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# EDITED TRANSCRIPT

CTRP - Q1 2014 Ctrip.com International, Ltd. Earnings Conference Call

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## OVERVIEW:

CTRP reported 1Q14 YoY total revenue growth of 36% and diluted earnings per ADS of \$0.12. Expects 2Q14 YoY net revenue growth rate to be approx. 30-35%.



## 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*

## CONFERENCE CALL PARTICIPANTS

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

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

**Jiong Shao** *Macquarie - Analyst*

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

**Alicia Yap** *Barclays - Analyst*

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

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

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

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

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

**Wendy Huang** *Chartered International - Analyst*

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

**Ida Yu** *CICC - Analyst*

**Roger Gu** *SWS Research - Analyst*

**Yao Wang** *Nomura - Analyst*

**Ming Zhao** *86Research - Analyst*

## PRESENTATION

### Operator

At this time all participants are on a listen only mode. We shall facilitate a question and answer session at the end of the conference. (Operator instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Ms Michelle Qi, senior IR Manager. Please proceed.

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

Thank you, [Derek], thank you all for attending Ctrip's first quarter 2014 earnings conference call. Joining me on the call today we have Mr James Liang, Chairman of the Board and Chief Executive Officer. Mr Min Fan, Vice Chairman of the Board and President. Ms Jane Sun, Chief Operating Officer. Ms Jenny Wu, Chief Strategy Officer and 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 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 statement, except as required under applicable law.

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

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

Thanks, Michelle, thanks everyone for joining us today. We are pleased to report great results for the first quarter of 2014. Net revenues grew by 36% year-on-year, primarily driven by strong volume growth. Our accommodation reservation business which covers all accommodation facilities such as hotels, hostels and vacation rentals achieved 67% year-over-year growth in room nights, a record high in the past 10 years.

Following the recent formation of the accommodation and reservation business we also expanded our traditional air ticketing services to be a transportation air ticketing business which includes ticketing services for flights, trains and long haul buses. This newly organized business brings together the fast growing transportation segments moving travelers around the world. The total volume growth for the transportation ticketing services reached 71% year-over-year in the first quarter. This remarkable performance reflects our improved overall competitiveness in a highly competitive market thanks to the great efforts made by the Ctrip team over the past several years.

Starting from 2014 we have stepped up our investment in mobile internet technology, product knowledge and services, aiming to expand Ctrip's leadership in China's online travel market at a faster pace. According to a recent focus [right] report, 47% of total China's population owns a smart phone. The portability of smart phones creates unprecedented opportunities for online travel agencies to provide end-to-end personalized services throughout the travel life cycle.

Our mobile team strives to provide its customers with the most comprehensive product offering and the best user experience of a Ctrip travel app by rolling out upgraded versions on a frequent basis. With the latest Ctrip travel app, travelers can research destinations, book a variety of accommodation and transportation, make changes and cancellations, reserve flight seats, find airport gates, buy attraction tickets or get group buying deals for hotels, restaurants and local activities anytime, anywhere.

Mobile is already the primary platform for the majority of Ctrip's products and services. At the end of the first quarter the number of accumulative downloads for the Ctrip app was about 120 million. During the first quarter of 2014 over 70% of Ctrip's total transactions were booked through online mobile channels, compared to about 50%, 55% a year ago.

Total mobile transaction value for the first quarter of 2014 was more than 400% of the same period last year, with the peak (inaudible) transaction volume reaching about RMB150 a minute, while the accommodation and reservation business PC based internet contributed about 35% of total transactions. Mobile has surpassed the PC based internet and become the most important booking platform, contributing over 40% of our hotel transactions during the quarter and the peak period level being over 60%.

For our transaction ticketing business, for our transportation ticketing business, PC based internet contributed about 40% of total transactions and mobile internet contributed about 30% of the peak period level. Mobile internet contributed about 30%, with the peak period level being around 40%.

Mobile contributes around half of the total bookings for many of our new businesses like (inaudible) tickets, car rentals and local attraction tickets. Over 50% of our reviews were submitted through our mobile channel. Mobile now is definitely the core of our (inaudible) business which serves as a powerful engine to the development in our technology products and services. Supported by our centralized operating system we will continue

to operate the product and services offered and our platforms to provide customers with a consistent and seamless experience across multiple service channels.

Our new business performed impressively in the first quarter. The Ctrip Travel Community website is the top site in China's travel review industry, leading the industry on multiple fronts. For example, its average daily unique visitors reached over one million, quadrupling from the level a year ago. The number of reviews was about 30 million. Our focus is on building an effective website for users to research, plan and share their travel tips and experiences. Over 70% of user generated travel diaries are structured to enable automatic matching against the (inaudible) places of interest around the world.

Ctrip has become one of the leading players in China's local attraction ticket market. Our booking volume has grown over 10 times year-over-year. The market is heavily fragmented with less than 5% of online (inaudible). Based on our estimates, we recently made a strategic investment in LY.com going forward. The two teams will focus on network coverage, customer experience and mobile penetration to further expand our leadership together.

In Q1 2014 we launched our long haul bus ticketing reservation services and expanded the transportation ticketing business. We will effectively serve our travelers from the beginning to the last mile of their trips. We can even help travelers move between small towns and villages where no flights or trains reach. Bus travel is a giant market. In 2013 Chinese people made over 30 billion bus trips compared with over two billion train trips and over 300 air trips. We are confident that Ctrip has the best chance in the industry to put every piece of the trip together in an efficient way and to ultimately support our door- to-door one stop trip planning and booking service for our customers.

According to Millward Brown's 2014 brands report, Ctrip ranked top 100 most valuable Chinese brand and top three most trusted Chinese brands, with brand value lifted 47% from the previous year. Ctrip's vision is to build a one stop travel service platform with the most comprehensive travel products, the most competitive price and the most convenient services.

Thus we will continue to invest in key areas so that we can effectively build and sustain our industry leadership. At the same time we will continue to measure our ROI to encourage more entrepreneurs and to create an innovative culture to embrace this new era in travel business. With that I will turn to Min for the industry highlights and the (inaudible).

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

Thanks, James, thanks everyone. Due to the country's fast economic growth and the emergence of a large middle class, China's travel market has experienced rapid growth and has become the largest travel market in the Asia Pacific region since 2012. This booming market has attracted many new talents and entrepreneurs.

According to our focus (inaudible) a number of the Asia Travel start-ups have (inaudible) during the period from 2011 to 2013 compared to the previous year, previous three years and more than one in four of these start-ups were located in China.

With a strong confidence in the great potential of the travel industry in China, we feel the responsibility to lead and encourage the industry evolution. In addition to our efforts to proactively cultivate creative business initiatives internally, we are also actively exploring opportunities to work with (inaudible) leading peers in the industry. More recently we invested in Tongcheng who operates LY.com, a leading local attraction ticket service provider and the third largest (inaudible) in China to become the second largest shareholder.

We are also one of the anchor investors for the recent IPO (inaudible) assorted players in the Malaysia package tour market. We believe these investments will help create great value for customers and also boost the healthy development of the Chinese travel industry. With that I will turn to Jane for the operating highlights.



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

Thanks James and Min, thanks everyone. I'm very pleased to share the updates for Ctrip's main business with you. Ctrip has further expanded its hotel coverage. As of the end of the first quarter we offer reservation services for around 500,000 domestic and international hotels in over 119 countries and territories worldwide. [Room night] growth further accelerated to 67% year-over-year in the first quarter of 2014, a record high in the past decade. International hotel rooms grew approximately 80% year-over-year.

In Q1 the total volume growth for our newly expanded transportation business unit reached 71% year-over-year with air tickets contributing the majority of the volume. Technology improvements have been fundamental for this business growth. Recently we expanded our international ticket platform to support complex flight ticket research and the book between different countries.

In the first quarter of 2014 international air tickets grew over 70% in the first quarter, accounting for around 15% of the total volume. We will keep improving our platform with intelligent technology and user data mining to provide customers with the best personalized international travel recommendations. We believe that support is the core value of what Ctrip can offer our travelers.

In the first quarter of 2014 our packaged tour volume grew over 50% year-over-year. Many of our new businesses made great progress. For example cruise reservations grew over 100% from the previous year. We are now the number one player in the cruise reservation business in terms of transaction value and customer volume.

We are making intensive investments to improve the experience for both customers and partners, raising the bar for the industry standard. Starting from the first quarter we equipped each of the Ctrip's outbound travel group with three Wi-Fi hotspots to keep connected, to keep our customer connected to internet during their entire trip. This practice was warmly welcomed by the travelers and quickly became our standard among outbound travel packages. For our open platform [planners] we made great effort to support their operation and business such as our user friendly platform and timely [settlement] cycle.

Leisure corporate travel services maintained a strong growth of 39% in the first quarter of 2014. Migration to online and mobile booking again to accelerate during the past several quarters. We have continued adding more functions to our corporate travel mobile service since our first launch in 2013. Now, over 40% of our corporate travel bookings are made through online and mobile channels compared to 29% a year ago. We are proud to see that Ctrip's team once again proved their strong execution. We will work hard to deliver long term market leader growth in the future. 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 first quarter this year Ctrip total revenue increased to 36% year-on-year and 10% Q-on-Q.

Accommodation reservation revenue increased 2% Q-on-Q and 46% year-on-year. The year-on-year growth was mainly driven by an increase of 67% in transaction volume and partially offset by the decrease of commission per room night.

Transportation ticketing revenue increased 12% Q-on-Q and 43% year-on-year. The year-on-year growth was mainly thanks to an increase of 71% in ticketing volume.

Packaged tour revenue climbed to 34% Q-on-Q and 10% year-on-year, due to the increase of leisure travel volume.

Corporate travel revenues rose 39% year-on-year, driven by the increase in corporate travel demands from business activities. Corporate travel revenue decreased 9% Q-on-Q due to seasonality.

Net revenue increased 36% year-on-year and 10% Q-on-Q.

Gross margin was 72% versus 74% a year ago and 73% a quarter ago.



Product development expenses increased 32% Q-on-Q and 65% year-on-year. Primarily due to an increase in product development and personnel related expenses. On a non-GAAP basis which excluded share-based compensation charges, part of the development expenses accounted for 25% of net revenues versus 20% a year ago and 21% a quarter ago.

Sales and marketing expenses were up 40% Q-on-Q and 61% year-on-year, largely due to an increase in sales and marketing related activities and personnel related expenses. On a non-GAAP basis sales and marketing expenses accounted for 26% of net revenues versus 22% a year ago and 25% a quarter ago.

General expenses rose 24% Q-on-Q and 19% year-on-year, due to an increase in administrative and personnel related expenses. On a non-GAAP basis general expenses were 8% of net revenues, staying flat on year-on-year and up 2% Q-on-Q.

Operating income decreased 61% Q-on-Q and 56% year-on-year. On a non-GAAP basis operating income decreased 33% Q-on-Q and 29% year-on-year.

Operating margin was 4% versus 14% a year ago and 13% a quarter ago. On a non-GAAP basis operating margin was 12% versus 23% a year ago and 20% a quarter ago.

The effective tax rate was 40% versus 32% a year ago and 26% per cent a quarter ago, primarily due to the increase in the amount of non-tax-deductible share-based compensation charges as a percentage to our income as a whole.

Net income attributable to Ctrip's shareholders decreased 25% year-on-year and 56% Q-on-Q. On a non-GAAP basis net income attributable to Ctrip's shareholders decreased 11% year-on-year and 36% Q-on-Q.

Diluted earnings per ADS were \$0.12 or, on a non-GAAP basis, \$0.24.

As of 1Q the balance of cash and cash equivalents, restricted cash and short-term investment was \$1.9 billion.

As of May 6, Ctrip had purchased about 18.6 million ADS in aggregate with a total consideration of \$351 million.

Finally for the business outlook, for the second quarter the Company expects to continue the net revenue growth year-on-year at a rate of approximately 30% to 35%. This forecast reflects Ctrip's current and preliminary view which is subject to change.

With that, Operator, please open the line for questions. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

Certainly, (Operator instructions) Our first question will be from the line of Philip Wan, Morgan Stanley.

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### Philip Wan - Morgan Stanley - Analyst

Hi, good morning James, Min, Jane and Jenny. Congratulations on a very strong quarter and thanks for taking my question. My question is about your ticketing business. We saw a very huge jump in terms of volume growth and then Jane also mentioned that the majority of the volume is from air ticketing. I wonder what has been the driver for this quarter particular, and then what has differed during the quarter as when you talk about the guidance of volume growth for this quarter?



**Unidentified Company Representative**

Sure. I think in Q1 this year we have established our transportation reservation department which includes the coverage not only for air ticketing but also for the other transportation methods such as train tickets et cetera. The market to take customers from city to city, from town to town, the coverage has been extended in our radar screen. So this department is in charge of all the transportation methods which move our travelers from one place to another.

So for example, if the weather is not good and the customer tries to book air tickets, if the flight is delayed then our system will automatically push the train tickets to them. So that cross sale efforts helps us to satisfy customers' needs and helps us to increase the ticket volume. The majority of the volume still is from the main transportation method such as airlines.

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**Unidentified Company Representative**

Overall - sorry, yes. Overall the volume, we see very strong revenue growth which is as you mentioned mainly boosted by the much higher volume growth. If we can think about the future guidance, I think for the second quarter what we can guide is that for the topline we expect that total revenue may grow 30% to 35% year-on-year. Again this is largely boosted by the strong volume growth. For the hotel we expect the total volume growth will be around 50% to 60% year on year and for the overall transportation volume, the ticket volume will also grow about 50% to 60%.

For the revenue for hotel and accommodation reservation, it rose largely around 30% to 35% and for the transportation business it's also 30% to 35%. On top of that we will also see solid growth for packaged tours. Revenue growth may grow about 10% to 20% and corporate travel may grow about 30% to 35% in revenue also. So together we will -- we expect to see the total net revenue will grow about 30% to 35% on a year-on-year basis.

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**Operator**

Your next question will be from the line of Dick Wei, Credit Suisse. Please proceed.

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**Dick Wei - Credit Suisse - Analyst**

Hi, thank you for taking my questions. Would you please update on the couponing situation on both the mobile front and on the PC front? Thank you.

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**Unidentified Company Representative**

Sure. I think we have seen the market has been stabilized. Our strategy is still the same, which is to make sure we do everything we can to gain the market share, and whatever is the competitive pricing structure of our peers, we'll match up to them dollar for dollar. So far I think the coupon has been stabilized, which is reflected in our financials.

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**Operator**

Your next question will be from the line of Jiong Shao, Macquarie.

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**Jiong Shao - Macquarie - Analyst**

Thank you for taking my question and let me add my congrats to the very strong results as well. I'd like to ask the very topical question about industry consolidation or potential consolidation. I understand management may have expressed some views perhaps internally. I was hoping

you can share with us your thoughts on -- tied up with your competitors and related to that, maybe perhaps you can expand a bit more on your overall acquisition strategy, particularly following your recent investments in Tongcheng and (inaudible). Thank you.

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

Yes Ctrip has very large cash reserves, so we want to make the best use of this money. So there's a lot of startups, very creative firms on the market. China's travel market is a very -- has a very high growth potential. So some companies over the years have emerged to be leaders in particular types of products. (inaudible) the market segment. So we are first of all interested to share the growth of the future financial gain from these companies, secondly they are companies that have complementary services and products with Ctrip. So with these investments we'll be able to extend our product coverage and also to have other types of service synergies with these types of company. That's our overall investment strategy.

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**Operator**

Your next question will be from the line of Ella Ji, Oppenheimer.

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

Good morning management and congratulations on a strong quarter. My question is relating to the revenue growth at packaged tour segment.

Your volume growth has been much higher than your revenue growth because I think you're pricing aggressively. With this new strategic investment in Tongcheng and (inaudible) -- I think you're still guiding 10% to 20% revenue growth for this segment in 2Q. So should we think -- how should we think of your pricing strategy going forward? It seems that you will continue to price aggressively, even with your strategic investments in these two companies. Is this fair to say that? Can you help explain? Thank you.

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**Unidentified Company Representative**

I think the volume growth for Ctrip is very strong in Q1 which is over 50% year over year. Pricing, we have to make sure customer receive these packages and are willing to travel. In Q1 I think the market was very soft. In Thailand which is one of the top travel destinations, the political uncertainty which deters many people from travelling and also what happened in Malaysia Airlines also caused a lot of people to cancel their trips. So in order to offset the market softness, we have to be very aggressive in order to win market share. So that's our strategy.

Again in the long term, maintaining a strong market leadership is the first priority. Then, only when you have a strong market leadership, then your revenue will be ascertained. So our first priority as always is to do whatever we can to be a market leader. With that premises, we will maximize our revenue.

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**Operator**

The next question is from the line of Alicia Yap, Barclays.

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

Hi, good morning everyone and congrats on the good results. My question is a follow up question on the air ticketing -- I mean the transportation volume growth. So I think Jane you mentioned that the international air volume grew about 70%. So if you can share how fast is the domestic air volume growth? Also given the revenue is only growing at 40% plus, I wanted to know how much of the offsetting factor is driven by the ASP being lower because of some of the train prices and what about the air ASP, are they lower than before? Also any coupon discount into it?





Lastly, related to that is that your bus ticketing reservation. You mentioned that it started in 1Q and how much of the bus volume is factored into the 71% growth? Thank you.

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

Sure. We've got a huge market in the transportation department because people use interchangeable transportation methods when they travel from cities to cities. So in Q1 we have organized our team to cover our transportation, not only on the air side but also on the train et cetera. So the product can be cross sale with each other. The result was very strong, I think as we discussed, when the weather was not very good, when the plane was delayed, then the alternatives becomes a viable choice for our customer. So that propels the strong growth in the volume.

In terms of ASP, train ticket price is about RMB100 to RMB200 and air tickets is about RMB800 to RMB1000. So the average price is a little bit different, but I think for Ctrip, due to our ability to provide all the travel related product in one app, in one website, the cross sale efficiency is very strong. So this has been proven a very successful initiative for our business in Q1.

The bus is very small. The market is big but there is very small -- immaterial at this moment.

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**Unidentified Company Representative**

Sorry just to add one more color on that. Among our transportation ticketing business segment, the air ticketing business still contributes the majority of the volume and the growth. For air ticketing itself, the volume growth in 1Q is still over like 30% to 40%, largely three times the industry average. So we clearly continued to gain the market share. For the ASP trend for the air ticketing, it's actually increased by about 5% year-on-year and we see the very flat impact from the -- like a (inaudible) impact which overall impact to our business is immaterial, and the commission rate is still very stable. So that's what we can share here.

We expect over the long run both train and air tickets and the long haul buses will continue to be like -- achieve solid growth. Especially in the past several quarters for air ticketing alone you can see we are already on accelerating track.

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**Operator**

Your next question is from the line of Fawne Jieng, Brean Capital.

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

Good morning. Thank you for taking my question. My question regarding the margin profile going forward. It seems like first quarter, despite relatively lower (inaudible) on the revenue side, I think the margin came in still above expectation. Just wondering how should we look at all the key investment or spending going forward, whether we should continue to see the margin improvement trend throughout the year? Was the full year margin outlook -- you may have the visibility so far.

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**Unidentified Company Representative**

Sure. For 1Q the margin is slightly better than we previously guided, which is largely due to two factors. First one, hotel coupon expense came out a little bit lower than expected.

The total hotel coupon expense comes to roughly 18% of our hotel commission revenues, compared to 20% as guided. Secondly, we enjoyed some operating leverage which was (inaudible) further lifted by the stronger than expected revenue growth. For example, like for the (inaudible) development, the overall margin in those is about five percentage points year-on-year, versus seven percentage points as we previously guided. Also for the [soft] and marketing expense as percentage of total revenues, the overall impact is also modestly better than what we initially thought.



Regarding the future quarter's margins, firstly for second quarter, non GAAP OP margins is likely to stay flattish Q-on-Q. We expect hotel coupon impact is stabilized around the 1Q level, and both profit development and sales marketing expenses as a percentage of net revenues were largely around the 1Q level also.

Just to add one more color here, as we have mentioned before, we targeted 2014 as another important investment year for us. Our top priority is to grab the golden industry opportunities and to gain more market share at a faster pace. Since Q1, we have fully stepped up our investment in several key areas, especially on IT and mobile internet, brand building, product promotion, open platform and several new business. We will continue those efforts in Q2 and beyond.

Some Q1 results, we either pleased to see the investment efforts have already started to take some positive impact. However, most of these investment are more related to long term goals, targets, rather than directly associated with the topline revenue growth in the current quarter. We believe through those efforts we can effectively build up higher (inaudible) and extend our market leadership. The long term value will definitely much more significant.

If we talk about the rest of the year, what we can share is that normally Q3 has a better seasonality. If the competition remains at the current level and there is no one time event impact, we could expect some modest market (inaudible) in Q3. Q4 is usually a slower season. Margin will trend down again from the peak level in Q3. Nonetheless, given that the dynamics of our business, the market and the competition, our visibility for the future quarter's margin is quite low and we will continue to guide our investors on a quarterly basis and when we move into that quarter and have more visibilities.

Finally, one thing will be for sure, that we want to mention -- we want to highlight that along with those investment in [those], we will try all our best to implement technology and innovative methods to improve our overall operational efficiency and conduct tight cost control. Through those efforts we can try to avoid wasting any pennies, and hopefully can deliver as good a result as we can.

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#### **Operator**

Your next question will be from the line of Fei Fang, Goldman Sachs.

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

Hi, thanks for taking my question. Your hotel volume growth has accelerated from say 20% in the pre-coupon years to 40% as mobile internet kicked in, to now 67% year-on-year, despite a very large base. How should we think about the trend? Surely at some point the growth rate will stabilize and gravity will kick in? When do you think that will be the [inflection] point? Also for your hotel volume growth, do they incorporate any say B2B wholesale volume? Thanks.

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

I think our investment in the previous two years has been generating good results now, so it's the concerted efforts which resulted a strong volume growth. Currently we were making strong investment in the future years as well, including the technology investment to make mobile as strong as possible. Also on the pricing, we will do whatever we can to make sure our pricing is the most competitive in the China market and also the service level is kept at very high level.

So if we keep our efforts in the technology investment in the future years, in the mobile investment in pricing, and in services, I think the volume growth can be kept at a very healthy and strong level going forward.



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

Thanks Jane. Does your hotel volume incorporate any wholesale volume?

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

Yes a little bit, but not significant.

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**Operator**

Your next question is from the line of Tian Hou, TH Capital.

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

Good morning. I have a question related to your margin. So as you invested in your peers or your competitors like Tongcheng, (inaudible), I wonder with the margin on the operating side, look like going forward since the competition, particularly price competition with those vendors are going to be removed?

The second one is really connected to this. You're investing in those companies, but two companies are still operating on a separate level and each team has their own KPIs. How can co-operate and make sure two teams work together and does not have any irrational price competition occur? So that's the question.

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

Okay. First of all, (inaudible) is on the package and tour business, so our investment is relatively small and the market is actually very large. So if (inaudible) and us are taking very small percentage of the overall market share, share of the overall market, so it's mostly taking away business from traditional travel agencies.

So the price competition is not from the traditional travel agencies, so the price competition is not really between us, it's between us and the traditional travel agencies. So I think there's a huge potential, I don't see any change from that for our pricing strategy. For the Tongcheng, some of the market we share with Tongcheng. We still have the same situation but we are still very small, very early in the overall market, and there are some markets where Tongcheng has relatively large market share. That's the areas that we may be able to see some less price competition.

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**Operator**

Your next question is from the line of Alex Yao, JP Morgan.

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

Hi, good morning everyone. Thank you for taking my question and congratulations on the strong quarter. Can you share with us your traffic acquisition strategy, both PC and the mobile, and also can you share with us the active customer base in the quarter versus one year ago? Thank you.

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**Unidentified Company Representative**

Our intention is to build very extensive online, offline and mobile platform (inaudible) channels, so you see for us we have literally working with all the channels and try all the methods that are prevalent in the market. And for us we see -- for example, for our (inaudible) business it contributes



roughly 30% of our total transaction revenue for now, pretty much the customer, they come to us directly and then -- and those customer acquisitions are due to our years of the brand building and the great customer services and word-of-mouth impact. And also we have a very large amount of (inaudible) branding in the (inaudible).

For the mobile side and it roughly contributes 30%, 40% of our total transactions -- we are aware our team working very hard to make sure we explore all the possible channels and all the possible methods we can reach customers more effectively. And among all the efforts we still believe the (inaudible) the key, and the service is still the key to attract the customers. With our comprehensive product offering and the best user experience through our mobile app we've gradually built a very strong brand recognition and brand awareness, so from mobile side we see increasingly new (inaudible) brand new customers.

On the PC side we also have very extensive mobile channels and roughly one third of the customers, they come to our website by their own and they type in our address in the URL and come to us directly. Again, that demonstrates a very strong brand recognition among the customers. And then (inaudible) second important channel for us but the overall contribution to Ctrip's online, offline together, only roughly 10%. The way also build our (inaudible) and over (inaudible) not working with as closely.

So in our work we have been trying extremely hard to make sure we can reach customers everywhere they go and no matter who they are they can find Ctrip and they can reach us in a very effective way. And once they come here, our team work very hard to provide them the best user experience and to retain them and to make sure they become a very loyal customer.

Just FYI, so far we still see over 80% of the repeated customer ratios. For the active user base -- for that one we see on year-on-year basis the growth rate itself has continued to accelerate, especially for the mobile side. And we expect this very healthy momentum can continue in the -- actually, we believe we are actually just at the early stage of this acceleration stage and we expect more to come in the coming years.

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#### Operator

Your next question is from the line of Mike Olson, Piper Jaffray.

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#### Mike Olson - Piper Jaffray - Analyst

Hey, good morning. You talked about your investment in (Inaudible) and you're obviously making a lot of other investments in other categories as well. Are there any major travel verticals or other currently underserved geographies that you're missing right now and that we could potentially see investment in going forward? Then second, can you just repeat for me what you said mobile was as a percent of bookings in Q1 compared to Q1 of last year? Thanks.

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#### Unidentified Company Representative

Yeah, for our investment strategy I think Ctrip has been very disciplined. In China market, there are many opportunities which you can make money but our company's philosophy has been always focus on travel-related investment. So first of all, I think anything to strengthen our core business we will make internal investment, and if there are good candidates in the market that are willing to work with us, we will be happy to take a look at them. So this core business includes our main business lines and also technology and also our core competence.

Secondly, it's industry leaders in the market, I think in the past we have made certain investments in economic chain hotels to strengthen our penetration into the market. Thirdly it's the geographic expansion. I think in the past we made our investment in Hong Kong and great China area. Again it's to expand our coverage to better serve our customers.

Now, in the future the strategy is always the same. First of all I think we look at the industry leaders and secondly this investment has to increase our either product line or competence or geographic coverage. Thirdly, the investment price needs to be reasonable, so we will wait for the right time for us to make the right investments and strengthen our competitiveness. So that's our general philosophy. Mike, you had a second question?



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

Yeah, it was just -- sorry to make you repeat this, but mobile as a percent of bookings in Q1 compared to Q1 of last year, I just missed what you said there.

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**Unidentified Company Representative**

This quarter, the total mobile contribution is roughly over 40% for mobile and then last quarter it's only roughly 30% and a year ago it's only roughly 10%. For the air ticketing, and also on the [PIC] day, the PIC level -- the PIC daily level for the hotel is already over 60% and we see definitely that mobile has become the primary and number one booking platform for our customers.

For the air ticketing, the mobile contribution now is roughly over 30% and a year ago again it's very small, and a quarter ago it's roughly 20%, so we see that accelerating growth for both business. For many -- for our corporate travel, again there's mobile contribution is already roughly over 20%, 30% and for our many new business the mobile also becomes the very important and number one booking platform for people to reach us, like for our train tickets, for our local attraction tickets and car rentals, so we see great opportunities ahead and Ctrip is positioned as the best of all players to capture this industry momentum.

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**Operator**

Your next question is from the line of Wendy Huang, Standard Chartered.

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**Wendy Huang** - *Chartered International - Analyst*

Thank you. My question is mainly about commission rate. Can you give us update on the commission rate for the hotel booking, air ticketing, and also can you tell us is there any difference between the commission rate for the mobile and the PC booking and what kind of long-term margin impact we're going to see the difference on this different commission rate? Thank you.

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**Unidentified Company Representative**

Our margin has been very stable, I think for the commission rate has been very stable. I think in our revenue we take out the cash rebate program, but other than that I think very stabilized.

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**Operator**

Your next question is from the line of Yu-Heng Fan, China Renaissance.

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

Hello?

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**Unidentified Company Representative**

Yes?

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

Good morning. Thanks for taking my question. I just want to follow up the level of your advertising spending for this quarter. If you can break down into the branding and the (inaudible) that'd be great, and also the trend for the rest of the year. Thank you.

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**Unidentified Company Representative**

We consider brand awareness is one of the most important factors to attract customers and the way to become even more important for us to attract the mobile customers. We see Ctrip usually has very high brand recognition among the mid to high end people and in top tier cities. Now our vision is to expand the customer spectrum to cover all major (inaudible) and make further penetration into the lower tier cities.

So it's very important for us to -- for in-house our branding campaign to lift our brand awareness. And we are in this, for (inaudible) way higher the more they start to represent us, we have very intense brand campaign in the major cities, and we see very positive feedback from customers. For example, for the (inaudible) we see the increasing for (inaudible) branded record and ranks. And also just [addressing] the transformation from (inaudible) our brand value increased about 47% on a year-on-year basis.

In Q1 we monitored overall spending closely and after this we see the very positive impact we extended our branding campaign for the print to cover more cities and increase the overall money spend. The impact to us is also very positive. We see the increasing new addition from the brand new customers and they come into Ctrip and they gradually become very valued customers.

So for us we will continue these efforts, we believe brand building should not be just a one-time or one-off event and we see other great companies like Coca-Cola or Amazon or Walmart, given they are very premium brands, they do spend heavily every year to promote their brands. That will be also our strategy we will continue to try the most cost-effective way to make sure that we can have very broad brand recognition. On the other hand, our team has been our deeply rooted company culture, our team -- for everything we're doing we carefully design and carefully monitor the impact to make sure we can have the best overall achievements.

So far we see -- from the Q1 margin you'll see and the self-marketing tends to add a net revenues actually came lower than we initially expected. That's largely due to our teams very effective execution in the way we've continued on that front to make sure for every money we are spending where we can maximize the ROI and to make sure we have it back for advanced.

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**Operator**

The next question is from the line of Ida Yu from CICC.

**Ida Yu** - *CICC - Analyst*

Hi, good morning everyone and congratulations for the great quarter. My question is regarding of your mobile business. As James mentioned earlier increasing usage frequency is one of the top priorities for your mobile business and as I understand that's different from the PC traffic, mobile end of the traffic is actually mainly [product drive]. So can she add more colors about how you're going to design the product different in mobile side that is different from the PC side to continue increasing the usage frequency. How are you going to balance these two channels going forward? Thanks.

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

Well mobile sides -- mobile products obviously are very different from PC products. So the screen is smaller, our customers are usually on the move and actually some types of service where we do probably only do mobile, for example some of the car rental, taxi services, things like that. Well in terms of the pricing I think we will know that as the already we have done some of the mobile only prices but those are mostly driven by our



suppliers. So some suppliers are willing to give more discounts to this new channel -- maybe this has been able to attract new customers. So you will see there is some mobile only discounts on the mobile (inaudible).

So I think mobile we want to ensure that the mobile will have the best experience -- probably a better experience than some of the PC products -- even with a smaller screen.

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**Operator**

The next question will be from the line of [Huang Dim], Bank of America.

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**Unidentified Participant**

Hello, thank you for taking my question. I would like to hear more about management whether on the hotel ASP trends of the hotels and also any color on the (inaudible) company's competition we have seen so far. Thank you.

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**Unidentified Company Representative**

Sure, I think for the existing hotel, that ASP is very stabilized. But we will be very aggressive moving into the second tier, third tier and fourth tier cities. As you're moving into these cities the ASP will be lower, but I think it's important for us to be very aggressive to gain a market share. On the net net basis I think the absolute dollar amount for us to expand into the new market share where it generates positive revenue appreciation on the topline.

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**Operator**

The next question is from the line of Roger Gu, SWS Research.

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**Roger Gu - SWS Research - Analyst**

Hi and good morning. Thanks for taking my question. Regarding the partnership with Tongcheng, could you please elaborate more about how Ctrip will operate with Tongcheng in local attraction ticket business. My second question is that what percentage of hotel booking (inaudible) comes from (inaudible) and what kind of turnover do you see in last several quarters. Thank you.

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**Unidentified Company Representative**

Sure. I think with Tongcheng I think if we have a good co-operation it's a win win for both companies. Tongcheng has very good selection in local attractions tickets which we can use and enhance our users' experience. Ctrip has the best hotel selection. So Tongcheng will be able to use our inventory for their customers. With that alliance I think we can reach out to the customers we originally do not have any ability to reach. So the market share will be extended quickly as well. So we will work hard to make sure that alliance will be a win win approach for both companies.

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**Operator**

The next question will be from the line of Yao Wang, Nomura.



**Yao Wang** - *Nomura - Analyst*

Hi, thanks for taking my question. A very quick one, I just wonder if your hotel volume now includes the B2B or wholesale bookings since you have acquired a two hotel wholesaler. If so I wonder if it's significant. Thank you.

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**Unidentified Company Representative**

No, it's not just significant, very small.

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**Yao Wang** - *Nomura - Analyst*

Thank you.

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**Operator**

The next question will be from the line of Ming Zhao, 86Research.

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**Ming Zhao** - *86Research - Analyst*

Hello, thank you. I have two questions. The first question is about the accommodation and particularly the change to the metrics. So if we wanted to do an apple-to-apple comparison, so last quarter the (inaudible) grew 55 per cent. What is that figure for Q1? Also for the ticketing I believe you said 80% to 40%, so if you could give us an apple-to-apple comparison that will help us do our work.

The second question I had is really about the product development expense. So if I look at the absolute dollar amount, it basically increased by RMB100 million. So I wonder what is that money spent on? If the salaries haven't changed that means the head count has a big increase. Or is there anything else in it? Thank you.

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

So first question, in the hotel volume with or without the hotel volume I think the trend is still the same. The number is still very close to about 60%, 65%. In terms of the air ticket I think the majority of the volume still comes from the air tickets. In terms of product development line, it includes mainly the IT investment because we spent a lot of money to invest into future to make sure our platform and our mobile apps is robust. So that's a majority of the spending. Also we had people to development new products. They are working diligently with the hotels, penetrating into the second tier (inaudible) cities, working with the airlines. That is also captured in the product development line.

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**Ming Zhao** - *86Research - Analyst*

So Jane, I'm not asking about the wholesale volume. If I do my maths it seems like train tickets and other tickets has had a volume about RMB3 million in the quarter. It just sounds very huge. Could you elaborate on that.

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

Yeah, the growth for the other tickets is very strong. That is why we in Q1 we saw the opportunity. That's why we made an organization to cover all these new opportunities. It's a huge number, I think at the same the market is almost 10 times as big as the air ticket team market.

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

Ming, just to add one more point, you are quite right. For our air ticketing business the performance is very strong and we continued very strong secular growth. Itself in one tier the volume growth would be about 30% to 40% which is still roughly 3 times the industry average. This growth momentum is due impact and as Jane mentioned that now we grow like train tickets, air flights and buses business together to make sure we can have the best operations efficiency and the most effective cross selling opportunities. Then we could further both the volumes on not on the each segment but overall volumes for the combined entity.

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**Operator**

We have a follow up question from the line of Fawne Jieng, Brean (inaudible).

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

Thank you for taking a question. Just a quick follow up on the hotel side. You guided for second quarter volume up 50% to 60%, but revenue up 30% to 35%. So that's implying a pricing down 20% to 25% year-on-year. It seems like the coupon has been stabilized year-on-year. I just wonder where the big, I understand there's a mix towards lower tier cities, but in the past quarter I (inaudible) have been have an active 5% year-on-year. So I just wonder why there is such a big gap on the pricing side.

With that I just also want to check for the first quarter because you changed hotel booking into accommodation, is there any category in terms of accommodation options that are not -- or were not there first quarter last year -- is included first quarter this year.

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**Unidentified Company Representative**

Hi Fawne, here I think the calculation goes like in 4Q our volume growth make either 50% to 60% and our revenue growth would be about a 30% to 35%. That implies the cognition (inaudible) were declined by roughly 15% on year-on-year basis. A half of this decline is largely due to the ABI continued to turn it down which is due to our mixed change along with our average to make a further penetration into the lower tier cities and the lower end hotels. This trend has been like that since last several quarters and may continue in the foreseeable quarters.

The other half of this commission (inaudible) decline is due to the coupon impact. On the year-on-year basis the average for the impact is (inaudible) and is just a reminder 2Q [after year] coupon expenses accounted for roughly 15% of our hotel commission revenues, which is roughly two-thirds of that booked at (inaudible) revenue.

In current second quarter this coupon has been stabilized on the Q-on-Q basis. That means it will be largely around 18% of our hotel commission revenues and almost all of that were booked at (inaudible) revenue. So if you do the mathematics you will see there is still some definite impact in this quarter.

For the accommodation business the volume here and the scope here is largely similar and actually we have been booking like the traditional hotel business and the contribution from new business like to the (inaudible) and to the hotel and the vacation rentals into the second -- in the past year all right. So I think there is so much new app and the new additional things being grouped into the segment for the final quarter.

For our -- the main post (inaudible) model is due to major revenue, the volume contribution and also the major growth driver here. We are very happy to see Ctrip make a very remarkable breakthrough in many new business and for example now we are definitely the leader in China's vacation rental industry. We see although the market and industry's still at a very early stage, but we see the good performance and the potential here.

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**Operator**

The next follow up question is from the line of Philip Wan, Morgan Stanley.



**Philip Wan** - Morgan Stanley - Analyst

Hi, thanks for taking my follow up question. Just a quick one here, could you remind us currently how much of your PC traffic is coming from [Baidu] and then also how much of your booking is going through [Tuna]. Thank you.

**Unidentified Company Representative**

So our PC website is [Baidu]'s contribution is usually around 20% to 25%. Just a reminder and roughly one-third of our PC traffic's due from the customers directly typing into URL and look for Ctrip. For the [Tuna] and all the other single channels, their single contribution is very small. For [Tuna] the contribution is definitely only 2% to 3% for the time being.

**Operator**

Ladies and gentlemen, this will conclude the q-and-a session due to time constraints. I would like to turn the conference back over to Miss Michelle Qi for any closing remarks.

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

Thank you [Derek]. Thank you everyone for joining us on the call today. A replay of this call will be available at the URL on the IR website shortly after the call. We appreciate your interest in Ctrip and look forward to convening with you again next quarter.

**Unidentified Company Representative**

Thank you.

**Unidentified Company Representative**

Thank you.

**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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