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CTRP - Q4 2013 Ctrip.com International, Ltd. Earnings Conference Call

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## OVERVIEW:

CTRP reported full-year 2013 total revenues of CNY5.7b and diluted earnings per ADS of \$1.10. 4Q13 total revenue was CNY1.5b and diluted earnings per ADS was \$0.28. Co. expects to continue 1Q14 net revenue growth YonY at rate of approx. 25-30%.



## CORPORATE PARTICIPANTS

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

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

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Philip Wan** *Morgan Stanley - Analyst*

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

**Alex Yao** *JP Morgan - Analyst*

**Jiong Shao** *Macquarie - Analyst*

**Fei Fang** *Goldman Sachs - Analyst*

**Alicia Yap** *Barclays - Analyst*

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

**Tian Hou** *TH Capital - Analyst*

**Muzhi Li** *Citigroup Inc. - Analyst*

**Wendy Huang** *Standard Chartered - Analyst*

**Ella Ji** *Oppenheimer & Co. Inc. - Analyst*

**Vivian Hao** *Deutsche Bank - Analyst*

## PRESENTATION

### Operator

Good day ladies and gentlemen and welcome to the Q4 and Full Year 2013 Ctrip.com International Ltd Earnings Call. My name is Glen and I will be your operator for today. At this time all participants are in listen only mode. Later we will facilitate a question and answer session. (Operator instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to your host today, Ms Michelle Qi. Please proceed.

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

Thank you, Glen, thank you all for attending Ctrip's fourth quarter and full year 2013 earnings conference call. Joining me on the call today we have Mr James Liang, Chairman of the Board and Chief Executive Officer. Mr Min Fan, Vice Chairman of the Board and President. Ms Jane Sun, Chief Operating Officer, Ms Jenny Wu, Chief Strategy Officer, 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 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 statement except as required under applicable law.

James, Min, Jane, Jenny and Cindy will share our strategy and business updates, operating highlights, financial performance for the fourth quarter and full year 2013 as well as the outlook for the first quarter 2014. We will also have a Q&A session towards the end of the call. With that I will turn to James for our business updates. James, please.

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

Thanks, Michelle, thanks for everyone. We are pleased to report strong results delivered in the fourth quarter of 2013, net revenues grew by 31% year-on-year primarily driven by strong volume growth. Hotel room nights grew by 55% year-on-year and air ticketing volume grew by 37% year-on-year. For the full year 2013 net revenues grew by 30% year-on-year, hotel room nights grew by 46% year-on-year and air ticketing volume grew by 33% year-on-year.

The rapid smartphone adoption in China has unfolded great market opportunities. Ctrip's primary focus is to gain more market shares in the online and the mobile travel markets. To achieve this goal we have made intensive investment in mobile internet price competitiveness and our open platform. We are encouraged by the initial results and are stepping up the investment in these key areas in order to gain market share at a faster pace.

According to CNNIC over 80% of its Chinese internet users were accessing the internet via mobile devices in 2013. Mobile internet enabled travelers and service providers to be always connected with each other anytime, anywhere. It is a new situation and also brings new challenges and opportunities to travel service providers for the service and technology capabilities. Positioning as a 24/7 one-stop travel platform at a traveler's fingertips Ctrip's mobile application has become increasingly popular among travelers. By the end of the fourth quarter the number of cumulative downloads for Ctrip's travel apps was about 100 million a significant increase from 70 million downloads last quarter and 20 million downloads a year ago. The Ctrip team is constantly leading the mobile travel industry by introducing new features and to improve users' experience.

In the fourth quarter alone Ctrip Travel has released two versions of our mobile and one version of our tablet app for both iOS and Android systems. The latest Ctrip Travel smartphone apps expanded our car rental channel adding taxi booking services and introduced a new function to help users extend their booking in hotels simply by a few taps on a mobile screen. In the fourth quarter 2013 over 65% of Ctrip's transactions were booked through online and mobile channels compared to about 50% a year ago.

For hotel bookings, PC-based internet contributed about 40% of total transactions and mobile internet contributed nearly 35%. For air ticketing booking PC-based internet contributed about 40% of total transactions and mobile internet contributed over 20%. For many of our new businesses such as train ticketing, car rental and local activity tickets, mobile internet is now contributing about half of the respective total transactions. We are delighted to see the mobile channel growth has exceeded our expectations in 2013 and we will persist in investing in mobile internet to extend our leading advantage.

Our vision remains to be the one-stop travel service provider with the best products, best price and best services to travelers. We are proactively partnering with a variety of industry players to expand our product coverage and enhance price competitiveness in an efficient way. Though we are still at the early stage of developing our open platform we have already seen positive progress. Ctrip's platform is comprised of a trusted brand, about 30 million accumulated customers, industry leading operational efficiency and a travel oriented customer service system and an extensive distribution and a marketing network. Through our open platform we are committed in bringing great values to our partners which in turn will ultimately benefit our customers.

Price and brand awareness are important factors to attract regional travelers. Besides matching our peers on coupons, our team is actively exploring different approaches to enable our customers to enjoy favorable prices, such as group buying models and the customized package products.

In the fourth quarter we launched the first multimedia marketing campaign featuring a famous movie star. The favorable audience feedback gave us confidence in continued building of brand recognition in the leisure travel markets and lower tier cities. We are aiming for the long term customer recognition rather than an immediate short term transaction boost through these marketing efforts.

Customers' dynamic demands have inspired many of our new initiatives including smart choice hotels, group buying, location rental, train tickets, car rental, local activity tickets to name a few. Many more are still in the pipeline, Ctrip proactively incubates creative business ideas to give greater autonomy for internal new initiatives and key independent operations for invested ventures. We believe many of them have the potential to become new growth engines for Ctrip in the future.

As the new year unrolls, I would like to thank our employees for their hard work and commitment, thank our customers and partners for their strong support and thank our investors for your great trust. 2013 will be a year of challenges and opportunities on many fronts. We will make even greater efforts to deliver the best value to our customers and investors. With that I will turn to Min for the industry highlights and investment opportunities.

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

Thanks, James. The rapid growth of China's travel industry and the faster-evolving technology has opened great opportunities ahead. Ctrip has been very open and (technical difficulty) exploring new territories by working with internal teams and external industry players. Our investments followed several principles. Firstly we focused on travel and travel-related business. Secondly we work with peers that can add value to the public. Last but not least, we share the same pursuit for the best customer experience.

With these principles in mind we recently made several investments to enhance Ctrip's service score index. In Q4 2013 we became a significant shareholder for eHi the second largest rental car company and Yongche.com, a leading online and mobile business car booking platform in China. The two investments have ensured a high level of trust and cooperation where we work together to provide local transportation services, while the Ctrip platform remains open to all other industry players.

We also acquired ToursForFun.com, one of the top earning suppliers of vacation packages, sightseeing trips and day trips for Chinese travelers traveling within the United States. This will expand our offerings of DIY tours for Ctrip customers. These investments help Ctrip be more resilient in an industry with ever changing dynamics. We will continue to pursue more opportunities in this direction.

With that I will turn to Jane for the recent highlights.

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

Thanks, James and Min. Thanks for everyone. I am very pleased to share the updates of Ctrip's main business with you. Ctrip has upgraded its hotel channel to provide our customers with more accommodation choices. In addition to the mainstream hotels we also offer smart choice hotels, group buying hotels, hostels, vacation rentals and other accommodation choices. By the end of the fourth quarter of 2013, customers can choose their accommodation from around 70,000 domestic hotels and hostels, 277,000 international hotels and over 87,000 vacation rental properties around the world.

We achieved strong hotel volume growth of 55% year-on-year in the fourth quarter of 2013, setting our new growth record since 2005. In the fourth quarter our international hotel volume nearly tripled the number in the same period a year ago. The air ticketing business continued the impressive upward trend in the fourth quarter and reached 37% volume growth year-on-year. International air ticket volume grew 90% year-on-year. Our in-depth cooperation with airlines and airline industry partners enabled Ctrip to provide the most comprehensive products, competitive prices and convenient accessory services.

We will continue our investment in supply relationships, technology and customer services to enable the best booking experience across Ctrip's mobile, online and offline platforms.



Market share gain continued to be the priority for packaged-tours. To achieve this goal Ctrip put great efforts in enriching the selection and flexibility of the packaged-tours.

Our new business also made an impressive launch in the fourth quarter. Local attraction tickets grew over 10 times year-on-year. We are pleased with the positive customers' responses and we will make further investment into this area.

Ctrip's Corporate Travel services maintained a strong growth in the fourth quarter of 2013. Supporting this performance, technology has played a critical role in streamlining the bookings and authorization processes on mobile services and on PC, as well as efficiently leveraging Ctrip's wide product coverage for individuals. The solid results that the Ctrip team accomplished across all business lines demonstrated the team's strong execution. We will work hard in the new year to bring more value to our customers, our partners and our shareholders.

Now I will turn to Jenny for the financial highlights.

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

Thanks, Jane. Thanks everyone. For the fourth quarter Ctrip's total revenue of RMB1.5 billion increased 31% year-on-year and a decrease of 7% Q-on-Q. For the full year total revenue was RMB5.7 billion, up 30% year-on-year. Hotel reservation revenues for the fourth quarter increased 37% year-on-year and 5% Q-on-Q, primarily driven by volume growth. On a year-on-year basis hotels (technical difficulty).

For the full year ticketing service revenues increased 28% year-on-year accounting for 38% of the total revenue in 2013 and 2012. Packaged-tours revenues for the fourth quarter increased 17% year-on-year due to the leisure travel volume growth. Packaged-tour revenues decreased 39% Q-on-Q mainly due to seasonality. For the full year packaged-tour revenues increased 36% year-on-year accounting for 16% of total revenues in both 2013 and 2012.

Corporate travel revenues for the fourth quarter increased 36% year-on-year and 9% Q-on-Q, naturally driven by the increased corporate travel events. For the full year corporate travel revenues increased 34% year-on-year accounting for 5% of total revenues in 2013 and 2012.

For the fourth quarter net revenues were RMB1.4 billion, up 31% year-on-year and down 7% Q-on-Q. For the full year net revenues were RMB5.4 billion up 30% year-on-year. Gross margin was 73% in the fourth quarter versus 74% a year ago and 75% a quarter ago. For the full year gross margin was 74% versus 75% a year ago.

Product development expenses for the fourth quarter increased 26% year-on-year, primarily due to an increase in product development, personnel related expenses. Product development expenses for the fourth quarter decreased 1% Q-on-Q. By excluding share risk compensation charges on a non-GAAP basis, product development expenses were 21% of net revenues, staying flattish year-on-year and up 1 percentage point Q-on-Q. For the full year product development expenses increased 37% year-on-year. On a non-GAAP basis, product development expenses were 21% of net revenues, up 2 percentage points year-on-year.

Sales and marketing expenses for the fourth quarter increased 34% year-on-year and 6% Q-on-Q primarily due to an increase in sales and marketing related activities. On a non-GAAP basis, sales and marketing expenses were 25% of net revenues up 1 percentage point year-on-year and a 6 percentage points Q-on-Q. For the full year, sales and marketing expenses increased 29% year-on-year. On a non-GAAP basis, sales and marketing expenses were 23% of net revenues, up 1 percentage point year-on-year.

General and administrative expenses for the fourth quarter increased 1% year-on-year and decreased 11% Q-on-Q. On a non-GAAP basis, G&A expenses were 6% of net revenues, down 2 percentage points year-on-year and 1 percentage point Q-on-Q. For the full year, G&A expenses increased 13% year-on-year. On a non-GAAP basis, G&A expenses were 7% of net revenues down 1 percentage point year-on-year.

Income from operations for the fourth quarter was up 53% year-on-year and down 39% Q-on-Q. On a non-GAAP basis, income from operations was up 24% year-on-year and down 29% Q-on-Q. For the full year, income from operations increased 28% year-on-year and on a non-GAAP basis increased 17% year-on-year.



Operating margin was 13% in fourth quarter versus 11% a year ago and 19% a quarter ago. On a non-GAAP basis, operating margin was 20%, versus 21% a year ago and 27% a quarter ago. For the full year, operating margin was 16%, being consistent year-on-year. On non-GAAP basis, operating margin was 24%, versus 26% a year ago.

The effective tax rate for the fourth quarter was 26%, versus 25% a year ago and 22% a quarter ago. The Q-on-Q increase was primarily due to the increase in amount of non-tax deductible share-based compensations as a percentage to our income as a whole. The effective tax rate for the full year was 26%, versus 31% a year ago, primarily because Ctrip accrued the provision of 5% PRC withholding tax related to the dividends that our PRC subsidiaries would pay to our Hong Kong subsidiary to fund the share repurchase program in 2012.

Net income attributable to Ctrip's shareholders for the fourth quarter was 36% year-on-year and down 30% Q-on-Q. On a non-GAAP basis, it was up 20% year-on-year and down 24% Q-on-Q. For the full year, net income attributable to Ctrip's shareholders was up 40% year-on-year and on a non-GAAP basis was 25% year-on-year.

For the fourth quarter, diluted earnings per ADS were \$0.28 and a non-GAAP basis were \$0.39. For the full year, diluted earnings per ADS were \$1.10, and on a non-GAAP basis was \$1.57.

As of the end of last year the balance of cash and cash equivalents, restricted cash and the short-term investment was \$1.9 billion.

Then for the business outlook. For the first quarter of 2014 the Company expects to continue with net revenue growth year-on-year at a rate of approximately 25% to 30%. This forecast reflects Ctrip's current and a preliminary view, which is subject to change.

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

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

Operator, we're ready for the questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator instructions). Our first question comes from the line of Phillip Wan with Morgan Stanley. Please proceed.

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**Philip Wan** - *Morgan Stanley - Analyst*

Hi good morning. Thank you for taking my question.

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

Good morning.

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**Philip Wan** - *Morgan Stanley - Analyst*

My question for your margins -- morning. So I wondered if you could comment on how margin will be impacted by the heavy investment this year and if possible could you give us some color on the budget you are going to spend for the key investment areas such as the offline TV commercials and new business, and how are you going to measure the return on investment? Thank you.

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

Sure. I will take the question on the margin and then Jane will update you on the plan, our strategy. For the full year, on the margin side we expect in 1Q our non-GAAP OP margin is likely to be around 10%, and therefore the full year we expect the non-GAAP OP margin would be lower than last year's level.

The key reason for the margin decline is that we're targeting 2014 as another important year of investment for Ctrip. In the past two years we have fundamentally rebuilt Ctrip. We are encouraged by the strong momentum that we have built and offer our team strength.

The booming leisure market and the expansive mobile internet growth in China have unfolded with great market opportunities. Our top priority is to grab the opportunities presented in industry opportunities and to gain more market share at a faster pace. To be more specific, this year we will further step up our investment on several key areas, especially on IT and the mobile internet.

On top of that, we are putting more effort on one: our branding campaigns to enhance our brand awareness among leisure travelers. Two: we are adopting more effective approaches to strengthen our overall competitiveness in prices and products, including a variety of promotion activities and open platform strategy. Three: we are devoting more resources to several new business, feeding their increasing customer demand such as group buying model, local activity tickets, car-rental and a cruise business. Four: we are also proactively exploring new business categories by working with external industry peers to strategic advancement.

There's also in a more competitive way for 1Q this year we would expect non-GAAP OP margin to largely decline by 40 percentage points on a year-on-year basis. The marketing (inaudible) first one, we continue matching competitors on hotel coupon sites which may hurt our margin by 2 percentage points.

Two, (inaudible) product development expenses as a percentage of total net revenues hurt our margin by 7 percentage points as well as having more business development personnel and IT talents. Three, and the sales and marketing work hurt our margin by 5% due to our branding campaigns and the promotions.

For the full year, largely due to the same reasons, we expect 2014's full year margin will also be lower than last year's level. However, given the market dynamic and our business development -- the dynamic of our business development, we consider the visibility for the full year is low, so we will continue to guide our investors on a quarterly basis, once we move into the quarter and have more visibilities.

We believe these efforts we are making will help us to build high-end (inaudible) for the long-run, and along with those investment efforts we are implementing technology and innovative measures to improve our operation efficiency and we are continuing to conduct tight cost control. As you guys already know it has been our (inaudible) and we will continue strengthening that.

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

Yes, I think Jenny has given a very comprehensive answer on the margin. Internally, we classify our spending into two buckets -- the first one is the investment into future business, and for that bucket we are very decisive to make aggressive investment in the future pipeline.

The second type is expense -- internal expenses. For that Ctrip has demonstrated very strong discipline throughout our history, so every penny that we can save we will definitely save it for future investments. So we carefully allocate our resources between existing business versus the future investment.

This year we have made a great -- we will make investments aggressively into all the travel business related new initiatives. As you can see, in the past two years, we started to make investment in our two biggest business lines, which is hotel and airlines. The result has shown in this quarter the volume growth was 65% for hotels and close to 40% volume growth for air tickets. So it takes some lead time for these investments to generate good returns, but we have to be very decisive to make the right decision for futures.

**Philip Wan** - *Morgan Stanley - Analyst*

Thanks Jane and Jenny, that's very helpful. My secondary question is about your packaged-tour business, which this quarter seems to see a slower growth rate as compared to previous quarters. Could you give us some color on this? Thank you.

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

Sure. Packaged-tour business is impacted by many reasons. First of all there is certain uncontrollable events in Asia such as Thailand. There is some demonstrations there. Egypt there is also some uncertainty. A lot of these areas are the top travel destinations for Chinese people, so that's the first reason.

Secondly, in terms of our pricing, in order to expand our market share we've become more aggressive in pricing to make sure we have the best pricing strategy in the market. So that also looks like a little bit lower on the revenue side.

But in terms of volume, volume growth is between 30% to 40%, so that's our strategy as well. I think for Q1 packaged-tour will be impacted by these numbers, but hopefully when we are moving into Q2 and Q3 our investment in the new technology and into our new business will start to generate more on the top line.

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**Philip Wan** - *Morgan Stanley - Analyst*

Thank you. I'll get back to the queue.

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

Thanks.

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**Operator**

(Operator instructions). Your next question comes from the line of Dick Wei with Credit Suisse. Please proceed.

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

Hi, thank you for taking my questions. My question is still on the investment. It sounds like some of the key matrices that you measure the success of your investments and (technical difficulty) the market share of the business's online travel penetration, what kind of measurement you expect to see from the investment, and what stopped you from investing further in 2013. Thank you.

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

The investments we made, obviously we had very aggressive goals for all the business units. They have to become number 1 in that specific area. So for example local tour attractions, which just started a few months ago. The volume growth has been very significant. In Q4 it delivered more than ten times growth rate. So that's very promising.

So the leadership and market share for the new business becomes very important. As they have generated more and more volume, then I think revenue will come along with it, but there is always a lead time. We need to have the people in place to work with our partners. We need to have the IT people in line to build up the system. So the lead time in terms of top line versus bottom line will have some lag. But once the momentum is up the scalability will kick in.

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Normally we expect these new business will tend to be profitable within one to two years.

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

Okay, great. Maybe a quick follow-up in terms of hotel (technical difficulty) fourth quarter, it implies that the price is down around 18%. Also, I wonder if you can set down the impacts from the actual hotel rates decline because of lower city expansion versus coupon and versus some of these new hotel initiatives such as GoodBuys. Thank you.

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

In 4Q you mean right? In Q4 our volume --

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

That's right.

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

The volume growth for 4Q is for the hotels 55% and the revenue growth 37%. The commission per room night declined and among that there are three factors.

First one for the listing price, the ADR, which has declined by roughly 3%, which is largely due to the exchange of our portfolio as we are moving -- we have a higher contribution from lower tier cities and the lower star hotels, and they are lower ADR standard than our blended ADR (inaudible). The commission rate -- the number commissioned rate that we get from suppliers still very stable, and the rest is about 8% revenue this commission to room night decline is largely due to the various kinds of promotion activities and mainly due to the coupons.

For the coupons, its impact on the online side has been very stable but we are matching with our competitors to give more coupons on the mobile site. So on a year-on-year basis we see the additional impact here. This will also -- this situation continues in the 1Q, so for the 1Q we also would see this commission per room night will decline due to this coupon impact.

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

Great, thank you very much.

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**Operator**

Your next question comes from the line of Alex Yao with JP Morgan. Please proceed.

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**Alex Yao** - *JP Morgan - Analyst*

Hi, good morning everyone, thank you for taking my question. My first question is about your market share gain strategy. Can you talk about how you envision the competitive dynamic in each of your core businesses evolving this year? Secondly, do you have a market share target for each of your core businesses by the end of this year? Thank you.

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

We don't have a specific market share target. We still mostly compare to ourself historically. Obviously we will grow much faster than the overall market and overall market itself -- the travel market itself -- will continue to grow very rapidly and we will grow significantly faster than the overall market.

On each different business is obviously different competitors and I think this year still is going to be a very competitive market situation for almost every business that we're in. So I would expect continued very aggressive pricing and sales marketing effort by our competitors and all of these efforts will probably expand the overall market faster and when I say the overall market, it's overall online travel and mobile travel market.

So that may not be a bad thing for everybody in the long-run. I think when that market further consolidates a little bit and maybe in a year or two, we will see that every -- our competitors, our rivals, will be more profit driven. I think (inaudible) we and the most strongest competitors will reap the fruit of our effort today.

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**Alex Yao** - *JP Morgan - Analyst*

Got it. Second question is about your first quarter guidance. Can you give us a breakdown of how you think about each of the businesses will perform in first quarter this year? Thank you.

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

Okay, sure. For Q1 our total net revenue will grow by 25% to 30% year-on-year, and for the hotel side volume growth will be around 40% to 50%. The ADR will tumble by 0% to 5%, and the commission rate will be largely flat. The coupon impact will be around 5% to 10%. So total revenue for hotel will be about 25% to 30%.

For the air ticketing business the volume growth will be about 25% to 30%. ADR may increase by 0% to 5% and the commission will be still flat. Coupon plus other promotion activities may impact the growth by 0% to 5%. So total revenue growth for air ticketing business will be around 25% to 30%.

Therefore the packaged-tours business, the revenue growth will be around 10% to 20%. For the corporate business, the total revenue growth will be about 25% to 30%.

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**Alex Yao** - *JP Morgan - Analyst*

Thank you very much. That's very helpful.

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**Operator**

Your next question comes from the line of Jiong Shao with Macquarie. Please proceed.

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**Jiong Shao** - *Macquarie - Analyst*

Good morning. My first question is on the coupons, particularly for the hotel coupons. Could you please give us an update for the coupon competition both on PC and on the mobile side, and what are you seeing new? Do you think this time as you compete on the mobile side, and we're going to rush to the bottom much quicker than you did for the PC side a year, a year and a half ago? That's my first question.



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

For coupon strategy we have always been very consistent, which is to make sure the coupon will match up to our competitors. We will not allow any price disadvantages as a result of the coupon. So whatever our competitor has in the market we'll match to it. And in terms of allocation between PC versus mobile, obviously we tilt towards mobile as it gives us a stronger stickiness for customer loyalties. So really it's a dynamic place that as of now it looks like very stabilized.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, great. My second question is on your Q1 revenue guidance. I think in 2013 for the first two quarters you guided revenue growth of 15% to 20% and you did 27%, 28%, and Q3, Q4 you guided I think for 20% to 25% and you did 31% for both quarters. Now, you're now guiding Q1 at 25% to 30% which is great. I was just wondering, is that just because you are seeing acceleration of your revenue growth continuing or you now feel like you have enough track record and data points in recent quarters to provide guidance maybe closer to what you can ultimately achieve? Thank you.

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

Yes, as you can see in our travel business there's always uncontrollable events. Sometimes it's natural disasters, sometimes it's political uncertainty. So when we give our guidance, we always work very hard to make sure we give very prudent guidance to take into consideration of all the visibilities we can have. So right now I think 25% to 30% is the number we feel comfortable and prudent to give our investors.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, great. Thank you.

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**Operator**

And our next question comes from the line of Vivian Hao with Deutsche Bank please proceed.

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**Vivian Hao** - *Deutsche Bank - Analyst*

Hi, thank you for taking my question. My question is about what is the management's view and also our strategy towards the increasing competition from the Group buy players in the market? It looks like most of them are moving more aggressively into the hotel booking and other travel segments. Thank you.

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

Yes. Group buying is a new investment we are making. We also aggressively are hiring people around the country to make sure we have coverage for all the second tier and third tier cities. So that's one of the investments we're making which right now impacts our margins but in the future I think it's good for our extension of our hotel coverage.

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**Vivian Hao** - *Deutsche Bank - Analyst*

Okay, thank you.

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

Thank you.

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**Operator**

Your next question comes from the line of Fei Fang with Goldman Sachs. Please proceed.

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**Fei Fang** - *Goldman Sachs - Analyst*

Hi, thanks for taking my question. Congratulations on the strong 4Q numbers. First I have a follow-up question on the Group buy model. So how would you evaluate the competitive intensity of mobile booking relative to PC and call centers? And we know that on mobile as consumer behaviors are evolving towards same-day booking, do you think you are exceedingly competing with the mobile group buy platforms and location-based services such as (inaudible)? Then I have a follow-up question. Thank you.

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

Sure. Mobile, Ctrip mobile is one of the strongest apps in the market, so location-based application is our focus. So we make sure it's very easy for consumers to make reservations based on their location. And on top of it, something that Ctrip has that nobody else has is not only we offer hotel reservation, we also offer related services such as train tickets, air tickets, review sites. So within our app it's very easy for consumers to have all the information related to their travel so that's more convenient.

And secondly we control all the inventory, so the confirmation process and the response time is much better than all the other players in the market. The other players, they have to outsource to somebody else to do it, so in terms of room availability, guaranteed allotment services, based on our QA testing Ctrip's level is much better than the other players in the market.

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**Fei Fang** - *Goldman Sachs - Analyst*

That's helpful, Jane. A quick follow-up question just regarding ticketing revenues. Is it possible to break it down into air ticketing, railway ticketing and others? And also where do you book the local attraction ticketing revenues? Thank you.

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

Sure. Ticketing business -- attraction tickets is also included in ticketing. It's very immaterial, so right now the majority of the contribution into that line is still airline tickets mainly or related services. And local attractions is in the packaged-tour business but right now it's de minimis. The volume growth is very strong but in order to forcefully grow our market share we aggressively price our ticket and cash rebates, these transactions to the users. So the contribution to the revenue side is de minimis and it's recorded in the packaged-tour business.

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**Fei Fang** - *Goldman Sachs - Analyst*

That's very helpful. Thank you, Jane.

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

Thanks.



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**Operator**

Your next question comes from the line of Alicia Yap with Barclays. Please proceed.

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**Alicia Yap - Barclays - Analyst**

Hi. Good morning, everyone. Thanks for taking my questions. My first question is regarding the packaged-tour. I think I understand that Jane explained a couple of the reasons why it declines. I wanted to know how much of that is driven mainly by the pricing decline? And I think you also mentioned it's only impacting 4Q and Q1, so is that implying that we should see some of this pricing to rebound or the discount to be lower as we progress towards the rest of the year?

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

Yes, I think the aggressive pricing is very much in line compared to the other players in the market. So for certain popular travel destinations, in order to ascertain our leadership in this area our pricing will not allow any price disadvantages into the top travel destinations. So that's one of the reasons why the growth rate is in about 20% instead of 50%. Going forward, as the volume is ascertained I think our bargaining power in the pricing with our hotel partners, airlines will also be strengthened. With the volume we can negotiate a better price and in return we'll make better revenues also. So Q4, Q1 for the package tour is -- the growth rate is about 10% to 20% growth rate. But in Q2 and when we're moving towards the high travel season hopefully our investment in Q4 and Q1 will generate better revenue for packaged-tour business.

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**Alicia Yap - Barclays - Analyst**

I see. So to follow up on that quickly, Jane, is that let's say as we progress to the 2Q and 3Q high season, but if competitors also are being more aggressive on the pricing are we also prepared to match it? That will also impact our revenue growth then.

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

Yes. On the front end with whatever price they offer to the consumers we'll make sure our pricing will be competitive. Obviously, Ctrip's branding has a certain premium so we can have certain acceptable premium on our pricing. Secondly, based on our large volume we will be able to get a better price from the partners. So although the selling price is the same, in theory the bigger volume we can generate the better revenue we'll be able to generate. So that's our strategy, volume first.

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**Alicia Yap - Barclays - Analyst**

I see. That's helpful. And then my second quick follow-up question is on the coupon from the hotel coupon discounting. So I just wanted to get a sense, are you still mainly seeing the main competitors that we used to compete for the last two years or is there any more aggressive competitions from another competitor on the traffic (inaudible) you identified that it's also making more sales on the direct sale side?

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

Yes, or the existing player. I think the coupon is stabilizing. So only if we are so determined to make sure that whatever coupon any players in the market will put in play, Ctrip will match it. Then I think the competition will be stabilized because giving coupons no longer will give anyone any advantage on the pricing. So from what we can see today it's stabilized.

**Alicia Yap** - Barclays - Analyst

What about the mobile discount that you are also offering the coupon on, would that be also stabilizing?

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

Yes, mobile is our key strategy so we can't fully calculate everything but mobile, we're willing to give a little bit more coupon but still in line with the other players. But mobile, although you give more coupon on the mobile there is some efficiency we can see from sales and marketing because once the customer use their app, the likelihood for them to come back is higher, so stickiness is strengthened. So on the net-net basis probably it's even.

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**Alicia Yap** - Barclays - Analyst

I see. Great. Thank you, Jane.

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

Thanks, Alicia.

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**Operator**

(Operator Instructions) And our next question comes from the line of Eddie Leung with Merrill Lynch. Please proceed.

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

Good morning. I have one question on your first quarter margin guidance. It seems like most of that decline would come from hiring, so just wondering if you could let us know the number of staff by the end of last year and how many we could see in first quarter. Or if you can give out full year guidance it would be even better. And then just a follow-up on some of the Group buy previous questions. I'm just wondering if you could tell us about the difference in economics between a room night booked using normal channels versus group buy offering. Thanks.

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

In terms of the margin impact we carefully allocate our resources into mainly two buckets. One is the product development which is IT hiring, IT investments and the people who are talking with our business partners such as the hotels in the second tier and third tier cities. So half of the market impact comes from the product development investment, but we believe that the investment (technical difficulty) future will have more efficient and have more hotel allotment for consumer chains. And the second part is also the investment into the sales and marketing. As many of you have already seen, we work with a movie star and put advertisement in the major TV channels online, and the feedback has been very positive. But advertisement and branding efforts takes a long time to see the great yields. Based on our survey the response and effectiveness is encouraging, so we will keep up with our efforts in the promotional activities. But again I think it takes a couple of quarters or a year or two to see the full results.

So the margin is carefully allocated into these two buckets, and mainly these are the investments in the future product and future branding awareness. The second thing is on the Group buy model. Group buy model versus major channel, we want to make sure that when customer gets the price advantage through group buy there are certain limitations, such as they need to prepay, they need to make a reservation when they have reserved the hotels. So in terms of convenience and timeliness there are some disadvantages through group buy. However in terms of pricing they might be able to get some price advantages if they book it much (technical difficulty) other business. So that's how we differentiate group buy channel versus the normal channel.



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

Thank you.

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

Thanks, Eddie.

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**Operator**

And our next question comes from the line of Tian Hou with TH Capital. Please proceed.

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**Tian Hou** - *TH Capital - Analyst*

Good morning everyone. I've just have a couple of questions. The first question is related to your new business that you're entering such as car rental, cruise and taxi and I wonder what is the revenue model? Is that the typical commission model or any other model? That is one. And also have you generated any revenue from that and in your guidance in Q1 and going forward, does this part of revenue, is it part of the guidance? Have you already even included it in your guidance or not? And also for the future, what do you think is the potential size of the market for each new business and what is your goal in terms of market share? That's the first question.

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

Sure. Our guidance has included all the revenue contribution from existing big business lines as well as the new business lines. However, since our hotel tickets are so huge they account for about 80%, 85% of the total revenue. The small new initiatives compared to these major business lines are relatively very small, but it's in our guidance. In the future these, each one of them will be able to become a very good business for travelers. If you look at United States or Europe I think you have very good rental business. You also have very good companies working on attraction tickets. So each of the investments we make hopefully in the future will become significant.

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**Tian Hou** - *TH Capital - Analyst*

Okay. So the second question is that you have several sites, which is the community sites. I wonder how you integrate those community sites in your current business.

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

Yes, in our main apps and also our main website the travel review sites become very popular and the growth rate on the UV has increased significantly. So when consumers normally start with review sites and then the beauty of our platform is when the consumers need to book hotels we have products associated with it. When the consumers need to book tickets, we also have air tickets to go with it, or if they wanted a package we have something there. So it's a very natural and seamless connection to come in, review these sites and then go to make a reservation. After the reservation when they come back they can write about their general (technical difficulty) and post pictures right away. So it's a closed cycle on our platform. And the efficiency on our one-stop shopping platform is much higher than some of the players which only offer one product. So from that, that's one of the reasons we believe why Ctrip can utilize its strengths of product comprehensiveness and also scalability to become a very profitable company versus if you only have a single product it's less efficient.

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**Tian Hou** - *TH Capital - Analyst*

The last question is related to international travel. We saw a huge increase in international outbound travel so I wonder what's that look like for Ctrip and what's the partnership with Priceline.com is progressing.

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

Ctrip's customers are relatively high end customers in the market. They focus quite a lot on service, reliability, and so our team work very hard to make sure when the consumers choose Ctrip, they can travel with peace of mind. So when we select local partners to work with us we're very careful. And Priceline is a very good partner with us. Our relationship is very good and we will keep up our momentum going forward.

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**Tian Hou** - *TH Capital - Analyst*

Thank you. That's all my questions.

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

Thanks.

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**Operator**

And your next question comes from the line of Muzhi Li with Citi Group. Please proceed.

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**Muzhi Li** - *Citigroup Inc. - Analyst*

Thanks for taking my questions. I have a question regarding the international travel. How much of the revenue contributes to the -- came from the international travel and if you can break down to hotel and air travel and package tour that would be great. And also we'd like to know about your forecast for the business volume came from international travel. And also, can I also double-check with the operating margin decline in the first quarter is going to be 14 percentage points? Thank you very much.

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

International travel is growing very fast. That's about contribution to the revenue for hotel and air tickets is around 10%, 10% to 15%. For packaged-tour, about more than 50%, five-zero, 50% of the revenue comes from people travel overseas.

The percentage of the margin, I think that's correct.

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

Yes, and for the 1Q our non-GAAP OP margin will be around the 10% and you know last year, same period last year, it's about a 23% to 24%.

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**Muzhi Li** - *Citigroup Inc. - Analyst*

Thank you. Regarding the operating margin, is that going to be one quarter or do you think that investment will probably last a couple of quarters to see the effects begin to kick in. Thank you.



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

Sure. I think as we're moving along into Q2 and Q3[R] we will be able to give you better guidance on the operating margin but to Q1, I think Jenny has already given you very good guidance on Q1 and will update you for the Q1 and Q2 onward. But historically, if you look at our numbers, in the travel industry, Q1 normally is the slowest season due to the Chinese New Year, there are not so many business people traveling. So normally Q1 is the slowest.

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**Muzhi Li** - *Citigroup Inc. - Analyst*

Thanks very much.

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

Sure, thank you.

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**Operator**

And your next question comes from the line of Wendy Huang with Standard Chartered. Please proceed.

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**Wendy Huang** - *Standard Chartered - Analyst*

Thank you. First, can you provide hotel booking volume breakdown between the pre-paid and the post-paid models?

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

Pre-paid model is still a minority. We just started very recently. The majority of the pay model is still pay at the hotel.

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**Wendy Huang** - *Standard Chartered - Analyst*

Any number you can provide on this?

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

Very small. No breakdown.

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**Wendy Huang** - *Standard Chartered - Analyst*

Okay. Gross margin declined by 3 percentage points sequentially, so how should we look at the gross margin change going forward and also any of the investments you mentioned early were actually booked in the cost of the service line and effective gross margin? Thank you.

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

Gross margin is for Q1, I think Jenny has already given you guidance.

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

She is asking for 4Q. 4Q is -- first one, for 1Q -- you know, 4Q and 3Q, the coupon side is largely, the impact on the margin is likely similar but the 4Q and 3Q is typically lower season and also we have, we stack up on the promotion for the other businesses, like for the air ticketing and for other new business. So it's kind inbuilt to our topline growth, so I think that's the main reasons.

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**Wendy Huang** - *Standard Chartered - Analyst*

Okay, I just want to add one maybe macro question. So now we're actually seeing the pricing war extend from your hotel business, air business to even the packaged-tour business. So I just wonder how sticky those leisure travelers that you're trying to target are and how effective those campaigns that you are doing to keep those leisure travelers on your platform in the long term. Thank you.

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

Yeah, in an idealistic market, we would like to see the price comparison -- competition, as minimal as possible. However, if we do see in certain area there is aggressive pricing by the other players, we have to be very defensive to make sure on the pricing Ctrip does not have any advantages.

Once the customer is with Ctrip, once they have used Ctrip services, the likelihood for them to come back again is much higher than they come back to the other players. 80% of our revenue are from recurring customers. So our strategy has always been: aggressively get the volume, make sure we take good care of the customers. We give loyalty points for them, we take care of them during the trip, the likelihood they will use us again will be much higher.

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**Wendy Huang** - *Standard Chartered - Analyst*

Thank you.

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

Thanks.

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**Operator**

And your next question comes from the line of Ella Ji with Oppenheimer. Please proceed.

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**Ella Ji** - *Oppenheimer & Co. Inc. - Analyst*

Good morning and thank you for taking my question. First the question is a follow up on the margin. So you mentioned there, you know, 1Q non-GAAP operating margin around 10%. Is this really your bottom line? Say if your competitor becomes much more aggressive, are you will to give up more profitability? That's my question.

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

Sure, I think, again, Q1 normally is the slowest season. So if you look at our historical performance, Q1 margin is lower than the other quarters.

In terms of players in the market, the players will be aggressive if they have money. Right now, I think Ctrip is the only company in the travel business that has a very healthy margin so whatever it takes, we will make sure our leadership is extended, our market share is extended. We'll carefully monitor all the competition in the market but so far, I think it's very stabilized.



**Ella Ji** - *Oppenheimer & Co. Inc. - Analyst*

Thanks. Then my second question is regarding your recent investment in the car rental company. In particular, car rental companies they are typically asset heavy businesses and have low margins. So I know, for the investment dollar amount is not really significant comparing to your total cash balance but can management talk about your expected rate of return on your future investment? Any general thoughts or disciplines would be appreciated.

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

Sure. Car rental business, as you say, is heavy assets but I think our goal here is for the good players, top players in the market, if we establish a strong [tie] with them it helps our customer. So that's the first criteria.

Secondly, also we want to make sure we make an investment with a good valuation. It has potential growth in the valuation. Because Ctrip has a very strong customer pool, so when we invest in this Company, potentially we can bring more volume to this Company, which will help them to increase their valuation and increase our value for this investment as well.

So our investment is very carefully selected and very carefully evaluated. Normally we look at three factors. First of all, it's related to travel. Car rental is definitely related to travel. Secondly we look at strong teams with strong execution capability and we believe eHi has a very strong execution team. And thirdly, I think we also need to see our investment has a good potential to grow and we believe they do have a good potential with our help on the customer side.

So with these three considerations, we make our investment in the car rental business.

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**Ella Ji** - *Oppenheimer & Co. Inc. - Analyst*

Thank you, that's very helpful.

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

Thanks.

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**Operator**

And our final question comes from the line of Jiong Shao with Macquarie. Please proceed.

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**Jiong Shao** - *Macquarie - Analyst*

Thank you for taking my follow up question. You guided Q1 product development as a percentage of revenue go up 7 points. I just wanted to make sure I get my number correct. Is that, plugging in all the numbers, that shows quarter over quarter, the product development will go up 33% and the absolute dollars is like RMB100 million. What are some of the reasons behind such a huge jump? Is anything one time in this increase?

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

We, when we roll out our annual plans, we have a target which is to become number one player in each line, including existing business such as hotels, air tickets, packaged-tour, corporate travel, as well as the small business. The small business in a market, some of them has a niche player

in a market, in order for us to quickly gain market share and become number one in a market, we have to quickly make our team to be equipped to become number one.

So in Q1, Q2, I think we were aggressively higher, the business development people, as well as the technology people, to make sure we have the resources to deploy in these new markets.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, so the jump in this expense line is primarily just hiring?

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

[PC] IT investment mainly.

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**Jiong Shao** - *Macquarie - Analyst*

Okay, great. Thanks for the clarification.

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

Thank you.

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**Operator**

I would now like to turn the call over to Michelle Qi for closing remarks.

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

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

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

Thank you very much for everyone's support.

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

Thank you.

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**Operator**

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



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