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CTRP - Q1 2015 Ctrip.Com International Ltd Earnings Call

EVENT DATE/TIME: MAY 14, 2015 / 12:00AM GMT

OVERVIEW:

Co. reported 1Q15 total revenues of CNY2.4b or \$394m, net revenues of CNY2.3b or \$373m, net loss attributable to Co.'s shareholders of CNY126m or \$20m and diluted earnings per ADS of negative CNY0.90 or negative \$0.15. For 2Q15, Co. expects to continue YonY net revenue growth at rate of approx. 45-50%.



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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the first quarter 2015 Ctrip.com International Ltd earnings conference call. My name is Lacey and I'll be your coordinator for today. (Operator instructions).

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today, Michelle Qi, senior IR manager of Ctrip. Please proceed.

Michelle Qi - *Ctrip.com International Limited - IR Manager*

Thanks Lacey.



Thank you all for attending Ctrip's first quarter of 2015 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, Co-President and Chief Operating Officer, Ms Jenny Wu, Chief Strategy Officer and Ms Cindy Wang, Chief Financial Officer.

We may, during this call, discuss our future outlook and performance which are forward-looking statements made under safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our result may be materially different from the views expressed today.

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

James, Min, Jane, Jenny and Cindy will share our strategy and business updates, operating highlights and financial performance for the first quarter, as well as outlook for the second quarter of 2015. We will also have a Q&A session toward the end of this call. With that, I will turn to James for our business update. James, please.

James Liang - Ctrip.com International Limited - Chairman and CEO

Thanks, Michelle. Thanks everyone, for joining us today. We kicked off a great year with a remarkable performance across all business lines in the first quarter of 2015. Accommodation volume growth re-accelerated to 60% year-over-year. Transportation ticketing volume delivered unprecedented year-over-year growth of 104%, including a record breaking 64% growth in air ticketing volume. The growth of our packaged tour business accelerated to 53% year-over-year in revenue, with consistent, robust volume growth.

We have started to reap the rewards from past investments. The four primary investments that contributed to our continuous strong growth are mobile, open platform, Baby Tiger projects and penetration into leisure travel markets.

Convenience or user friendliness is the key focus of our mobile investments. Our engineers and product managers strive to improve our mobile app with richer, relevant products and contents, easier navigation and less taps or swipes. In less than three years, mobile has become our largest platform, reaching a section of customers that is both fast-growing and increasingly active. By the end of the first quarter 2015, cumulative mobile downloads reached 800 million compared to 120 million a year ago. Mobile customers contributed to over 70% of Ctrip's total online transactions in the first quarter. Specifically, 75% of the online hotel and 60% of online air transactions were made through mobile.

The growth in major business lines continue to be driven by increasing selection of product offerings and prices, together with over 5000 third party partners on our open platform. We are working hard to constantly innovate and offer even more products to our customers.

It has been a virtuous cycle. Our heavy customer traffic, the high quality service helped us attract many third party partners in the industry. That, in turn, helps us achieve fast growth with wider products and price ranges. In the first quarter of 2015, 5% to 10% of hotel transactions, over 60% of air transactions and over 20% of organized tour transactions are products from third party partners.

Our Baby Tiger programs, our new initiatives focusing on travelers' needs with strong growth potential, they have started to create another kind of virtuous cycle. While new products build up momentum and achieve scalability with existing customers, many of them also act as entry-level products that bring huge traffic for our major businesses. In the first quarter, the majority of our new initiatives grew 200% to 800% year-over-year. For domestic travel demand, our branding focus is primarily on penetrating more deeply into leisure travel market, especially in second and third-tier cities.

Lower tier cities are presenting huge market opportunities. In many second and third-tier cities, GDP per capita is around the tipping point where leisure travel and outbound travel are getting to the sweet spot for growth. We are seeing robust growth and increasing contribution from these markets.

As of the first quarter, the number of active customers increased over 100% year-over-year. International travel is a promising market, with the fastest growth across segments. We have built up great competitive advantages in this market. We have the largest mid to high customer population who have strong consumption power for outbound travel. We also offer the most comprehensive and competitive international travel partners. To build an extensive global travel resource network, we have actively expanded and strengthened our international partnerships and made multiple investments in different travel segments. Our 24/7 international SOS system and natural disaster relief fund ensure our travelers enjoy a worry-free journey.

To accomplish such sustained growth, we focus not only on size but also on the quality of our market share, by which we can make a proper profit. (Inaudible) five core competencies for Ctrip -- technology, service, brand, product and price. First, technology is the foundation of our business. It inspires business innovation and improves operational efficiency, empowered by our IT's business intelligence group, we can identify customers' needs, buying power and travel habit quickly, and provide them with a targeted service system product effectively.

Secondly, convenience and reliability are the keys to customer loyalties, especially for high-end customers. Compared to the cost, we believe that high quality services that generate much better returns in the long run.

Third, brand is essential for the efficiency of our new customer acquisition. Our distinctive brand name is a reflection of our past services and products. We will make consistent investments to grow the brand influence. Fourth, we always lead in product development through our innovation. The 15 Baby Tigers demonstrate our innovating spirit in products.

Lastly, price. We believe our customers are entitled to the best price. Yet price below reasonable cost could end up devastating the industry. Ctrip spares no efforts to achieve sustainable price advantages through larger business scale, higher operational efficiency and creative product design.

Travel is often referred to as the forever rising sun industry in China. In such an attractive market, competition is inevitable. Focusing on investment and efficiency, we will continue to solidify and extend our leadership as the largest one stop online and mobile travel service provider in China.

With that, I will turn to Min for the industry highlights.

Min Fan - Ctrip.com International Limited - Vice Chairman and President

Thank you James. Thanks everyone. This is Min. Last week, Ctrip was awarded the best travel website of the year in Travel Weekly's 2015 China travel and meeting industry awards. Ctrip won this reward due to its efforts in IT, products and service in the past few years.

China is already the second largest travel market in the world, yet it represents huge growth potential. While China's GDP per capita is approaching one seventh of the US GDP per capita, China's per capita expenditure on tourism was only over RMB800 or \$130, far less than one tenth of that in the States. To better accommodate the fast growing demand, we have invested and will continue to invest aggressively to expand and leverage our advantages in IT, infrastructure, customers and brand.

I'm very proud to announce that Golden Era, SkySea cruise's first cruise ship will set sail on its maiden voyage on May 15. Combining the experience of Ctrip and Royal Caribbean cruise line, SkySea cruise will become the premier cruise company in China, offering the best Chinese features mixed with international staff for Chinese cruise travelers.

With that, I will turn to Jenny for highlights of our strategic investment.

Jenny Wu - Ctrip.com International Limited - Chief Strategy Officer

Thanks James and thanks Fan. This is Jenny. In the past two years, Ctrip has been working religiously to invest on the key areas to further strengthen our core competencies. Internally, we made a substantial investment in technology, open platform, new markets and new businesses. Externally, we have (inaudible) and invested in over 20 companies that can generate greater synergy with Ctrip.



We closely stick to our investment principles in our practice. Number one, we primarily focus on the travel industry and invest in companies that can bring great incremental value to Ctrip such as new customers, new business lines or new technologies. Number two, we invest in the best of its kind or the ones that have the greatest potential. Number three, we would share the same fundamental mentality to ensure post investment synergy such as always putting customers' issues first in conducting the business. Last but not least, we are very disciplined and are reasonable on valuations.

We are glad to see that the valuation of our invested companies has gone up significantly throughout the year. While remaining very active in searching for the best (inaudible) market, we are proactively shifting more of our focus on maximizing the synergy between the invested companies and Ctrip. Through a joint effort, we are creating more and more value to each party and building a healthier industry ecosystem.

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

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thanks James, (inaudible) and Jenny. Hello everyone, this is Jane. I'm very pleased to share the updates about Ctrip's four main businesses and new initiatives with you.

First, for hotel and other accommodation, at the end of the first quarter 2015, Ctrip's domestic hotel coverage reached 270,000, triple its level from a year ago. Total hotel volume grew 60% year-over-year in the first quarter, driven by strong growth in both high star and the low star rated hotel. International hotels maintained triple digit growth in the first quarter of 2015. Open platform hotel revenue growth tripled year-over-year in the same quarter. Outbound hotels and open platform as still very small, yet it showed great potential to become the future pillars of our hotel business.

We endeavor to help hotels drive incremental volume growth. In Ctrip, we have dedicated teams to study customer data from search, booking, to check-in and a review. With that, we can better match the supply with potential demands and run more effective marketing campaigns for our hotel partners.

Our free multi-device property management system for hostels and small hotels has extended its coverage to over 50,000 properties by the end of March, up from 30,000 as of fourth quarter of 2014.

Second, for transportation ticketing services, the growth in this area reached unprecedented 104% growth year-over-year in the first quarter of 2015. Performance of air, train and bus all nicely exceeded our guidance. Air ticketing volume growth further accelerated to a record high growth of 64% year-over-year. On a higher comparison, train ticket tripled its size year-over-year. Bus ticketing business got into a high growth era. Quarter-over-quarter, the growth rate was over 200%. We expect it to follow a very strong growth pattern of our train ticket business.

Third, for our organized and self-guided tour, the vacation package revenue growth rebounded nicely to over 50% year-over-year, driven by strong volume growth. Open platform volume tripled year-over-year in the first quarter of 2015 and contributed to 20% of total organized tour.

Ctrip has made a commitment with our customers to give them peace in mind when they travel with us. In the tragic Nepal earthquake, Ctrip had 64 packaged tour customers in the country. We were able to locate their GPS where they last used our app, find each one of them in a few hours and help them to get back to China in the very next day. We immediately contacted other travelers who planned to visit Nepal and refunded in full amount under our natural disaster relief fund.

Fourth, for corporate travel, Ctrip's corporate travel maintained a solid growth rate of 31% in the first quarter of 2015, driven by strong volume growth. Our corporate travel app is the only app in the corporate travel market and its download has reached approximately one million, contributing to over 25% of the total corporate travel bookings. By the end of the first quarter, new corporate management systems for smaller companies extended to cover over 33,000 registered SME clients, growing from 20,000 three months ago.

Lastly, for our new businesses, we are excited about our new business initiatives. As James mentioned, the majority of our Baby Tiger projects grew from 200% to 800% in the first quarter. For example, as the last [mile] of transportation, our car rental business grew over 700% year-over-year. As



they grow, these new businesses gradually achieve operational leverage and scalability. We expect half of these Baby Tiger turn to be profitable by the end of this year and all of them will make solid bottom line by the end of 2016.

As we continue to improve customers' experience and execute efficiently, our value to our customers and industry partners will expand and lead the market. Our team is very excited about the new opportunities ahead of us and we will work hard to increase the value for our shareholders.

Now, I will turn to Cindy for financial highlights.

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

Thanks Jane, thanks everyone. For the first quarter of 2015, Ctrip reported revenue of RMB2.4 billion or \$394 million, representing a 46% increase from the same period in 2014. Total revenues for the first quarter of 2015 increased by 21% from the previous quarter.

Accommodation reservation revenues amounted to RMB952 million or \$154 million for the first quarter of 2015, representing a 45% increase year-on-year, primarily driven by an increase of 60% increase in accommodation reservation volume. Accommodation reservation revenues increased by 13% quarter-on-quarter.

Transportation ticketing revenues for the first quarter of 2015 were RMB948 million or \$153 million, representing a 46% increase year-on-year, primarily driven by an increase of 104% in ticketing volume. Transportation ticketing revenues increased by 23% quarter-on-quarter.

Packaged tour revenues for the first quarter for 2015 were RMB396 million or \$64 million, representing a 53% increase year-on-year, primarily driven by an increase in volume growth of organized tours and self-guided tours. Packaged tour revenues increased by 70% quarter-on-quarter, primarily due to seasonality.

Corporate travel revenues for the first quarter of 2015 were RMB90 million, or \$15 million, representing a 31% increase year-on-year, primarily driven by the increased corporate travel demand from business activities.

Corporate travel revenue decreased by 14% quarter-on-quarter, primarily due to seasonality.

For the first quarter of 2015, net revenues were RMB2.3 billion or \$373 million, representing a 46% increase from the same period in 2014. Net revenue for the first quarter of 2015 increased by 21% from the previous quarter. Gross margin was 70% for the first quarter of 2015, compared to 72% in the same period in 2014 and 69% in the previous quarter.

Product development expenses for the first quarter of 2015 increased by 83% to RMB808 million, or \$130 million, from the same period in 2014, primarily due to an increase in product development personnel related expenses. Product development expenses for the first quarter of 2015 increased by 2% from the previous quarter. Excluding share-based compensation charges, product development expenses accounts for 32% of the net revenues, increased from 25% in the same period in 2014 and decreased from 39% in the previous quarter.

Sales and marketing expenses for the first quarter of 2015 increased by 68% to RMB723 million or \$117 million from the same period in 2014, primarily due to an increase in sales and marketing related activities. Sales and marketing expenses for the first quarter of 2015 increased by 2% from the previous quarter. Excluding share-based compensation charges, sales and marketing expenses accounted for 30% of the net revenues, increased from 26% in the same period in 2014 and decreased from 36% in the previous quarter.

General and administrative expenses for the first quarter of 2015 increased by 36% to RMB259 million or \$42 million from the same period in 2014, primarily due to an increase in amortization expenses for intangible assets of newly acquired entities. General and administrative expenses for the first quarter of 2015 increased by 11% from the previous quarter, primarily due to an increase in administrative personnel related expenses and amortization expenses for intangible assets of newly acquired entities. Excluding share-based compensation charges, general and administrative expenses account for 8% of the net revenues, remain consistent with the same period in 2014 and decreased from 9% in the previous quarter.



Loss from operations for the first quarter of 2015 were RMB180 million or \$29 million, compared to income from operations of RMB71 million or \$11 million in the same period in 2014 and loss from operations of RMB401 million or \$65 million in the previous quarter. Excluding share-based compensation charges, loss from operations were RMB21 million or \$3 million, compared to income from operations of RMB193 million or \$31 million in the same period in 2014 and loss from operations of RMB274 million or \$44 million in the previous quarter.

Operating margin was negative 8% for the first quarter of 2015, compared to 4% in the same period in 2014 and negative 21% in the previous quarter. Excluding share-based compensation charges, operating margin was negative 1%, compared to 12% in the same period in 2014 and negative 14% in the previous quarter.

Income tax expenses for the first quarter of 2015 was RMB6 million or \$1 million, compared to income tax expenses of RMB47 million or \$8 million in the same period of 2014 and income tax benefit of RMB13 million or \$2 million in the previous quarter. Net loss attributable to Ctrip's shareholders for the first quarter of 2015 was RMB126 million or \$20 million, compared to net income attributable to Ctrip's shareholders of RMB115 million or \$19 million in the same period in 2014 and net loss attributable to Ctrip's shareholders of RMB224 million or \$36 million in the previous quarter.

Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB33 million or \$5 million, compared to net income attributable to Ctrip's shareholders of RMB237 million or \$38 million in the same period in 2014 and net loss attributable to Ctrip's shareholders of RMB98 million or \$16 million in the previous quarter.

Diluted earning per ADS were negative RMB0.90 or negative \$0.15 for the first quarter of 2015. Excluding share-based compensation charges, diluted earnings per ADS were RMB0.23 or \$0.04 for the first quarter of 2015. As of March 31, 2015, the balance of cash and cash equivalents, restricted cash and short term investment was RMB12 billion or \$1.9 billion.

For the second quarter of 2015 the Company expects to continue the net revenue growth year-on-year at a rate of approximately 45% to 50%. This forecast reflects Ctrip's current and preliminary view, which is subject to change.

With that, Operator, please open the lines to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from the line of Alicia Yap with Barclays. Please proceed.

Alicia Yap - Barclays - Analyst

Hi, good morning James, Min, Jane, Jenny and Cindy. Congratulations on a very strong quarter, and thanks for taking my questions. I have one question. My first question is related to your air ticketing volume growth, so if I remember correctly I think air ticket volume grew more than 40% in Q4, and during the last quarter call you guided air ticket volume to grow about 50% in the first quarter. But then today you deliver 64% for this quarter. So can you help us understand what drove such a strong re-estimation, and did this growth rate continue, and are you mainly taking share from the offline agents, or are you actually taking some share from other online open platform players? Thank you.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Thanks Alicia. I think air ticketing volume is an area we invest heavily from the technology perspective, as well as our service perspective. There are a couple of driving forces which make this possible. First of all, we spent quite a lot of time and investment for our mobile platform and make it very easy to use, so the mobile percentage increased very nicely over the quarter.



Secondly we also worked very hard on the open platform, and the percentage of the open platform increased from the previous 50% to now 60% to 70%, so we do see a very nice, strong growth from that open platform product. Lastly we also worked very hard to pick up second-tier and third-tier cities, and strengthen our branding and investment in the high growth GDP per capita -- the top GDP per capita, second tier and third tier cities. So all these factors help us to drive the volume very strongly for the air ticketing business.

In terms of market share, again I think our efficiency, our competitiveness on the service is the main reason. So we are taking share from the market, from the traditional and the other players in the market.

Operator

Our next question comes from the line of Mike Olson with Piper Jaffray. Please proceed.

Michael Olson - *Piper Jaffray - Analyst*

Thanks. I was curious about -- you mentioned that your China hotel coverage is currently around 270,000. What do you estimate to be the total number of hotels in China that are in your addressable market, and how many do you believe that you'll eventually have? In other words, what's your target for how many domestic hotels Ctrip will have over time? Then secondly I was wondering if you could give us some more color on the Q2 margin and full-year margin guidance. Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Okay, so for the hotel coverage, in China the hotel market is highly fragmented. A lot of hotels are Mom and Pop small hotels. With the growth of economy, there are a lot of hostels, smaller inns opening up near the attractions. So even the government does not have an official number as to how many hotels there are in China. It's just developing so fast. The statistics we have seen are changing every day. But I think 270,000 hotels are pretty much covered and address the majority of the customers' demand.

As we move further into the lower tier cities, our team is also very aggressive in order to extend our coverage. So we monitor the customers' tracks very carefully. If we see, for example, the air tickets are selling to certain areas, then our hotels will follow to extend the coverage in these areas. So if our business is moving more and more to the lower tier cities, our coverage will extend very quickly. But we also want to make sure the efforts we put in compared to the return we get makes the ROI very positive. So that's the game plan. We will be very aggressive to increase the coverage, meanwhile keeping ROI in mind.

Our CFO, Cindy, will address the margins question.

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

In the past few years we have made heavy investment in areas such as mobile branding, product development and IT. So this year the first quarter, 46% top-line growth is kind of reflecting what we have invested in the past few years. The momentum is there so that for the second quarter we will follow the same trajectory to achieve 45% to 50% net revenue growth. At the same time, this year our topic is how to balance the investment with the operational efficiency, so that you'll see a very disciplined increase in the first quarter, and also in the second quarter. So in the second quarter we want to return to be profitable in operations. Our non-GAAP operating profit will be around the range of RMB150 million to RMB250 million.

Operator

Our next question comes from the line of Dick Wei with Credit Suisse. Please proceed.



Dick Wei - *Credit Suisse - Analyst*

Hi, good morning. Thanks for taking my questions. I have questions on the hotel side. I wonder, how has the high-end hotel growth is like for the quarter, and in particular if there's impacts from some of the competitor landscape from your competitors that's going into high-end hotels? I just wonder if you can add some color on the hotel front. Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure. If you look at our increase for all product lines, five-star hotels, four-star hotels, grow the fastest. Then the lower end also grows very fast. But these two areas bring us different contributions to our portfolio. The high-end hotels I think we address to our high-end customers, and they bring very strong revenue growth to our portfolio. The lower end of the hotels we prefer to penetrate into the lower tier cities. It brings us volume growth. So both ends grow very, very fast, but they bring us (inaudible) they bring us a great contribution. The other one gives us more market penetration.

Operator

Our next question comes from the line of Vivian Hao with Deutsche Bank. Please proceed.

Vivian Hao - *Deutsche Bank - Analyst*

Hi. Congratulations on a great quarter. I have two questions. The first question is our main competitors have launched a half-price campaign for hotel segments. We noticed that Ctrip has also followed, especially for the mid to high-end tier inventories. Can you provide more details in terms of the scope and expected market impact from this campaign? This is now my first question. Maybe I'll just wait for the second question after you answer the first one. Thank you.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

I think there's kind of a loss leader that some of our competitors have pursued. We have also selectively done some sort of loss-leading promotion programs, but we do that always very scientifically to only offer those special promotions to only the price-sensitive customers, and not hurting the most premium pricing customers such as business travelers. So we view that as investment to attracting new customers.

I think there is only so much marketing budget that any players or any business can have, and there is only so much loss a business can sustain. So if somebody decides irrationally to burn all this money to just attracting a few customers, that's actually good news for us as it means we will spend less money on more effective channels. So we don't worry about these kind of promotion programs. We also do that -- I think there are similar types of programs, we do that more efficiently and more scientifically.

Operator

Our next question comes from the line of Eddie Leung with Merrill Lynch. Please proceed.

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

Hi, good morning. Thank you for taking my question. Can I have a follow-up question to Vivian's question on promotion? Could you give us an update on the impact you have seen on your commission rate/take rate from 1) couponing and 2) the growth of your open platform business?



Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure. So maybe we can walk you through the commission rate and take rate. In order to come up with the net take rate there are three elements we need to take into consideration. The first element is the total commission we charge the hotel. So the other players are a little bit more aggressive. I think the commission rate they charge is a little higher, between 12% and 15%. We charge a moderate rate, which is around 10% to 15%, because we believe giving hotels a valuable channel in returns will support our partnership with the hotel in the long run. So we do not want to increase our commission rate because we value the partnership with the hotels.

The second item is the total coupons we issue to the market, and Ctrip is very aggressive in matching up with any competitors in the market. So, for example, if the other players in the market issue a coupon at RMB50, we will match to it. If they increase, again we will match to it. So the total coupons we issue to the market is always matching to any players in the market.

The third one is the redemption rate. For other players I think the redemption rate is very high. It can be anywhere between 50% to 70% depending on different companies. But for Ctrip, the beauty of our model is the redemption rate for our customers is very low. It's about 20% redemption rate. So after you take the commission rate we charge to the hotel, and reduce it by the redemption rate, our net take rate can be around 8% to 12%, which is two times to three times the other players. That is why our model has a very strong earnings ability compared to the others. So I hope that addressed your question.

Operator

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

Ella Ji - *Oppenheimer - Analyst*

Congratulations on a strong quarter. Two questions. First of all could you share with us more color relating to your 2Q guidance, maybe on the growth trend by segment? Secondly, I think you mentioned that you expect -- I think it's around a high single-digit non-GAAP operating margin for the second quarter. Could you talk about, by operational expense lines, which lines should we expect to see the biggest leverage? Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

For the first question I think basically our margins will -- our top-line growth will be driven by the very strong volume growth across all business lines, so that's the hotel, air tickets, the transportation and package tours businesses. Their volume growths are very strong due to the premium, heavy investment in the technology open platform, IT infrastructure, as well as our new business initiatives. Of course, together with our superior service qualities in Ctrip, we are able to deliver the strongest revenue growth in the past three years, the highest revenue growth in the past three years.

On the expense side, we actually have a very disciplined expense growth budget internally, and for all the -- the majority of expenses are personnel or head count related expenses. This year our head count increase is very moderate. That's why our expenses across all the lines are very -- you will see a very moderate increase.

Operator

Our next question comes from the line of Sam Vu with Goldman Sachs. Please proceed.



Sam Vu - *Goldman Sachs - Analyst*

Thank you Management for taking my questions. Congratulations on a very solid result. Could the Management add more color on the (inaudible) the outperformance of the package tour business for this quarter? It has a very strong recovery, revenue up 53% year-on-year versus 15% to 20% year-on-year growth in the past five quarters. Do we see the overall market recovery for this market or the open platform strategy plays a more important role here? Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

I think we have seen both. I think our team executed very smartly and open platform delivered a strong delivery in terms of three-digit growth year-over-year. Also for our sales of package tours, we also have seen a very strong performance from our own products. So both quarters are earning very fast in this business. So we expect going forward into the next few quarters, the momentum will still keep very strong.

Operator

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

Wendy Huang - *Macquarie - Analyst*

Hi, just to follow on your previous comments about the open platform and also the in-house tours within your package tour business. How will the economics and the margin differ for those two different sources of (technical difficulty)? Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure. For revenue margin, our self-guided tour is higher. For open platform obviously you share the revenue with the inventory provider. However we do not have to incur as much costs to package the tour for the open platform product. So on a net to net basis, the net margin is comparable.

Operator

Our next question comes from the line of Fei Fang with HSBC. Please proceed.

Fei Fang - *HSBC - Analyst*

Yes, good morning. A very nice set of results and thanks very much for taking my question. I wanted to get your perspective on -- last year you extended your partnership with Priceline. Clearly you're a very valuable sort of asset and partner because you're the only independent and large OTA in the market place. I was wondering if you can comment on your appetite or your thinking as it relates to partnering with other companies in the space to either drive, you know, traffic or synergies. Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Yes. We respect our partner very much, and we work very well to achieve the synergy. I think their inventory is the most comprehensive around the world. Our inventory in China is also very comprehensive. So two teams are providing each other with the best we have to each other, so the partnership works very well.



Operator

Our next question comes from the line of Tian Hou with T.H. Capital. Please proceed.

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

Good morning Management. My question is related to the current market. If we look at the market consolidations we saw the two big players in the taxi area, (spoken in Chinese) get together, and the two big classified sites (spoken in Chinese) get together. There are lots of commentaries in the market, particularly the travel market, if the many players want to get into it, and just -- competition is going to tense up. So I wonder what's the Management view on the future landscape of China's travel area, and what is the future strategy in this area?

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure. I think China, in terms of GDP, is catching up with the other countries in leading the whole world. That gives a very solid foundation for the growth of industry. Naturally it will attract more investment and more smaller companies to start their businesses. In the past 15 years, ever since we established our business, this trend has never changed. Every year there is something coming to compete with our business. But so far Ctrip has proven to be the only OTA online that is able to make solid profits.

So we will keep the momentum there, and also based on our extensive (technical difficulty) we will aggressively gain market share on the top line. In the meantime, because of our scalability and our investment in technology, our efficiency will increase. So our margin will also improve and will keep up with our momentum.

Operator

Your next question comes from the line of Ida Yu with CICC. Please proceed.

Ida Yu - *CICC - Analyst*

Hi, good morning. Thank you for taking my questions. I just have two follow-up questions here. The first one is in regard to the package tour. Can Management give us a little bit more detail about the geographic distributions in terms of customer base? As we noticed that Ctrip also invested in Tuniu's latest round of investments, so can Management give us also more color on your future cooperation on the business side with Tuniu going forward?

My second question is about Baby Tigers. As Jane just mentioned that half of the Baby Tigers are attempting profit this year, so can you give us more details, explanations, about what other business and what will be the margins going forward? Thanks.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure. For the package tour, yeah, I think the growth foundation for leisure travel is very strong, and as we (inaudible) both self-packaged tour as well as open platform have demonstrated strong growth in the past quarter. We will keep the momentum strong going forward.

Regarding Tuniu, we have a good working relationship with them, so to an extent our certain products are complementary. We share certain inventory with each other to improve the efficiency, and to also give more comprehensive products to each site. On the Baby Tiger program, yes, the -- every [FEU] works very hard to aggressively gain market share on the top line, and meanwhile they also are very disciplined in terms of carefully calculating the long-term ROI to make sure the investment they put in the business is not purely burning dollar amounts in order to inflate the top-line numbers.



So the investment they put in has to generate the long-term ROI. So the teams are very well-trained to achieve growth, which is the top-line growth very aggressively, and also to generate a healthy bottom line as well. So by the end of this year I think half of them will be profitable, and by the end of next year pretty much every business unit will have a nice growth on the top line as well as the bottom line.

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Yes, let me just add that Tuniu is not just a competitor but also a partner in many areas. So we compete with Tuniu around some of those packages, open platform, but our self-organized tour product is actually working with Tuniu's platform -- being sold on Tuniu's platform. Also Tuniu's air ticket and hotels are using Ctrip's inventory. So actually we are partners on many fronts. That's one of the reasons we invested in their stock.

Operator

Our next question comes from the line of Yu-Heng Fan with China Renaissance. Please proceed.

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

Hi, good morning, and thanks for taking my questions. I wonder if you can comment on the potential further commission cut by major airlines? I would assume that would be a positive for you given your (inaudible) advantage, but any color would be appreciated. Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Actually in the past couple of years our commission rates have always been coming down, but I think our growth rate has not gone down at all. The volume growth will well offset the slight decrease in commission percentage because we have a very strong coverage over the airline routes. Also, our efficiency on the IT platforms makes the booking process very smooth for our customers. Also if something happens during customers' trips, our team is there for them 24 hours non-stop. So all these advantages our team provides have supported the growth. As we guided in our numbers, the air ticket revenue will still grow very strongly in the next few quarters.

Operator

Our next question comes from the line of Henry Guo with Summit Research. Please proceed.

Henry Guo - *Summit Research - Analyst*

Thank you for taking my question. A quick one on the packaged tour. Could Management please provide some color regarding the margin as compared to hotel and air tickets, because I'm thinking with the increasing contribution from packaged tours, what the margin impact will be in the longer term. Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Hotels -- in this travel industry, hotels have the highest margins, and air tickets comparatively have the lower margins. Packaged tours basically bundled the hotels together with air tickets, so the margin is in between the hotel margin and the air ticket margin. In the long run, we think our current margin percentage for the package tour is pretty much stable.



Operator

Our next question comes from the line of (inaudible) with Citigroup. Please proceed.

Unidentified Participant

Hi. Thanks for taking my questions. I have two questions. The first question is about the active users for your mobile apps. My second question is can you talk about the GMB for this quarter? Thanks.

Jane Sun - Ctrip.com International Limited - Co-President and COO

Yes. The active users for us have already reached about 50 million for active users. The GMB growth rate is very much in line with our growth percentage on the top line.

Operator

Our next question comes from the line of Juan Lin with 86Research. Please proceed.

Juan Lin - 86Research - Analyst

Hello, good morning. Congratulations on a very strong result, and thank you very much for taking my question. I have one question regarding the gross margin. Gross margin stayed flattish sequentially, which is better than the historical pattern and what is the reason behind that? How should we look at gross margin for this year and going forward?

Jane Sun - Ctrip.com International Limited - Co-President and COO

Yes, we put a lot of effort in IT investment to make -- to increase the efficiency. So, for example, for air tickets, our volume growth exceeded 50% or 60% every quarter. However, for that group the head count didn't change at all. Last year, air tickets also, volume-wise, grew about 40% to 50%. They haven't increased the head count. So if you add two years together we will double our volume without adding too many people. So that's why the gross margin has a very nice pick up. Going forward, we will keep up with our investment in technology in order to automate a lot of processes, and then that will give us the leverage and margin pick up.

Operator

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

Alex Yao - JP Morgan - Analyst

Hi, good morning everyone, and congrats on a strong quarter. Thank you for taking my question. My question is -- you guys shared with us how you think about the financial returns from your Baby Tiger programs. Can you share with us how shall we think about the financial return from your portfolio companies in the next two to three years?

Jenny Wu - Ctrip.com International Limited - Chief Strategy Officer

Financial returns, okay. We -- as I mentioned in the opening remarks when we do the investment (inaudible) in the industry, not only (inaudible) investment, we put a lot of effort to try to maximize the synergy between the investors and Ctrip. (Inaudible) see a great result throughout the

year. The majority of them (inaudible) leadership (inaudible) and also they see the great volume growth and revenue growth, and also the very nice (inaudible) bottom lines. I think the management -- the mentality and management (inaudible) has been gradually fuelled from (inaudible) invested companies. As a result, Ctrip has built in a very healthy ecosystem. (Inaudible) we also think the evaluation (inaudible) and each of them (inaudible).

James Liang - *Ctrip.com International Limited - Chairman and CEO*

Let me just add that most of our Baby Tigers, actually almost all our Baby Tigers will be profitable by the end of this year.

Operator

Our next question comes from the line of [Jin Yu] with Mito Securities. Please proceed.

Jin Yu - *Mito Securities - Analyst*

Hi, good morning guys. Just on the open platform end, I know that a few years ago, or even a few quarters ago, some of the concerns were competition, was that wholesalers and offline guys, are selling products or selling tickets at costs or even below cost of their contractual amount as they're clearing through inventory. As a lot of these guys come on to the open platform and sell through this inventory at lower than the expected amount or lower than the contracted amount, does that impact your relationship with the vendors, the hotels and the airlines, because you're facilitating more of the trade? Can you talk through those details for us? Thanks.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Sure, sure. First of all, I think we have a commitment with our business partner to create a healthy ecosystem, and Ctrip will do everything we can if the hotels and airlines are very determined to discipline the market. So we are there to do whatever we can to promote a healthy ecosystem. Secondly, we also have a commitment with our customers so that Ctrip customers always will get the best price that is available through other channels.

So if there is a better price in the market, Ctrip is so big, our customers ought to be entitled to get these prices. So again, with the open platform we work with hotels and airlines to make it as disciplined as possible for the healthiness of the ecosystem. Meantime we also fulfill our commitment with our customers to make sure they get the best that is available and disciplined in the market.

Operator

Our final question comes from the line of a follow-up from Wendy Huang with Macquarie. Please proceed.

Wendy Huang - *Macquarie - Analyst*

Thank you. I think someone already asked about the Q2 guidance breakdown, but I don't think I got the full answer. Can you maybe say it again about the volume, AST as well as take rate breakdown by different segments? Also the GMB, you answered that the GMB growth was in line with the total revenue growth, but last quarter you gave a very specific number, RMB152 billion, so can you again provide a dollar amount number to provide more clarity? Thank you.

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thank you Wendy. Our very strong revenue guidance will be mainly driven by the strong volume growth across all major (inaudible). Regarding the GMB, our total GMB growth will be pretty much in line with our volume growth.

Operator

I would now like to turn the presentation back over to your host, Michelle Qi, Senior IR Manager of Ctrip, for closing comments.

Michelle Qi - *Ctrip.com International Limited - IR Manager*

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

Jane Sun - *Ctrip.com International Limited - Co-President and COO*

Thank you very much.

Operator

Thank you for your participation in today's conference. This concludes your presentation. You may all disconnect. Good day everyone.

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