

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

CTRP - Q3 2013 Ctrip.com International, Ltd. Earnings Conference Call  
and Webcast

EVENT DATE/TIME: NOVEMBER 06, 2013 / 12:00AM GMT

## OVERVIEW:

CTRP reported 3Q13 total revenues of CNY1.6b, net income attributable to Co.'s shareholders of CNY373m and diluted earnings per ADS of CNY2.44. Expects 4Q13 net revenue to grow approx. 20-25% YoY.



## CORPORATE PARTICIPANTS

**Jade Wei** *Ctrip.com International, Ltd. - IR Director*

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

**Min Fan** *Ctrip.com International, Ltd. - Co-Founder, Vice Chairman, and President*

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

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

## CONFERENCE CALL PARTICIPANTS

**Jiong Shao** *Macquarie - Analyst*

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

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

**Alicia Yap** *Barclays - Analyst*

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

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

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

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

**Andy Yeung** *Oppenheimer & Co - Analyst*

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

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

**Muzhi Li** *Citi Group - Analyst*

**Fawne Jiang** *Brean Capital - Analyst*

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

## PRESENTATION

### Operator

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

I would now like to turn the conference over to your host today, Ms. Jade Wei, Investor Relations Director. Please proceed Ma'am.

---

**Jade Wei** - *Ctrip.com International, Ltd. - IR Director*

Thank you Crystal. Thank you for attending Ctrip's third quarter 2013 earnings conference call. Joining me on the call today we have Mr. James Liang, Chairman of the Board and Chief Executive Officer, Mr. Min Fan, Vice Chairman of the Board and President, Ms. Jane Sun, Chief Operating Officer and Ms. Jenny Wu, Chief Financial Officer.

We may during this call discuss our future outlook and performance which are forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results



may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward looking statement except as required under applicable law.

James, Min, Jane and Jenny will share our strategies and business updates, operating highlights and financial performance for the third quarter 2013 as well as outlooks for the fourth quarter. We will also have a Q&A session towards the end of this call. With that, I'm turning to James for our business update. James, please.

---

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

Thanks Jade. Thanks everyone for joining us today. We are pleased to report great results delivered in the third quarter of 2013. Net revenues grew by 31% year-on-year, primarily driven by strong volume growth. Hotel room nights grew by 40% year-on-year and air ticketing volume grew by 31% year-on-year.

The past quarter demonstrated that Ctrip's strategy of gaining market share is working effectively and the team has been consistently delivering strong results. Mobile internet is redefining the travel industry, the on-the-go notion for both mobile and travel makes the two a natural fit. Our team works diligently to provide travelers the best user experience and continuously updates the Ctrip travel app with new versions. The latest version 5.1 was released in October and provides travelers with a simple, easy to use interface where they can book hotels, air ticketing, car rentals, local activity tickets and dynamic packages. Booking via mobile is as easy and seamless as across all other Ctrip platforms and even faster.

The Ctrip travel app also helps travelers to research, plan and share their trips through the newly-enhanced functions like destination guides, travel journals and review boards. Ctrip travel's smart itinerary could enable users to integrate their bookings into the user friendly agenda, synchronize with their calendars and shared with friends. The Ctrip travel app is a one stop shop, putting all our services at the fingertips of the travelers.

The Ctrip travel app ranks as the number one iPhone app in the travel sector of the Apple Store in China and has been selected as editor's picks for the multiple times in a row. By the end of the third quarter, the number of accumulated downloads for Ctrip app exceeded 70 million, a significant increase from 50 million downloads last quarter and the 15 million downloads last year. In the third quarter 2013, over 60% of Ctrip transactions were booked through online and mobile channels, compared to about 50% a year ago.

For hotel booking, PC-based internet contributed over 40% of total transaction and mobile internet contributed about 30%. For air ticket bookings, PC-based internet contributed about 40% of total transactions and mobile internet contributed over 15%. Mobile channels are particularly convenient for travelers who are booking trips at the last minute. The peak daily transaction value reached over RMB100 million in October. The Ctrip travel app, together with the mobile website access with smartphones and tablets, contributed to more than 40% of the daily hotel bookings in peak days.

We are seeing mobile channels to overtake PC-internet and call centers, soon to become the most important booking platform of Ctrip. We will continue to invest in technology and mobile and extend our leadership in OTA and NTA markets in China. We have put great effort in past quarters into elevating our technology platform. Technology not only facilitates our business growth, but also powers our business innovation and expansion. Creating the infrastructure to enable a more efficient open platform was one of our key goals this year. Our systems are being innovated so that internal platforms and external channels can seamlessly connect to our large scale (inaudible) and our back end operations.

Going forward, we will continue to invest in technology areas. Our key focus is on improving operational efficiency and the customer experience. We are working on multiple tech fronts, including automations, service experience, conversion effectiveness and data computing to name a few. We are confident that we can continue to lift operational efficiency and build our service areas through innovative technologies.

The Ctrip brand is leading the business travel segment and we are successfully building our ubiquity among leisure travelers. We recently launched the first mobile multimedia campaign featuring the famous movie star, [Den Chau] and audience reactions, particularly from the younger groups, have delighted us and we look forward to our continued branding endeavors.



We will continue to enhance our diversified sales and marketing channels. Our monthly [UV] in the third quarter increased over 50% year-on-year, according to (inaudible).com. Ctrip ranks again as the number one travel website in China in terms of traffic in the past month. October 2013 marks Ctrip's 14th anniversary and we were recognized once again as one of the top 100 best employers in China by industrial and academic authorities. I would like to thank our employees for their commitment and diligence to grow the great future of the Company together.

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

---

**Min Fan** - *Ctrip.com International, Ltd. - Co-Founder, Vice Chairman, and President*

Thanks James, thanks everyone. This is Min. China's travel industry is in great growth opportunity and will have structural changes to travel by technology and competition. Ctrip is well positioned in this transition period. We have a solid business foundation, leading technology and strong teams to grow our increasing business and to continue new initiatives. Meanwhile, we are very open and proactive in working with new players to add value to customers and to help the industry grow in a productive and healthy trend. In October we successfully raised \$800 million through convertible [arms]. All of the major purpose of this financing is to prepare for the potential strategic investment. Ctrip has the financial strength to utilize the opportunities ahead.

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

---

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

Thanks Min and thanks to everyone. I'm pleased to share the updates of Ctrip's main businesses with you.

Ctrip has further expanded its hotel coverage. By the end of the third quarter, our domestic hotel supply network covered approximately 70,000 domestic hotels, compared to around 46,000 one year ago. Our international hotel network has been further extended to over 240,000 hotels. We achieved strong hotel volume growth of 40% year-on-year in the third quarter of 2013, driven by both business and the leisure travel demand. Our international hotel volume growth was over 300% year-over-year in the third quarter. Our international hotel team has done a great job increasing our hotel coverage, improving inventory quality, enriching hotel content and upgrading users' experience. We have seen milestones in the hotel bookings for popular travel destinations.

The air ticketing business grew strongly in the third quarter and reached 31% volume growth year-over-year. We have made great efforts working closely with airlines and partners to offer the best prices in the market. In the third quarter, the international air ticket volume grew over 80% year-over-year, achieving a record number of transactions. Ctrip has now worked with over 400 airlines. The technology platform, supply networks and back end service system has set higher area of entry for the local and global players. We will strive to invest in this area and enhance our ability to meet the enormous and complex needs of Chinese travelers travelling anywhere in the world.

Our package tour business, once again, reported impressive results in the third quarter of 2013. The revenue from mainland China grew about 50% year-over-year and our team managed to maintain a strong momentum in both dynamic package and group tours. China is witnessing a significant increase in personal income and other countries have been lifting the visa restrictions to welcome Chinese tourists. For example, the UK has simplified a visa application process for Chinese citizens. These efforts create a positive effect throughout all the leisure travel and we have seen increasing strong demand across all our products.

Our package tour business offers products to more than 1000 destinations and cover group tours, dynamic packages, day tours and attraction tickets, serving customers ranging from those travelling overseas for the first time to seasoned travelers. The volume for local attraction tickets soared in the third quarter. Although the base is small, we are very encouraged by this growth. During October holiday peak season, ticket volumes has grown 700% from the same period last year.

Our corporate travel business grew steadily in Q3. We currently provide corporate travel solutions for over 250,000 people across 3000 companies, including many of China's largest firms in the global and multinationals. Our corporate travel mobile app is the first of its kind in China and provides



a match to convenience and efficiency to corporate travelers. The app has extensive booking capabilities that match the personal preference of travelers with their company's travel policy. It also features smart itinerary and travel update functions to ensure users are informed immediately of any changes to their journey. The app also offers 24/7 call center support. We acknowledge the legacy value proposition and innovation functions that Ctrip provides to our corporate customers. We have been named China's best travel managed Company for the third consecutive year by Travel Weekly China.

With that, I will turn to Jenny for financial highlights.

---

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

Thanks Jane. Thank you everyone. Ctrip's (technical difficulty) RMB1.6 billion which is a 32% (technical difficulty) 24% (technical difficulty). Hotel reservations amounted to RMB611 million, an increase of 34% year-on-year, primarily driven by an increase of 40% in volume and partially offset by a decrease of commission per room night. Hotel reservation revenues increased 20% Q-on-Q, largely driven by volume growth.

Ticketing services revenues were RMB604 million, up 26% year-on-year, primarily driven by an increase of 31% in air ticketing volume and partially offset by the decrease of commission per ticket. Ticketing services revenues increased 16% Q-on-Q, largely driven by air ticketing volume growth.

Packaged-tour revenues were RMB320 million, up 43% year-on-year and 71% Q-on-Q, due to the increase of leisure travel volume.

Corporate travel revenues were RMB72 million, up 33% year-on-year and 9% Q-on-Q, mainly driven by an increase of corporate travel demand from business activities.

Net revenues were RMB1.5 billion, up 31% year-on-year and 24% Q-on-Q. Gross margin was 75%, down 1% year-on-year and stabilizing Q-on-Q.

Product development expenses were RMB335 million, up 38% year-on-year and 8% Q-on-Q, mainly due to an increase in product development personnel related expenses. Excluding share-based compensation charges, product development expenses accounted for 20% of net revenues, versus 18% a year ago and 22% a quarter ago.

Sales and marketing expenses were RMB355 million, up 17% year-on-year and 31% Q-on-Q, primarily due to an increase in sales and marketing related activities. Excluding share-based compensation charges, sales and marketing expenses accounted for 22% of net revenues, versus 25% a year ago and 21% a quarter ago.

G&A expenses of RMB172 million are up 14% year-on-year and 9% Q-on-Q, primarily due to an increase in administrative related expenses. Excluding share-based compensation charges, general and administrative expenses accounted for 7% of net revenue versus 8% a quarter ago and a year ago.

Income from operations was RMB300 million, up 58% year-on-year and 53% Q-on-Q. Excluding share-based compensation charges, income from operations was RMB408 million, up 37% year-on-year and 33% Q-on-Q.

Operating margin was 19% up 3% year-on-year and Q-on-Q. Excluding share-based compensation charges, operating margin was 27%, up 2 percentage points year-on-year and Q-on-Q.

The effective tax rate was 22% versus 24% a year ago and 27% a quarter ago, primarily due to the decrease 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 was RMB373 million, up 92% year-on-year and 77% Q-on-Q. Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB482 million, up 59% year-on-year and 50% Q-on-Q.

Diluted earnings per ADS were RMB2.44, or \$0.40. Excluding share-based compensation charges, diluted earnings per ADS were \$0.51.

As of September this year, the balance of cash and cash equivalents, restricted cash and short-term investment was RMB6.7 billion, or \$1.1 billion.

The business for the next quarter. For the fourth quarter 2013, the Company expects to continue the net revenue growth year-on-year at a rate of approximately 20% to 25% as likely at the high end. This forecast reflects Ctrip's current and preliminary view, which is subject to change.

Lastly, on the CB offering, in October 2013 Ctrip completed the offering of \$800 million principal amount of CB, due 2018. The notes bear an annual interest of 1.25%. The notes will be converted into Ctrip's ADR at the option of the holders, based on an initial conversion price of approximately \$38.39 per ADS and represents approximately 42.5% conversion premium over the closing trading price of the Company's ADS on October 10 which was \$55.01 per ADS.

With that, operator, please open the line for questions. Thank you very much.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator instructions) Our first question is going to come from the line of Jiong Shao of Macquarie. Please proceed.

---

### Jiong Shao - Macquarie - Analyst

Good morning. Thank you very much for taking my questions and big congratulations on a very strong result and guidance. If it's okay, I want to kick off with a couple of questions for the Group. Firstly, given the recent very successful IPO of Qunar, I understand Qunar is a partner of yours but also competes on certain aspects. I was hoping you could share with us how you work with -- partner with Qunar and what part of the aspects in that business compete with you and what are your competitive advantages when you go fight against Qunar, the platform player in the industry? That's my first question.

My second question is it's great to see you're seeing tremendous growth in the outbound, overseas business. I understand you work with partners such as booking.com. You leverage their hotel networks. I was wondering, could you talk about how you go build up your own hotel networks? What's the current status of that? Is there any plan or target in the next couple of years in building that up? Thank you very much.

---

### James Liang - Ctrip.com International, Ltd. - Co-Founder, Chairman, and CEO

Okay, I'll answer the first question. Qunar is offering a different model, so it -- particularly for hotels, it's actually relying on mostly partners to provide a hotel inventory and we are one of those suppliers. So on the hotel side, we're more of a partnership. The other part I think particularly on air tickets, we're more of a competitor. I think our advantage is that we offer a more consistent level of service because we have the other technology platform that -- and a service platform that over the years have streamlined the operations in terms of service quality. So that's, I think, the most important difference between our air tickets and their air tickets.

The other part, I think there's somewhere in between and sometimes we're more a partner, sometimes we're more a competitor. I think overall we are investing (inaudible) less heavily in the technology and service, so we will try to differentiate us more in the future from Qunar, particularly in terms of service quality.

---

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

I will address the second question regarding the outbound travelers. As you have already seen, Ctrip's customers have very high income levels, so when they go travel, outbound has become a very strong growth engine for our business. So in the foreseeable future, our goal is to strengthen



our local presence so for the popular travel destinations, we will have our team to work with the tour operators locally and also hotels and airlines to provide stronger products for the increasing volumes.

---

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

Okay, great. Thank you very much for the helpful comments.

---

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

Thanks Jiong.

---

**Operator**

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

---

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

Hi, thank you for taking my questions and congratulations Jenny and [Cindy] on the promotions. I just have questions about the outlook for the fourth quarter. I think the earlier comment is on October 1st holiday air tickets up 700% in terms of volume. I wonder if management can give some outlook guidance in terms of maybe by hotel and air in terms of the volume and the pricing mix looking to fourth quarter. Thank you.

---

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

Hi Dick, thank you. And for the fourth quarter for the hotel, our volume growth may grow about 30% to 35%. The listing price for the hotel may decline by zero to 5%. Our commission rate stayed flattish and the [EQ] (inaudible) was - in local growth by 5%. So the total revenue will grow by 20% to 25%. And for the energy (inaudible) the volume growth would be about 20% to 25%, the listing price and the commission rate would be flattish and the [EQ] (inaudible) will have very limited impact. So the revenue was largely also around 20% to 25% growth.

For the package tours we are looking at the revenue to grow about 25% to 30%. Obviously mainland China will have higher growth. And for the corporate travel, its growth rate is largely involved with air ticket investment, so again it's about 20% to 25%. So if you add up everything together our top high growth remain around 20% to 25% and our team will continue to try our best to deliver the best result, and so we are looking at close to the high end. Thank you.

---

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

This is Jane. Just to clarify one comment we made during the October holiday, the ticket to volume we talked about would grow 700% is not the air ticket. It's the local attraction tickets, such as museum tickets, train tickets et cetera, small destination attractions. So that's a very small business we're just launching and we have seen positive effects but it's different from the air ticketing business.

---

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

Great. You announced that -- would you be able to talk a bit about, in terms of the mobile bookings or the updated user metrics, the frequency of usage or ASP on the mobile apps versus on the PC? I think also, just a last (inaudible) is what you mentioned about them, any more color in terms of the destination tickets or more of the other, like local services booked through the apps, it would be helpful, thank you.



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

On average we have about 30% of the hotel bookings through the mobile smart phones and air ticketing is 15%. In other products actually, for example attraction tickets, the percentage is actually a little bit higher because that's actually more convenient to book while you are on the road. So it depends on the type of transactions. Actually the more destination orientated, you have a higher ratio of mobile bookings. Actually most of the products have a higher ratio of mobile booking than -- the air ticketing being the lowest one.

---

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

Thanks Dick.

---

**Operator**

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

---

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

Good morning, thank you for taking my questions. I have two questions. The first one is about your open platform strategy. Could you elaborate more on that front? For example, what types of partners you will have, and any impact to your P&L? For example would that mean a lower margin business, higher margin business, et cetera. And then secondly is about your marketing campaigns. Should we expect any seasonality of fluctuations in your marketing expenses in the upcoming couple of quarters after a higher increase in the third quarter? Thank you.

---

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

Yeah, our open platform, basically we work with many more suppliers, not just our own direct purchased hotels or air tickets or attraction tickets, et cetera. Also the wholesalers and other types of distributors in China or overseas. So we will have -- working with many more suppliers and we will have many more product offerings, more price varieties also, and that's actually definitely going to help us to gain market share.

Some of the wholesale products have relatively lower margins but I think that that's -- or the overall impact is not -- so far is not very significant because the portion of the -- those wholesalers in overall volume mix is not very big yet.

In terms of sales marketing, actually we will very aggressively to invest in other brands in the coming future because we think we have the best products, especially on the mobile front. So we definitely want to take advantage of the opportunity to invest heavily in sales marketing in the coming future, especially to promote our mobile brand.

We're still working on the plan, how much to invest, and the timing of that, so I cannot really elaborate more on this. But the overall direction is that we will definitely invest more on the Ctrip brand, especially on the mobile front. Yes.

---

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

Thank you James.

---

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

Thanks Eddie.



**Operator**

Our next question comes from the line of Alisha Yap with Barclays. Please proceed.

---

**Alicia Yap - Barclays - Analyst**

Hi, good morning. Thanks for taking my questions. Congratulations to Jenny and Cindy for your promotions. My question is when I look at your business and also your service, what are the areas that you think you would still like to improve or maybe offer more choices to user? And with your recent convert issuing, how are you going to use your cash? What are the areas that you believe could be complimentary to your current business, and would you look at more domestic or overseas opportunities? Thank you.

---

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

Thanks Alicia. We recently issued a CP at [\$800 million] very successfully and that empowers us to explore more opportunities both domestically as well as overseas. I think we always are very prudent in terms of investment. First goal is to look for the opportunities that we can incubate or extend our business line. So we talked about that there be a tighter program, such as local tour attraction tickets. Internally, I think when we grow a small team, hopefully they will grow bigger in the future, so that takes some investment. If in the market there's a smaller team that we can invest in, we are always very open for that. So that's the first type of investment we are looking for to extend our business line.

And second type of investment we're interested in probably is to speed our time to market. So we made a successful investment in [Wenling] a few years ago and that has been very successful in terms of extending Ctrip's local presence in Hong Kong. So a similar opportunity if there is any -- which will help us to speed up the time to market we'll be interested in looking to it. And [furtherly] is long-term investment that will strengthen our competitiveness in the long run. I think we are also very interested in looking to these opportunities. But normally where we try to look at the target normally, they have to fulfill very higher and strict criteria such as high growth potential and in a higher growth area that is complementary to our existing business. So we will exercise the same prudence going forward.

---

**Alicia Yap - Barclays - Analyst**

I see. Hi Jane. Can I follow up on your second point on building on the local presence? So are we looking for -- for example, let's say if we were to extend that to other country, would that be more into the ASEAN, the Asia side, or into the Euro or maybe in the US?

---

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

I think first of all because our customer is from China, so domestic is always, always our first priority. And the second priority obviously is greater China, which we made some investments in Hong Kong, Taiwan in the greater China area. The first priority probably is the greater Asia area just because from the distance perspective Chinese people travel abroad to Asian countries much easily and also our services can be offered to the local people more easily. And maybe in the next five to 10 years when our presence grows much stronger then we can consider very methodically to move abroad. But every step we take, we have to be very prudent and make sure our investment will generate great yields for our investors.

---

**Alicia Yap - Barclays - Analyst**

Great, thank you.

---

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

Thanks.

---

**Operator**

Our next question comes from the line of Philip Wan with Morgan Stanley. Please proceed.

---

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

Hi, thank you for taking my question and congrats on the very strong quarter as well as the journey and previous promotion. I have two questions. Number one, could you give us some color about the margins for your mobile bookings as compared to other channels? And also how much of the margin improvement recently was driven by the increasing mobile transactions? And then I have a follow-up, thank you.

---

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

So far mobile margins are similar to the margin -- other channels -- our online channels particularly. Some -- because mobile, currently we are investing heavily in sales marketing. But on the other hand, online transactions, really, you need to pay the search engines quite expensive sales marketing costs. So they're roughly at the same level and also there's a cash rebate program currently attached to rebate program at a similar level. But it's difficult to predict in the future because at the same -- while the sales marketing expenses will remain pretty consistent with the current level, it's hard to predict the coupon rebate level on a mobile. And we always pursue a very aggressive -- at least be as good as our competitors in terms of a promotion of the cash rebates on any platform, not just online but also on mobile.

It looks like some of our competitors are offering more cash rebates on the mobile front, so I think if they do that we'll definitely match that. So it's hard to predict actually the margin trend on the mobile. It really depends on the level of competition in terms of the cash rebate offering from our competitors.

---

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

For the better margin improvement and in (inaudible) is largely due to two factors. The first one is a better than expected revenue growth. As you know, our business is embedded with certain scannability. And the second way, we see the (inaudible) in the employment in our operation (inaudible) especially as a result of our investment in IT and our mobile online (inaudible) platform.

---

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

Thank you for the color. And then my second question is regarding the partnership between Baidu and Qunar. Could you remind us how much of your online traffic is currently coming from Baidu? And what is your view on the potential impact from that exclusive agreement between Baidu and Qunar? Thank you?

---

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

We work with all the major portals including Baidu and also all the other players. We've just started to list some of our products so the impact is limited. But not only these two but also (inaudible) and the other major portals. I think we are very open to work with all the partners that have (inaudible) and also we strengthen our brand through our own campaign. So our sales chain are very diversified.

---

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

Thank you.



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

Thanks.

---

**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. First of all, congratulations to Jenny and Cindy's promotion. I have two questions. Number one is how does Ctrip differentiate mobile product versus other competing business models such as a vertical search and e-commerce? What are the incremental unit value you offer mobile versus your PC product? Secondly, can you talk about your high level thoughts on the biggest revenue opportunity in China's online travel market in the next two years, and how would you position to capture the opportunity? Thank you?

---

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

Okay, I'll just comment a little bit on the first question. The fundamental difference between mobile and online travel on the PC internet is that it's difficult to compare prices to price comparison on a mobile because, as you know, some of our competitors -- in particular eLong has offered unique prices on mobile and we are matching that. So we actually offer unique prices -- different -- better prices on the mobiles and it's difficult for a price comparison engine to do a search to scrape these prices from the mobile. So actually you cannot do the price comparison for these (inaudible). The best price is on the apps where it's actually -- a price comparison is not as (inaudible) -- it's just not possible on those mobiles.

So actually that's one advantage that (inaudible) doesn't have.

---

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

Yeah, and also I think in terms of instant confirmation and fulfillment, because we control our backend operation, so our customers get instant confirmation of locked inventory and guaranteed allotment, all these benefits, if you click on your ticketing booking -- seven seconds you can place the order and get the ticket issued. If you do not have the backend fulfillment controlled by yourself, I think the confirmation process will take a little longer. Comparison -- like James said, the comparison of the pricing will be longer. And also the product comprehensiveness Ctrip has offered is the most comprehensive among all the other players. So these are the advantages our mobile app has.

In terms of your questions on the online travel, I think if you look at the forecast and the past history, our GDP growth rate probably is around 7% to 8%, and travel will be around 10%; and online travel, particularly on the (inaudible) was about that rate. So I think we're in the segment that is very fast growing and capitalized the upcoming trend for the [very] influenced travelers both domestically and internationally.

---

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

I've got a very quick follow-up question on my first question, if I may? Obviously you guys achieved a very strong progress on the mobile transaction booking during the quarter. My question is, could you share with us what percentage of these mobile transactions actually involved a call center, meaning the users on mobile app, they click the number to make a call to your call center and finalize the transaction. What percentage of the mobile transaction is facilitated also by your call center? Thank you?

---



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

The vast majority of the transactions are purely mobile but Ctrip does have an advantage compared to the other players that we have all three platforms available for our customers. So a very small percentage of the customer, if they have difficulty navigating through the mobile or if they still want to talk to a person or staff in a call center we have one click-through for them to get connected with our call center. But I think more and more customers have seen the benefits of the efficiency working through on the mobile, so vast majority of the mobile is on the -- is on a cell phone, without getting involved in the call center.

---

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

Thank you very much.

---

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

Sure.

---

**Operator**

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

---

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

Hey, good morning. I may have missed this, but did you provide guidance on what your expectations are for overall op margins in Q4 and into 2014?

---

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

So Q4, our margin was largely around 20% to 25%. You know, we have the -- before we give the guidance we want to be conservative and also realistic, but the market is very dynamic overall and the competition is intensifying. For 4Q, specifically, there is a (inaudible) than (inaudible), so our (inaudible) you will see some decrease.

On top of that, as James mentioned, we have various between the two -- in-house our brand (inaudible), so we feel that in-house marketing and branding efforts and the product promotion campaigns. So this kind of efforts may have the maximum impact on our margins for the current quarter, but it will definitely benefit Ctrip over the long run.

For 2014, the -- we're not wanting to give the guidance yet. And you know, for us, 2014 will still be a year of investment. In the past two years, we fundamentally rebuilt Ctrip by heavily investing in all key areas. We're encouraged by the positive momentum and the payoff from those efforts. What we see, the China travel industry is facing great growth opportunity, as well as the structural change driven by technology and competition. Our top priority is to be more (inaudible) and have faster pace. We will continue trying our best to ensure that our customers can enjoy the best value from Ctrip. Especially, we will decisively invest in key strategic areas, such as technology and the mobile internet. Meanwhile, as James also mentioned, we are working on [Mark IV] (inaudible) including the alternation, service experience, (inaudible) and the database computing to name a few.

We will continue to implement technology and innovative matters to improve our operational efficiencies and to conduct tighter cost control. That, given the complexity of our business, the dynamic of the market and the competition, and our visibility for the next year, margin was -- is quite low. So we would like to continue guiding our investors on a quarterly basis, when we move into the quarter and have more higher visibility. Thank you.



---

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

Great. Thank you.

---

**Operator**

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

---

**Fei Fang** - *Goldman Sach - Analyst*

Hi, good morning. Very strong results. Jenny and Cindy, congratulations. I recall that back in 2012, the fourth quarter, as Jenny mentioned, was one of the weaker quarters of the year, last year, partially due to the political event. I'm just wondering how do you look at the seasonality in the next two quarters, more from an industry perspective in terms of the industry volume and the rebate program? Also, going to 2014, the volume will be -- Ctrip's volume will be working off a much higher base, so what kind of like a medium term growth profile that we should be expecting? That would be very helpful. Thank you.

---

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

So in the travel industry in China, normally, Q2 and Q3 are the strongest quarter, because people are moving to spring and summer, travel start to pick up. When you move to Q4 and Q1, it's - we're going into a winter season; in Q1, we have Chinese New Year, so travel normally is weakest in Q1 and the second weakest in Q4. So these are the seasonalities. In terms of the campaign, I think our priority, again, is do whatever we can to gain market share, because we still have seen such a fast growing industry and that there are lots of opportunities. Yes, our market share is very small, so we have methodically putting our investments in the technology and also in our branding.

So going forward in the foreseeable quarters, our marketing campaign will be enhanced. And if any players in the market start to have irrational competition on pricing, we are very well prepared to match at dollar to dollar, percentage to percentage on any of these campaigns. So hopefully, a strong marketing campaign and also our determination are the price to offer the best price in the market. We will rapidly gain market share and that's our (inaudible) priority.

---

**Fei Fang** - *Goldman Sach - Analyst*

That's very helpful, Jane. Thank you very much.

---

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

Thanks.

---

**Operator**

Our next question comes from the line of Andy Yeung with Oppenheimer. Please proceed.

---

**Andy Yeung** - *Oppenheimer & Co - Analyst*

Hi. Thank you for taking my questions and congrats on a very strong result and guidance. I actually have two quick questions about mobile phone. One is that you mentioned the price comparison engine, such as [Shuoba] really do not work that well on mobile, but do you expect those search



engines, such as [Shuoba] to move more closely to the transaction model? For example, competing more directly with Baidu? Two, you know, do you conduct sales and marketing differently on mobile platform, particularly the way how you work with search engines, such as Baidu and [Shuoba]?

---

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

Yes. I think they will move more in the direction of directing sourcing - the hotels and other travel products. That will move closer to our (inaudible) model at Ctrip. So they have to compete on the same footing with Ctrip, not having advantage of having more price diversities. Sorry what's the second question?

---

**Andy Yeung** - *Oppenheimer & Co - Analyst*

Yes. The second question is that given the fact that the search engine does not really work that well on mobile side and also potentially some of these price comparison engines would actually move closer to you in terms of your operating model, do you - would you conduct your sales and marketing activity or promotional activity on the mobile front differently from your online platform? Have you worked with those search engines on the mobile side?

---

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

Okay. We currently use mostly just working with [Chinar] on their website. We haven't really started with other mobile (inaudible) yet. The question is really they are going to be in a - using partners or are they going to be just directly sound tracking with the hotels. If they do the latter, then it's more of a competitor on the mobile side, not so much partnership.

---

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

In terms of promotions, in terms of promotions for our mobile, I think our self marketing promotions are very directly targeted to promote to mobile. So if you have seen our multimedia ads, it's promoting our mobile. That's more direct campaign, rather than through search come to us. So that stickiness on the mobile is much stronger than online.

---

**Andy Yeung** - *Oppenheimer & Co - Analyst*

Great. Thanks, James. Thanks, Jane.

---

**Operator**

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

---

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

Hi. Thank you for taking my question. Just like to have a quick check, from Alexa data, it seems like Ctrip has about 26% of the traffic coming from Baidu. Given that the (inaudible) partnership between (inaudible) and Baidu and also the launch of their new search platform, from Baidu of the (inaudible) platform, it seems like (inaudible) seems -- will have stronger control on travel related traffic and also the search results presentation. Just wondering if -- do you expect any adverse impact of this agreement or if there's any measures that will strengthen -- will improve our traffic redirection? This is my first question. I have another follow up after this.



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

Okay. Yes. So we will have to rely on more other channels. Or Baidu, if they are willing to sacrifice trade for their direct advertising from the travel companies like (inaudible) to just having more volumes -- (inaudible) choice, but we have other choices, as well. So we will shift some of our revenues from Baidu to other search engines.

---

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

Okay. My second question is on the P&L line, there's an equity income in affiliates which has swing from a 5% -- sorry, \$5 million loss last quarter into a \$25 million profit. That's about 7% of bottom line. Just trying to understand what is exactly that and it's in the profitability improvement of the invested entities?

---

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

You mean the minority interest part?

---

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

No. Equity income in affiliates, the \$25 million.

---

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

That's [Home Inn]. Yes. That's Home Inn part. We record their earnings on a quarter NAP basis, so that's pretty much reflect our equity pick up on our investment in Home Inn.

---

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

Great. Thank you.

---

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

Hi, Vivian, just to add one point for that [second] part.

---

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

Yes.

---

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

Actually, the current situation is that Baidu's [chatting] platform is actually an upgraded version of (inaudible) Aladdin platform. And for the Aladdin, Ctrip has very limited cooperation with Baidu before, so this kind of replacement and the (inaudible) control will have very limited impact on our traffic. We are also working with (inaudible) so actually we gained additional exposure for that part. Just to clarify that.

---

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

Okay. It's very helpful. Thank you.



---

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

Thanks.

---

**Operator**

Our next question comes from the line of Ming Zhao from 86Research. Please proceed.

---

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

Hi. Thank you. I have two questions. The first question is looking at the third quarter hotel business, the volume growth is great, but ASP is down year-over-year, even though last year had very intensified competition in the coupons. So for this ASP down, is it because of mix change or more wholesale or anything else? That's my first question. My second question is for some of the invested entities like (inaudible), et cetera, can you comment on those companies' profitability? Have they - have the profitabilities improved or have they begun to make money? Thank you.

---

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

Sure. For the first one, for the hotel, in 3Q the commission (inaudible) declined by 5% year-on-year. Actually, in - have three components. First one is our nominal commission rate, which is still very stable. Then second one is listing price of the hotel. It declined about - by two to three percentage points. That is largely due to our portfolio mix change. As you know, we're moving towards to the lower tier cities and the lower star hotels, so in a way that kind of diluted our overall ADR. The third part is e-coupon. Actually, the e-coupon impacted us by just 2%. For that one, firstly, the actual dollar amount for this e-coupon, altogether, it contributed about (inaudible) largely along the, like, 70%, 80% of our overall hotel revenue, which is slightly below the level for the same quarter last year.

But there is - for this quarter, there is some accounting rules change and just recall in the past a lot of customers to (inaudible) the cash by (inaudible) first one is to withdraw cash and the second (inaudible) buy products and the third one is to buy the (inaudible) of the mobile calling card charge. For the two-thirds of revenue we used to book at the (inaudible) revenue and one-third is in the self marketing. Starting this quarter, we -- that more and more customers, they start to choose the - utilize cash by (inaudible) cash or by Ctrip gift cards and by Ctrip products. The result is the majority of the e-coupons will be recorded as contra revenue, so due to this accounting treatment change, there is additional, like, two percentage points of growth noted here - so just to clarify that.

For the new - (inaudible) the new initiatives, for those kind of [amendments] they are still at the early stage and we are very encouraged by the leadership they build in their (inaudible) like the (inaudible) already the absolute leaders in the (inaudible) rental segment. But the market is still at the earlier stage and the Company itself is still young and (inaudible) we can see that they start to generate revenues and the revenue is growing at a very healthy and rapid pace. We believe gradually we will move into the profitable level in the next four to three years.

---

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

Thank you.

---

**Operator**

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



**Muzhi Li** - Citi Group - Analyst

Thank you for taking my questions. I would like to ask you about the (inaudible) travel. Could the management give some rough idea about what is the centre of revenue that generates from the booking to overseas in the key categories? Thanks very much.

---

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

Sure. Approximately 10 percentage of our revenue are going abroad, but our [launch] in travel volume grows the fastest among all business lines.

---

**Muzhi Li** - Citi Group - Analyst

I see. May I also follow up with the operating margin or the growth margin for these outbound travel? I assume they should probably be higher than the inbound travel?

---

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

Yes, we do not have a lot of resources that are shared, outbound versus inbound at the (inaudible) call center and fulfillment team, so there is no specifically margin for that segment. But in terms of ASP, you are right, outbound travel packages are more expensive, so intuitively, they should generate higher margin for our business.

---

**Muzhi Li** - Citi Group - Analyst

That's great. Thanks very much and congratulations for the good quarter.

---

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

Thank you.

---

**Operator**

Our next question comes from the line of Fawne Jiang with Brean Capital. Please proceed.

---

**Fawne Jiang** - Brean Capital - Analyst

Thank you for taking my question. I just want to get a bit more color in terms of investment strategy. I guess, earlier, you mentioned that a couple of potential directions or product lines you are considering. It seems like in the past you have been - I think you have had more smaller scale acquisitions. So given the cash you have right now, which is close to [RMB] 2 billion, I'm just wonder whether you are considering consolidating a major player, a favorite player in the space? In that case, potentially you could take out more competitive pressure and also consolidate markets faster. I just wonder whether there's any, you know, consideration in terms of (inaudible) and potential risk of such a move, and what could be the bottleneck that might stop you from making such a consideration?

---

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

Sure. I think our investment strategy is always very disciplined and prudent. It's easy to buy a company, but it's not easy to integrate a good company into our main operations. So the team - the target we're looking after has always been a very strong player standing alone and hopefully, by combining the two together we have synergy. So if the size is not our first consideration, so we're very open, big or small, regional-wise, domestic



versus international. We're all very open, but again, it has to have synergy with our business before we make a move. Secondly, with the cash on hand, investment is one usage for our business. Secondly, we also want to make sure we're equipped with sufficient financial bandwidth for our marketing and also for our pricing.

So again, if there is any irrational sales and marketing campaign in the market we will be very [deceptive] to match [up to these irrational as I was saying], to make sure we stay ahead on the pricing and provide the best pricing to our customers.

---

**Fawne Jiang** - *Brean Capital - Analyst*

Got it. That's very helpful. A second question actually regarding the sales and marketing effort -- you did mentioned that you have stepped up the brand advertising. I just wonder on the mobile side what have you also increased as a potential free download effort as well? Any other efforts associated with the mobile penetration?

---

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

The mobile price is best among all the platforms. So on pricing, if you use mobile we have the best price to offer to our customers. Secondly, all the sales and marketing campaign is to promote the Ctrip brand and the Ctrip mobile. So our slogan is (spoken in a foreign language) - meaning with Ctrip mobile you can go at any time. So that's our main slogan. So mobile and Ctrip are the two focuses for our sales and marketing campaign.

---

**Fawne Jiang** - *Brean Capital - Analyst*

Got it. Thank you very much.

---

**Operator**

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

---

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

Good morning. I have got two questions. One question regarding the mobile (inaudible). So as you're growing your (inaudible) -- as you're growing your overall percentage from mobile devices I wonder who are those customers, are they existing customers on PC and then just have other devices or new customers? This is number one. Number two what do they do on mobile? Do they [get every] booking or they just have as a last minute service [demand]? Just what do they do on mobile? This is the number one question regarding mobile.

Number two regarding the air tickets we noticed that you have a much more variety of tickets provided on your PC and your (inaudible) ticket price are much more competitive than before. However, we also notice (inaudible) some travelers tell us that there was a RMB20 difference attached to the low fare air tickets and [it is amended] they don't have other choices. So I wonder why is that? So those are the two questions. Thank you.

---

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

Sure on the customer I think on the mobile we do have existing customers moving from PC across center to mobile which is very good because once you have mobile with you the [thickness] for these customers is enhanced. On top of it we also attract the younger and the new customers to mobile just because young generation tends to spend more time on mobile. Our ads are also attracting younger people, so we have seen both existing and new customers coming to use our mobile.



Secondly, what do they do with mobile? I think mobile a lot of applications is location based. So for example, if you are at a certain location our mobile ads will remind you these are the hotels nearby, or these are the tour attractions near you. So it's very location based. So the frequency is enhanced and we also see weekend leisure travel volumes have been enhanced as well.

Thirdly, on the price -- ticket price you are right we have put lots of effort on pricing the best price in the market. On top of it we also give the gift card attached to it to promote our application package and hotel along with the air ticket. That's an advantage Ctrip has versus the other players because we have such a comprehensive product to offer. So the ticket is one of the first products normally our customers will book. On top of it we can also attach and promote our new products for our customers.

---

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

Actually my ticket is -- the air ticket is much more the (inaudible) that's RMB20 insurance and some customers said that was -- they don't have the choices of not buying that RMB20, and so I wonder why is that?

---

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

Yes they have choices. Even with the insurance the total package price is still lower than the other products, so if they don't like the insurance, they can buy air ticket with gift card, or they can buy ticket alone. I think the choice there is for our customers to choose.

---

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

Thank you, that's all my questions.

---

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

Thanks.

---

**Operator**

With no further questions we will turn the call back over to Jane for closing remarks.

---

**Jade Wei** - *Ctrip.com International, Ltd. - IR Director*

Thanks for everyone joining us for the call today and we look forward to talking to you next quarter. Thank you.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2013, Thomson Reuters. All Rights Reserved.