidance will be at about RMB200m to RMB300m, which imply a non-GAAP operating margin rate at about 7% to 10%.

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**Operator**

Alicia Yap.

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**Alicia Yap** - *Barclays - Analyst*

Hi. Good morning, good evening, James, Jane, Jenny, and Cindy. Thanks for taking my questions. Very quickly, I wanted to ask about the business cooperations on -- between Qunar and eLong as well. I know you explained a little bit on the hotel, but what about the air? Will we plan to incorporate Ctrip current open platform air business into Qunar?

And then the second question I wanted to ask, other than the Qunar employee shares that you guys are issuing, will there be any solution that the Company is working on for the minority shareholders? Any comment on in terms of to keeping the Qunar senior management team? Thank you.

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

Sure. I will take your question, Alicia. First of all, we're working very hard with Qunar team, to make sure that we leverage each other's strengths. Qunar's team is very strong in its platform for the vendors. And we are very strong in the relationship with direct airlines. And the customer pool also is quite different.

So we're working very hard to develop our mapping and to make sure we can share the inventory and serve the customers, and serve the airlines very well, and improve our efficiency. But it's still very early because we just announced the deal a few weeks ago, so we're working very hard with the management team.

So the second question is on minority shares. Right now we are focusing on retaining and motivating our teams, to make sure we create the best value for both Qunar shareholders and Ctrip shareholders. I think the core is our business. If the business is doing well, for both Qunar company and Ctrip company, all the shareholders will benefit from it, so that's our focus right now. Thank you.

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**Operator**

Alan Hellawell, Deutsche Bank.

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**Alan Hellawell** - *Deutsche Bank - Analyst*

Great. Thank you very much. Two questions, one of them being there seems to be a lot of dynamism setting in, in the sedan-hailing/car rental industries. And I know we have a pretty meaningful position in those areas. How do we envision that relationship evolving? And what role does Ctrip play, going forward?

And then secondly, just a quick question about some of the misfortune that's happened in France and whatnot. Has that led to any change in patterns in the fourth quarter? Thanks.

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

Thanks, Alan. For the transportation business, it's a very sizable market. And Ctrip is very well positioned to aggregate all the products in the market, so that we can cross-sell lots of products at different occasions. For example, if there is a storm where there are lots of delays in airport, we will automatically push our high-speed railway train tickets to our customers.

So by doing that, we are able to serve our customers very well and streamline their business. So going forward, I think air ticketing, high-speed railway, bus, train, will form a formidable market and product offerings for our customers, to enable them to make the best choice based on their -- where they are and what kind of weather conditions there are. And we are making a good investment and also generating very good profit from that aggregated platform.

The second thing is regarding the unfortunate events in France. We are protecting our customers and offering [their] support for canceling, changing, and also comfort for the customers, within and come back from that region.

We are monitoring the market condition very carefully. But I think every year there is something, whether natural disasters, or political turmoil, or something tragic that happens in France. Our team needs to react very quickly, in terms of the unexpected event happens. We need to react and help our customer the fastest in the market, so they can be comforted and taken care very quickly.

But in terms of market sentiment, we are monitoring the markets very carefully. Cindy's guidance should already reflect the sentiment in the market. Thanks, Alan.

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**Operator**

Natalie Wu, CICC.

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**Natalie Wu** - *CICC - Analyst*

Hi, management. Thanks for taking my question, and congratulations on a solid quarter.

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

Thanks.

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**Natalie Wu** - *CICC - Analyst*

I have two questions. First of all, I'd like to get some further color from management on that have you seen, or do you expect to see some potential competitors in online travel market, or the market will be more and more consolidated in the final place?

And also, I'd also like to guess what is the current GMV split between organized tour and self-guided tour? And can you give us some color on the take rate regarding organized tour, maybe the change in the last several quarters and the change that may happen in the future? Thank you.

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

The online player market, online travel market is a very fast-growing market. So in the past 10 years, we have seen many investment pulling into this area, and every day there is new companies being established. So our team needs to remain very vigilant, to make sure we expand our leadership in all business lines.

And so far, we have -- our team has done a very good job, focusing on the areas that is demonstrating customer has the interest and also having the buying power in this area. And we will make sure our Baby Tiger program or external investment will enable us to take the leadership in this area. But it's definitely a fast-growing market.

And I will leave the organize tour and self-tour question with Cindy.

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

Yes, the organized and self-guided tour, I think for the organized tour, we do have some competitors from the traditional travel agencies. But Ctrip is the clear leader for the self-guided tour.

On the margin side, for the hotel business before the coupon, we charge about 10% to 15% from the hotels. And for the air tickets, we charge -- we have about 4% to 5% take rate, which has been pretty much stabilized in the past few years.

And for the packaged tour, because basically it's combined hotel and air ticket business together, so the margin is pretty much in between. And the margin has been pretty stabilized in the past few years, as well.

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**Operator**

Juan Lin, 86Research.

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**Juan Lin** - *86Research - Analyst*

Hi. Good morning, James, Jane, Jenny, and Cindy. Thank you for taking my questions. My first question is related to gross margin. In the third quarter, your gross margin improved 2 percentage points sequentially, which is higher than the historical pattern. And I also noticed that the impact from hotel couponing actually stayed the same with last quarter. So I'm wondering, what are the reasons behind gross margin improvement. And should we expect gross margin to continue improving on the Q3 level?

And the second question is related to couponing. Since you have become a significant shareholder of both eLong and Qunar, should we expect couponing to quickly drop to zero, as you -- as the competitive landscape has already changed? Thank you.

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

Thank you. Yes coupon, of course -- first for the gross margin questions, coupon, if you compare to year over year, coupon still is one of the reasons why we can save some cost on the cost side -- on the cost of revenue side.

And also, our team working very hard, our call center staff working very hard and work together with IT team. Now each of our call center have a separate IT team, to help them to increase their operational efficiency.

For example, for the air ticket business, in the past two years our air ticket volume increased over 100%. But for the call center in the air ticket department, they don't even add a single headcount in the call center, so the operational efficiencies improved significantly. I think that's the reason why you see a very healthy recovery on the gross margins.

And yes, for the question on the couponing, of course, for Ctrip, still maybe seven or eight years ago, actually Ctrip, we also don't have too much meaningful competitors in the market. Back then, we have about 40% to 45% or even 50% net margin which, looking back, we see it's not sustainable because it attracted a lot of potential competitors into this space.



So even after investment in eLong and Qunar, we still, well think, given the huge potential of the China travel market, just as Jane explained, Ctrip has about less than 5% of the total China travel market. And eLong and Qunar, they have another maybe less than 5%. So in total, we have about less than 10% of the total China travel market.

So still, given the huge growth potentials, market share is till our first priority. Of course, we can achieve savings which already reflected in our margins, in our financials. But market share is still the first priority for Ctrip.

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**Operator**

Ming Xu, UBS.

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**Ming Xu - UBS - Analyst**

Hi, management. Congratulations on the strong quarter. So I have two questions. First, if you -- you talked a lot about outbound trip and your ambition on that. So could you update on the contribution of international business in each of your major business lines? That's the first question.

And second question is regarding the employee incentive of Qunar. So I noticed that the proposal of -- for Qunar employees to change their Qunar stocks into Ctrip stocks need to be approved by the minority shareholders. So just want to know, if that is not approved, so do you have any alternative plan to incentivize the Qunar employees? Thank you.

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

For the outbound travel, across all business lines outbound travel all have over -- about all close to three-digit growth, across all business lines. Now, for the international hotels accounts for about 10% to 15% of our total accommodation revenues. And for the international air ticket, accounts for about 25% to 30% of our total air ticket revenues. And the package tour, actually already a majority of our outbound package tour destinations are international destinations. And the revenue, international outbound travel-related contribute about 60% of the total package tour revenues.

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

And I will address the second question. We agreed to convert Qunar's employees' share to Ctrip's to better align the interests for employees. So everyone works for the same goal and creates the best value for both Qunar shareholders and Ctrip shareholder. And our team will work very hard to penetrate further into the untouched land and create a greater value for our shareholders. That's our focus.

Qunar's management team made a voluntary statement that they will get the investors' consent. I'm sure they're working on it. But Ctrip, on our end, extend our willingness to align the interest for Qunar's employee with the success of the Company. So we are focusing mainly on the operations, and try to create the best value for our shareholders. Thanks.

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**Operator**

Justin Patterson, Raymond James.

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**Justin Patterson - Raymond James - Analyst**

Great. Thank you very much, and congratulations on a strong quarter. Two quick ones, please. First, with respect to the Baby Tigers, in the past you've provided some revenue and profitability targets. So if you could give us an update on that, we'd appreciate it.



And then secondly, on the diluted share counts, post Qunar, could you provide an update on that as well? Thank you.

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

Yes. For the Baby Tiger's, last year especially, second half of last year, Ctrip invested heavily to incubate 15 Baby Tigers. Now, this year, Baby Tiger -- the revenue contribution from Baby Tiger Project has been one of the key driving force for our revenues. Now all the Baby Tigers, they contribute about 20% to 25% of total Ctrip's revenues.

And by the end of this year, I think most of the Baby Tiger Project will be at least break even. And by the end of -- our goal is to, by the end of next year, all the Baby Tigers, they have to be at least breakeven, so they will contribute positive bottomlines for the Ctrip Group.

And would you please repeat your second question?

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

The share count.

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

Yes, the share count --

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**Justin Patterson** - *Raymond James - Analyst*

(Inaudible) yes.

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

Yes the share counts for Qunar's conversion potentially, through multiple years, it is going to be about 5m ordinary shares, which represents to about 9.5% of the total shares. But it's spreading out in multiple years. And although there is dilution on Ctrip's side, but the ability for our shareholder to pick up a bigger pie also offsets the dilution.

So if you take the bigger pie times the decrease the shareholding, the economics actually is the same or even better, because if we align both companies' interests together, both teams will explore better ways and creative ways to synergize the teams' strengths and make sure we run very efficient operations. So with this, I think our shareholders' interests for both companies will be enhanced. Thanks.

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**Justin Patterson** - *Raymond James - Analyst*

Got it. Thank you.

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

Thank you.

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**Operator**

Dick Wei, Credit Suisse.

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**Dick Wei - Credit Suisse - Analyst**

Hi, good morning. Thanks for taking my questions. I have a question on Qunar. I wonder, maybe going forward, how much of the resources will be allocated to Qunar? Do we expect Qunar to still maintain a pretty high investment, going forward? And what are the goals for Qunar, in terms of maybe the revenue growth for the company, down the road?

And the second question is maybe just on the headcount plans for next year. What's the preliminary thoughts for 2016? Thank you.

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

Yes. So going forward, I think both companies will have lots of strengths that is complementary to each other. Our inventory is very strong on the high end and we will be able to share our inventory with our partners. So Qunar team will be able to enjoy a very comprehensive product offering at their back end. And they're also very strong in penetrating into the younger generation, [further] for three to four-tier cities. So I think the strength for Qunar team will be enhanced. And for Ctrip team, it's the same. Whatever our partnership established in terms of the inventory will be shared on our end as well, so that we can leverage each other's strengths in product offerings.

In terms of marketing, a different team has their own focused target to the market. Ctrip's is very strong in business travelers and high-end customers. And our campaign mainly will be focusing on that area. And Qunar's team is very strong in focusing in younger generation and also a little bit time -- price-sensitive customers. And they are very good with that campaign. So I think they will also extend their leadership in their area.

And thirdly, because of the alliance, we can rationally analyze the market and make sure our sales and marketing efforts is best leveraged, rather than irrational spending. So hopefully, with the careful planning, both companies' margin will have a nice pickup. But it takes some time because, in order to mapping out all the strategy, our two teams needs to brainstorm, and make sure we understand each other's strengths, and make sure the alliance is very successful. So we have been working very hard on that. Thanks.

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**Operator**

Tian Hou, T.H. Capital.

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

Good morning, management. I have a question, related to Baidu relationship. Baidu become one of the major shareholder of Ctrip now. And I wonder, going forward, how Baidu's resources is going to be allocated between Ctrip and Qunar. That's number one question.

Number two is since Baidu become a shareholder, does it preclude you from cooperating with other guys, like Alibaba and Tencent? Thank you.

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

Yes, Baidu is a very important shareholder for Ctrip and we will work very closely with them. In terms of the spirit between Qunar and Ctrip, we will be all very supportive. I think whatever channel generates the best conversion rate and yield, we will support the allocation. So we respect Baidu's preference on that.





And also, in terms of the cooperation with the others, yes, we still can work with others on sales and marketing channel, to make sure our product is very well marketed, through all the online platforms. I think that is the right thing to do for Ctrip and the right thing for Baidu also. As they are our shareholder, they want the best from Ctrip as well. Thanks.

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**Operator**

Jialong Shi, Nomura.

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**Jialong Shi - Nomura - Analyst**

Hi. Good morning, James, Jane, Jenny, and Cindy. Thanks for taking my call. Actually, I have a quite simple question. And I guess Ctrip and Qunar management should have more communications now, after the deal happened. So I just wonder if management, especially James, can share with us how well you get along with your counterpart at Qunar, and do you find any chemistry between you two? Thank you.

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**James Liang - Ctrip.com International Ltd - Co-Founder, Chairman & CEO**

Yes, actually, we have always had very high respect for each other, even before this transaction. So actually we are very -- actually quite busy in talking with the Qunar's management team, to realize potential savings or potential synergies. I think there's a lot of things we can work together, a lot of areas for cooperation and a lot of rooms for improvement. So I think that we have a very good ongoing relationship and we are very optimistic about the future cooperations.

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**Operator**

Thomas Chong, Citigroup.

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**Thomas Chong - Citigroup - Analyst**

Hi. Good morning, management, for taking my questions. I have a very quick question, regarding the progress relating to the privatization of eLong. So given Baidu right now is your largest shareholder, so is there any change, in terms of the plan or the privatization, coming from Tencent? Thanks.

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

eLong is a very standalone company, with its independent board. The privatization is mainly driven by Tencent and it's on track. They are moving very smoothly towards the goal. We do not see any changes.

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**Thomas Chong - Citigroup - Analyst**

Thanks.

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**Operator**

Amanda Chen, Morgan Stanley.



**Amanda Chen** - Morgan Stanley - Analyst

Hi. Good morning, management. Thank you for taking my question. I have two here. First is regarding your leisure travel strategy. I think, James, you talk about regarding the leisure travel and also the packaged tour in your prepared remarks. And we also have many investments in some OTA who focus on this area. And also I think recently we restructured our leisure travel BU. And I'm just wondering, what is our M&A strategy in future, regarding this space. Are we going to -- I don't know -- increase the share in these investees, or are we going to do more internally? That's my first question.

And my second question is regarding the Qunar minority shareholder interest. I think someone already asked you this question, but I just want to clarify. Since we already issued 5m ordinary shares over several years, does this mean that the minority shareholder already approved the exchange program (inaudible) interest, or it's solely for the employees but not for the minority shareholder? Thank you.

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

Yes, I will take that question. For leisure travel, obviously the leisure travel is growing very fast. So our focus has always been standalone; Ctrip standalone needs to be very strong. So our vacation group are very focused in increasing the product offerings, increase our customer service level and make sure we're available 24/7, making sure that if there is unexpected events happen, such as what happened in France, our team is the fastest to offer comfort and rescue measures for our customers.

And with these efforts, I think our vacation package group is growing very fast. And we are very optimistic that going forward, they will enjoy a very fast growth, going forward. And also, we are very open, in terms of investment in the market. But always I think we should focus our strength first, before we talk about the other opportunities, outside of Ctrip.

The second thing is on the Qunar conversion, the conversion is mainly to motivate employees to align everyone's interests together and create the best value for Qunar shareholder, as well for Ctrip shareholders. And I think through the hard work by both team, we are moving very well towards our common goal. So that has been our focus right now. Our belief has always been if our operation is improved through the cooperation between two teams, the value for the shareholders will be increased as well. Thank you.

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**Operator**

David Jin, Goldman Sachs.

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**David Jin** - Goldman Sachs - Analyst

Yes, thank you management for giving me a second chance. I just have a very quick two follow ups. The first one is on packaged tour business. Thanks, Jane, for already giving us a lot of color, but I just wonder, if you think of the package tour business, I know you guys have also done some restructuring on the business unit, and we have different lines, like outbound, domestic, self-guided, organized. So I'm just wondering, which business will you focus on doing internally in the future, and for which business will you do more open platform, and potentially leave to your investees?

And secondly just want to get your -- to know your thoughts about the growth outlook for next year. I know it's still pretty early, but any color would be useful. Thank you very much.

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

Sure. For the tour operation group, we used to have a couple of Baby Tiger within the vacation package group and throughout past two years, they have grown very significantly. And internal discussion shows that if we combine these operations together, we will be able to leverage our

volume better and have a better product offering, when customers search for our products. So through discussion internally, we believe combining some of the BUs into a bigger BU would serve our customer the best. That's the reason behind it.

And I think right now we have self-guided tour, as well as packaged tour. In terms of inventory, we have self-packaged tour, as well as platform. And all of these elements are very important, so we are working very hard in all these perspectives. We're not leaving any segment out, through this reorganization.

The second thing is the guidance for 2016. Normally, when we move into the quarter, we will have a better feeling as to where the market is, how the consumers' behaviors are, how many new travel destinations consumers will like. So in order to give you very prudent guidance, maybe we can wait a little bit, until we announce our Q4 results. And then we will give you the guidance for 2016, in a very prudent manner, as we always do. Thank you.

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**Operator**

And at this time, we have no further questions in queue. I would like to turn the conference back over to Ms. Cecilia Zhang for any closing remarks.

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**Cecilia Zhang** - *Ctrip.com International Ltd - IR Manager*

Thank you, everyone, for joining us today on the call. We look forward to convening with you again next quarter. Thank you.

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

Thank you very much, everyone, for your help and support.

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**Operator**

Ladies and gentlemen, that concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.

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