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CTRP - Q1 2016 Ctrip.Com International Ltd Earnings Call

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OVERVIEW:

Co. reported 1Q16 total revenues of CNY4.4b or \$682m and net income attributable to Co.'s shareholders (excluding share-based compensation charges) of CNY257m or \$40m.



CORPORATE PARTICIPANTS

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Alvin Jiang *Deutsche Bank - Analyst*

Justin Patterson *Raymond James - Analyst*

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Eric Wen *Blue Lotus - Analyst*

Michael Olson *Piper Jaffray - Analyst*

Jialong Shi *Nomura - Analyst*

Ming Xu *UBS - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2016 Ctrip.com International Limited earnings conference call. My name is Whitney, 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 call is being recorded for replay purposes.

I will now turn the conference over to your host for today, Ms. Shiwei Zhou, the Senior IR Director. Please proceed.

Shiwei Zhou - *Ctrip.Com International Ltd - Senior IR Director*

Thank you, Whitney. Thank you for attending Ctrip's first quarter 2016 earnings conference call. Joining me today on the call we have Mr. James Liang, Chairman of the Board and Chief Executive Officer, Ms. Jane Sun, Co-President and Chief Operating Officer, Ms. Cindy Wang, Chief Financial Officer, and Ms. Jenny Wu, Chief Strategy Officer.

We may during this call discuss our future outlook and performance, which are forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve material 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 topical 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, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the first quarter, as well as the outlook for the second quarter of 2016. We will also have a Q&A session towards the end of this call. With that, I will turn the call over to James for our business updates. James, please?

James Liang - *Ctrip.Com International Ltd - Chairman and CEO*

Thanks, Shiwei, and thanks for everyone joining us today on the call. We had another strong quarter, with great results. The Company continued to perform well, with the revenue up 80% year-over-year, driven by strong execution in addition of [the companies] Ctrip has invested in.

This was the first full quarter of financial consolidation since we invested in this company. We are pleased to see significant operating margin improvements in the quarter versus the year ago. In the following discussion, I would like to talk about the operational improvements we have achieved, innovation in Ctrip and our outbound travel business.

Let's start with the improvements made since the investments late last year. Ctrip is strong in customer service and the investor company is strong in technology. Leveraging both strengths, we were able to improve customer service quality and operational efficiency at the same time.

The air ticketing business has been going through some adjustments recently. We believe these adjustments are good for the industry and will be short term in nature. Over a long time horizon, as one of the strong, most efficient distribution channels with a large customer user base, we will continue to provide our customers with high-quality service and work closely with airlines to create more value.

Now, let's move on to innovation at Ctrip. In order for Ctrip to expand its leading position, we constantly innovate our products, service and technology. To achieve this goal, we have been proactively nurturing new business ideas. We started many new business initiatives in the past several years, including all our new business units.

To make innovation a Company-wide priority, we have just launched an innovation incubator to encourage new business ideas. Many of our young employees participated in a recent innovation competition, which showcased a variety of interesting ideas, ranging from new products and services to better user experience and new technologies.

Ctrip is in a strong position to cultivate new travel-related businesses. First, we have a large user base. A lot of Internet business ideas can only work on the large scale.

Second, we have the resource. With healthy top-line growth and steady margin improvements, we have capital to support new business developments. With the required capital and scale, these new ideas will allow us to strengthen our market-leading position.

Third, we can support new business ideas with our existing user traffic, supplier relationships, IT infrastructure and well-known brand. Our broad travel product offering also enables us to cross sell many of these new ideas.

Lastly, I would like to discuss our outbound travel business. Ctrip has established itself as a leader in China's outbound travel market, playing a very important role in bringing Chinese travelers to popular international destinations.

For example, in 2015, at least one out of five Chinese travelers visiting Japan booked either their hotel room or air tickets with Ctrip. Also, our air ticketing platform has been one of the most comprehensive product offerings among major global TAs. Because of our market leadership position in China's outbound travel space, many foreign governments and tourism [facilitation] have reached out to us to explore potential collaboration opportunities.

To build this foundation for future growth of our outbound travel business, we have been gradually expanding a network of local offices in popular travel destinations. This helps us to tap into local travel resources and better serve our Chinese customers.

Our strong market positioning and global market presence have helped us establish a strong brand amongst suppliers and Chinese travelers alike. We plan to continue to invest in this space to benefit from favorable secular trends, making outbound travel a much bigger part of our overall business.

As we discussed in the last quarter's call, Ctrip has a very bright growth future. It requires strong execution to achieve these goals. Working closely with industry partners, cultivating new ideas and growing our outbound travel business are the key factors for our future success.

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

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Thanks, James. Hello, everyone. This is Jane speaking. I'm pleased to share updates about Ctrip's main businesses with you.

First, hotel and other accommodations. At the end of the first quarter of 2016, Ctrip's domestic hotel coverage reached 425,000 hotels, increasing by almost 60% year-over-year. In the quarter, total hotel revenue grew 70%, compared to the same period last year.

Outbound travel continued to be a key growth driver for hotel business. With key industry players now focusing on long-term, sustainable growth as opposed to short-term market share gains, we continue to see price competition becoming more rational.

Ctrip's hotel coupon expense ratio has decreased to high single digits. Second, transportation ticketing services -- total transportation revenue grew 106% year-over-year in the first quarter. Train tickets maintained its strong growth momentum, with volume growth exceeding 350%.

Bus ticket continued with its fast growth. This business reached breakeven on a quarterly basis shortly after its establishment. Air ticketing business continued to grow very nicely, driven by healthy volume growth. And international ticketing revenue continued to maintain at a strong growth rate.

To strengthen our multi-mode transportation product offerings, we have introduced ferry ticketing service. The service covers ferry ticket sales across China to certain outbound routes to countries such as Japan and Korea.

Third, our packaged tour business. Packaged tour revenue continued to grow at a healthy rate, up 41% year-over-year and driven by healthy volume growth. As we discussed recently, the packaged tour business focused on building a strong ecosystem. We now have almost 10,000 partners on the platform.

We have also recently partnered with (inaudible), a major travel agency and local travel agencies in Chengdu to leverage thousands of physical stores to explore both online and offline marketing opportunities. We have also introduced a new restaurant to [review brands, Shemeni] by Ctrip.

The platform has invited many food critics to rate restaurants in the top 20 cities, both in China and abroad. Over time, we expect it to become the equivalent of Michelin Guide for Chinese travelers.

We are excited about the upcoming opening of Disney Shanghai resort, which will be a great catalyst for China's leisure travel market. We will raise the bar -- it will raise the bar for all amusement parks and attraction sites in China and generate more demands for domestic leisure travel.

Fourth, for corporate travel. The corporate travel revenue grew their revenue by 25% year-over-year. Small and midsize corporate customers are in the important driving seats for the corporate travel business. Our automated corporate travel platform has lowered the adoption hurdle for those small accounts.



The automated platform now has more than 10,000 active users. 2016 is the transitional year for China online travel industry. The industry has shifted its focus from aggressive top-line growth and market share gain to a business model that balances both sustainable industry growth and healthy profitability.

While the transition may cause short-term adjustment, Ctrip will benefit from the healthy revenue growth and steady margin extension. As always, we would like to thank our customers, business partners, employees and shareholders for the continued support. With that, I will turn the call to Cindy for financial highlights.

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

Thank you, Jane. Thanks, everyone. For the first quarter of 2016, Ctrip reported total revenues of RMB4.4b or \$682m, representing an 80% increase from the same period in 2015 and a 45% increase from the previous quarter, primarily due to a very healthy revenue growth across all business lines and the consolidation of the financial results of Qunar.

Accommodation reservation revenues for the first quarter of 2016 were RMB1.6b, or \$250m, representing a 70% increase from the same period in 2015 and a 36% increase from the previous quarter, primarily driven by a healthy volume growth and the consolidation of Qunar.

Transportation ticketing revenues in the first quarter of 2016 were RMB1.9b, or \$302m, representing a 106% increase from the same period in 2015 and a 57% increase from the previous quarter, primarily driven by an increase in ticketing volume and the consolidation of Qunar.

Packaged tour revenues for the first quarter of 2016 were RMB556m, or \$86m, representing a 41% increase from the same period in 2015 and a 59% increase from the previous quarter, primarily driven by an increase in volume growth of organized tours and self-guided tours.

Corporate travel revenues for the first quarter of 2016 were RMB116m, or \$18m, representing a 25% increase from the same period in 2015, primarily driven by an increase in corporate travel demand from business activities. Corporate travel revenue decreased by 15% from the previous quarter, primarily due to seasonality.

For the first quarter of 2016, net revenues were RMB4.2b, or \$648m, representing an 80% increase from the same period in 2015. Gross margin was 73% for the first quarter of 2016, compared to 70% in the same period in 2015 and remained consistent with the previous quarter.

Excluding share-based compensation charges, product development expenses accounted for 32% of the net revenue, which remained consistent with the same period in 2015 and increased from 27% in the previous quarter, primarily due to an increase in expenses in relation to product development, personnel and the consolidation of Qunar's financials.

Sales and marketing expenses for the first quarter of 2016 increased by 114% to RMB1.5b, or \$239m, from the same period in 2015 and increased by 82% from the previous quarter, primarily due to the one-time transaction-related share-based compensation charges, as well as the consolidation of Qunar's financials. And excluding share-based compensation charges, sales and marketing expenses accounted for 32% of the net revenues, which increased from 30% in the same period in 2015 and 29% in the previous quarter, primarily due to the consolidation of Qunar.

Excluding share-based compensation charges, general and administrative expenses accounted for 8% of the net revenues, which remained consistent with the same period in 2015 and increased from 7% in the previous quarter. Excluding share-based compensation charges, income from operations was RMB8m, or \$1m, compared to a loss of RMB21m, or \$3m, in the same period in 2015 and income of RMB292m, or \$45m, in the previous quarter.

Excluding share-based compensation charges, operating margin is at the breakeven level, compared to negative 1% in the same period in 2015 and 10% in the previous quarter. Income tax expenses for the first quarter of 2016 was RMB94m, or \$15m, compared to RMB6m, or \$1m, in the same period of 2015 and RMB71m, or \$11m, in the previous quarter.

Excluding share-based compensation charges, net income attributable to Ctrip's shareholders were RMB257m, or \$40m, compared to RMB33m, or \$5m, in the same period in 2015 and RMB272m, or \$42m, in the previous quarter. Excluding share-based compensation charges, diluted earnings per ADS were RMB0.57, or \$0.09, for the first quarter of 2015.

As of March 31, 2016, the balance of cash and cash equivalents, restricted cash and short-term investment was RMB20.9b, or \$3.2b. In the first quarter of 2016, Ctrip recognized the share-based compensation charges of RMB1.8b or \$285m. The increase of share-based compensation charges is primarily due to consolidation of Qunar's share-based compensation charges and the one-time transaction-related share-based compensation charges.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Binnie Wong, Merrill Lynch.

Binnie Wong - Merrill Lynch - Analyst

Good morning, management. Thank you for taking my questions. I have two questions here. One is on the -- hi. One is on the 2Q growth guidance of 70% to 75%, which implies a slightly lighter growth as we've seen in 1Q.

Does that reflect any particular trends we have seen in our core air and hotel segment? On air, is that due to impact of an extended weakness in Qunar's air segment, and on hotel, is that due to co-coupons or is it because of volume growth? And also, can you share with us more color on 2Q growth outlook by air and hotel?

And my second question is on the hotel segment. I understand from your opening remarks that coupon ratio decreased into high single digits, but with the rising competition we have seen in the low-end segment, I just want to clarify what is the trend of coupon ratio, looking forward into 2Q? Thank you.

Cindy Wang - Ctrip.Com International Ltd - CFO

Thank you, Binnie. Yes, for the first question, although our air ticket business is experiencing some adjustment recently, but we are still very confident that we are on the right track to achieve our long-term target.

Now, our strategy is to achieve a very healthy and sustainable top-line growth and at the same time steadily improving our operating margins. And as for the guidance of the next quarter, Q2, we plan to achieve a 70% to 75% year-over-year growth on the net revenue. And each business line items are mainly driven by a very healthy revenue growth across each business line items as following.

For the accommodation business, the gross revenue will grow year-on-year at the rate of 70% to 75%, and for the transportation service, the gross revenue will grow at a rate -- year-over-year rate at around 95% to 100%. Packaged tour business we also see a very healthy top-line growth at around 45% to 50%.

And in the first quarter of the 2015, Ctrip and Qunar together had a very significant non-GAAP operating loss over RMB300m, and this first quarter, by very successfully executing our strategy, our consolidated non-GAAP operating margin comes to be profitable. And we forecast for the coming second quarter we will continue this momentum and we'll have non-GAAP operating profit in the range of the breakeven level to RMB100m.



As for your questions on the lower end of the hotel market, yes, Ctrip together with Qunar, because we are in a different market segment, for the comparatively lower end of the hotel market, we will continue to be -- continue our effort -- for the high end of the hotel market, we already see a very healthy and sustainable pricing. There's no very fierce pricing competition on the high-end hotel.

And that's why you see Ctrip's couponing on the hotel segment has lowered to high single digit from mid-teens from the fourth quarter of 2015. And also, for Qunar, they also reduced their coupon ratios on the high end, but for the lower end, because it's still a very competitive market, so we will keep a pretty competitive pricing strategy to put the pressure on any potential competitors in the segment.

Binnie Wong - *Merrill Lynch - Analyst*

Thank you.

Operator

(Operator Instructions). David Jin, Goldman Sachs.

David Jin - *Goldman Sachs - Analyst*

Hi. Good morning, management. Thank you for taking my questions. I just have one quick follow up on your hotel business. So if we think of the competitive landscape in China's online hotel market, and how do you define your advantage versus other players? We understand you cover the largest number of hotels and you have the longest track record in China, but any other metrics or things that you will highlight that you think is your advantage which are hard for your competitors to replicate or catch up? Thank you very much.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Thanks, David. This is Jane. The reason why Ctrip is in a very dominant position in the hotel business is that we have built up lots of barriers of entry. Hotel coverage, as we've said, is one of them. The second one is also we have guaranteed allotment that is the highest in the market.

So during the peak season, while other players may not be able to get the hotel rooms, we'll be able to get it. Certainly, our service level is very strong, so in case there is a major delay in the airlines, our hotel team will team up with our air-ticketing team to make sure customers are well taken care.

And fourthly, I think the product offering is very comprehensive. If you look at our [apps] or website, you can see from five star, four star, all the way to (inaudible) the chain hotels and also like [Lijiang], we have home stay and we have [Toujeo], a service apartment. So with this, a broad range of the types of the hotels that we offer, you can find anything that is suitable for your price range and service range.

And lastly, I think Ctrip offers a variety of the products, and each product is very attractive for seasoned travelers. So within our platform, after you book the air tickets, it's very easy for you to see where the [destination is] and where you can book the closest hotel, and after hotel, you can book other accessory services. So with this comprehensive product offering, that is also a strong advantage for us.

With all the strength we discussed above, that continues to expand our leadership in the market.

Operator

Alicia Yap, Citigroup.



Alicia Yap - Citigroup - Analyst

Hi. Good morning, James, Jane and Cindy. Thanks for taking my questions. I have a question -- hi. I actually just wanted to get a sense of the integration process on the back end, especially post the consolidations and integrations of both Ctrip and Qunar, just get a sense how Ctrip and Qunar direct and allocate the user traffic into which specific hotel or air inventory, so if we looked at -- the reason is that because if we look at the standalone Qunar results on the sequential basis, it seems probably there were sequential changes or decline in the history.

So just trying to get some color, is that mainly due to the integration disruptions to the Qunar team which affected the sequential performance or should we expect some of these changes will continue in the coming quarters given maybe perhaps your dynamic algorithm on directing where the user traffic goes? Thank you.

Jane Sun - Ctrip.Com International Ltd - Co-President and COO

First of all, Ctrip and Qunar will remain to be two independent companies. Our focus is mainly on business travelers and mid to high end customers. And our strategy is very much service driven. Qunar's team is tailored for young and price sensitive customers, and they are very good at it. So the team continuously -- to execute their strategy. I think the results are primarily -- their results primarily reflected adjustment in the air industry where Qunar was the only company who listed a certain number of the traditional travel agencies from their platform.

In Q3, starting July 1, every platform will follow the same rule so the volume will come back to the service provider which has the strongest technology platform and service platform.

Thank you.

Operator

Natalie Wu, CICC.

Natalie Wu - CICC - Analyst

Hi, good morning management, thanks for taking my question.

I just have one question regarding the -- just how should we think about the driver behind 70% year-over-year growth in accommodation revenue? Can management give us some color on the growth of volume, coupon rate, [ADR] and take rate, also (inaudible) on the future trend of coupon rate and take rate in this segment.

Jane Sun - Ctrip.Com International Ltd - Co-President and COO

Yes, I think a very healthy 70% to 75% revenue growth for the accommodation service are mainly driven by a very healthy volume growth. And we forecasted stabilized ADRs. And as for the couponing, yes, there is room especially on the high end hotel market to further reduce the coupon. But overall speaking, you will see a very gradual decrease on the couponing over the time and if you are looking ahead, I think the overall accommodation reservation service revenue line will continuously see a very healthy and sustainable revenue growth driven by volume across all the high end as well the low end -- comparatively lower end of the hotel market.

Operator

Wendy Huang, Macquarie.



Wendy Huang - *Macquarie - Analyst*

Thanks for taking my question. I just have one very quick question on the recent air commission changes. Can you give us some update on the policy changes from CAAC as well as implementation by different airlines and also how that is going to affect Ctrip's commission per ticket in the longer term? Thank you.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Thank you, Wendy. Airline commission change is -- yes, Ctrip, especially Qunar, their financials has -- are going through some adjustments in the air ticket business but as for the airline commission changes, we think you will have some impact on the air commission revenue, but we are still very confident that we can maintain the current blended take rate level because we have the skill and the leading technology and we offer the high quality products and service at very reasonable cost level.

And Ctrip, now, we believe we have one of the most advanced international air ticket platforms among all the global OTAs. So international air tickets already and will continue to be our key growth driver.

Operator

Alvin Jiang, DB.

Alvin Jiang - *Deutsche Bank - Analyst*

Hi, good morning, management. Thank you for taking my question. I have a very quick question on the packaged tour, the outbound travels. Can you give us more color on the outbound travel's contribution to the different business lines and also we noticed that you launched a new project, (inaudible), can you give us more color and your plan to spend the RMB1b investment? Thank you.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Yes, outbound travel or international related travel has been a key growth driver across all our businesses lines. So for Ctrip's brand, outbound travel accounts for the hotel or for the accommodation reservations. Outbound travel accounts for roughly 15% to 20% of our accommodation revenues. And for the air ticket, international air ticket already accounts for 30% of our total air ticket revenues and the majority of the outbound -- the majority of our packaged tour business revenues are contributed from outbound travel already.

Regarding our campaign for (inaudible), yes, every year our team will come up with creative ways to target different segments and this year, we will put efforts to penetrate not only the first tier cities but also the second tier cities and third tier cities where GDP per capita has benefited certain buying power and that will enable us to aggressively get into this market.

Operator

Justin Patterson, Raymond James.

Justin Patterson - *Raymond James - Analyst*

Great. Thank you very much. In terms of air, just to dive into the take rate question a little bit more, we have seen take rate pressure in the past, beginning in 2014, could you talk about what is different this time and how disruptive this compares to the past and why you are confident that take rates will remain stable? Thank you very much.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Because Ctrip -- we remain confident simply because Ctrip, we have the skill and the best technologies and we created values in the whole value chain with a very reasonable -- we distribute air ticket with a very reasonable cost. So yes, so the take rate we have seen has been maintained at very steady levels, the ability for us to sell the volume, large volume to our user base enables us to also generate accessory revenues associated with the travel platform.

Thank you.

Operator

Henry Guo, [Wall Street Finance].

Henry Guo - *Wall Street Finance - Analyst*

Hi, thank you for taking the question. So again, on the air ticketing business, so I believe you guys disclosed before the take rate is very similar between the open platform and also OTA. Can you provide some update in terms of what is the volume percentage in terms of OTA and open platform and also the take rate difference there?

Thank you.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

The volume contributed from the open platform has been around 60% of all air ticketing volume, and we have a similar level of blended take rate also on the volume contributed from our open platform as well as the agency model.

Operator

Amanda Chen, Morgan Stanley.

Amanda Chen - *Morgan Stanley - Analyst*

Good morning, management. Thank you for taking my questions. So my question is still regarding the air ticket, can you share with us how much revenue now is from cross selling products and how much is from the commission fee?

And also, I think China Southern Airlines launched some new policy and if that will impact with the cross selling revenue a little bit and how do you view -- do you think other airlines will follow a similar policy in the future? Thank you.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Yes, air ticket business, if you look at where your customer booked travel related products during their decision-making process, air ticket is a kind of a starting point. So it makes sense for us to cross sell a variety of products that customers may need and at the same time, at Ctrip, we are one-stop shopping center so we have a lot of choices for customers to choose so that's why we can cross sell our travel related product together with our air ticket business. I think it is very sustainable because this is a business model, I think, from a customer perspective, it is very helpful and useful.

And as for the airlines commission policy, yes, there will be some impact on Ctrip's air commission revenue, but as I said before, as long as we sell or cross sell products that is useful for our customers, I think this model will work.

Thank you.

Operator

Alice Cai, HSBC.

Alice Cai - HSBC - Analyst

Good morning, management. Thank you for taking my questions. I have one question regarding about the tax tool, so recently, in May, we launched a lot of offline campaigns with agencies in Chengdu and Chongqing, so it is already one month passed, can management share with us the effectiveness of this campaign? Is there any useful data you can share with us?

Jane Sun - Ctrip.Com International Ltd - Co-President and COO

Yes, these campaigns are very targeted to the area that has demonstrated strong buying power such as Chengdu and Chongqing, and with a certain density in population. So this area, our team carefully monitors the density and buying power, and if we believe that investing in this area will generate a strong ROI in the future, we will invest in it.

So we have been exploring to team up with the local travel agencies, have them promote our product and it has been a very successful try and we will continue our efforts as long as we see the positive return.

Thank you.

Operator

Eric Wen, Blue Lotus.

Eric Wen - Blue Lotus - Analyst

Hi, thanks for taking my question. Good morning, Cindy, Jane and James.

Unidentified Company Representative

Morning, thank you.

Eric Wen - Blue Lotus - Analyst

I just have two housekeeping questions. One is a follow up is how much percentage of your air ticketing volume is sold with a bundle or a package and how much of that is attached with insurance, if you can give us some color. And another question is on the others revenue, how do we break down Qunar's others revenue into our consolidated revenue classifications? I presume (inaudible) will go to respective categories, but how much percentage is remaining that will go to your others revenue? Besides digital advertising? Thanks.



Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Yes, so for the air ticket business, because we sell air ticket and after a customer choose the air ticket, we will cross-sell product, that is useful for customers. So we call it a cross sell, and for the other revenues from Qunar, I think hotel and especially air ticket are two pillars for their revenues in the past, all the other revenue lines is comparatively immaterial in the financials.

Operator

Michael Olson, Piper Jaffray.

Michael Olson - *Piper Jaffray - Analyst*

Good morning. Outbound travel is obviously a big opportunity, you talked about how it is growing as a percent of the business. You have a partnership with Priceline for hotels but I was curious if you could tell us how aggressively you are pushing into the hotel acquisition outside of China on your own as a standalone without that partnership? Thank you.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Sure. Yes, as we said, with the income level for Chinese citizens that increased year-over-year, and also visa restrictions for Chinese citizens are being relaxed for a lot of countries, the outbound trend is growing very strongly and as the leading player in the China market, we will put a lot of resources to make sure wherever our customer is interested for these destinations, we will make sure we have sufficient inventory and product to satisfy their needs.

And historically, Ctrip and Priceline have a very strong partnership, so within China we opened our inventory for Priceline and outside of China, Priceline opened their inventory to us. And so far, we have always respect Priceline and we also strengthened our partnership throughout the years. Thank you

Operator

Jialong Shi, Nomura.

Jialong Shi - *Nomura - Analyst*

Hi, good morning, management. Thanks for taking my call.

I just have one quick question, so for each of your business lines, hotel, transportation and packaged tour, I just wonder how much of the revenue is contributed by outbound travel and also can management provide some colors on the outlook of the outbound travel this year and what was the total GMV you have achieved for 1Q? Thank you.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Yes, for outbound travel, for the accommodation reservations and the Ctrip brand, outbound travel already contributes 15% to 20% of our total accommodation revenues and for the air ticket, international air ticket already contributes roughly 30% of our total air ticket revenues?

And packaged tour, a majority of our volume and 60% to 70% of our packaged tour revenues are contributed from outbound travel business already and we see a very healthy and a very -- also very healthy and significant growth in outbound travel and across all business lines, international related travel already contributes more and more GMV for Ctrip as a whole.

Operator

Ming Xu, UBS.

Ming Xu - UBS - Analyst

Hi, morning management. Thank you for taking my question and congratulations on a very strong quarter. I just have a question on the airline business. So we understand that in June the airline companies have now some new policies regarding commissions and also the policies on cross sell. So I just want to understand from your perspective, do you think the kind of negotiations between -- or the cross synergies between Qunar and Ctrip with -- and also the airline companies, is now over or is there still some remaining overhead?

And specifically, I think someone have asked before previously on the cross selling things, because I think the airline companies are trying to be more -- be stricter on the extent that you can cross sell, so do you think this will limit your capability and also have a downside risk to your overall take rate on the air ticketing business? Thank you.

Jane Sun - Ctrip.Com International Ltd - Co-President and COO

Sure, so airlines made some policy in starting Q2, and Qunar was the only company which delisted the majority of the travel agency's product. In Q3, the formal policy will apply to everyone, so a certain volume will come from the unimpacted platform in Q2 to the players which will provide the best product, service and technology. So we should be able to see some adjustment and then stabilization in Q3.

And in terms of cross sell, we always -- our focus is always provide the product that the customer needs so we don't force the customers to buy anything but the nature of our product is that we provide a variety of choices to the customers.

So naturally, when the customer books a train ticket, a bus ticket, air ticket, naturally, they will choose a hotel and after the hotel is booked, they naturally will book attraction tickets. So it's a very natural flow in our product line and our technology is very strong, we understand the customer's behavior, we use the big data to analyze the customer's needs and that's how we generate our revenue.

So there shouldn't be material impact from the policy side, it is more through our internal execution to make sure we analyze customer's behavior and make sure our product is very tailored to different customers' pool, that is our strength. Thank you.

Operator

Alicia Yap, Citigroup.

Alicia Yap - Citigroup - Analyst

Hi, thanks for taking my follow up question. Just quickly, for the 1Q total transportation, what was the air only ticket volume growth for this quarter excluding the bus and train? And then secondly, on the second half margin, could you give us some color in terms of the profitability level? Thank you.

Jane Sun - Ctrip.Com International Ltd - Co-President and COO

Yes, for the first quarter, the air ticket still contributes the vast majority, roughly 90% of our total transportation ticketing revenues and this revenue -- very healthy revenue growth, mainly driven by our healthy volume increase in the air ticket, especially from the international air ticket volume.

And regarding the margin after the second quarter, we actually very successfully bring our negative margin last year to be at the breakeven level for the first quarter or this year and we see -- we are very confident to continue this margin growth momentum and we forecast we will achieve roughly breakeven level to RMB100m non-GAAP operating margin in the second quarter.

Operator

Alvin Jiang, DB.

Alvin Jiang - *Deutsche Bank - Analyst*

Hi, management. Thank you for taking my follow up question.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Hi.

Alvin Jiang - *Deutsche Bank - Analyst*

I think comparing with last year, it seems Ctrip has a bit of slowdown in the investment, so do you still have proactive investment plan this year and if so, what is your focus in the future? Thank you.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Yes, investment is always very important for Ctrip for following new business development, but Ctrip is very focused in areas that is associated with our core competence. So when we make an investment, there are three things we focus on. First of all, the target has to be particularly related to travel industry, the second thing is the player in this vertical player has to be number one or number two in the industry. They need to stand alone to be very strong. And thirdly, we want to make sure when we invest in something the price is right, so we are very focused, very patient and very disciplined and so far, the big majority of our investment has generated greater returns for our shareholders and we will keep it up.

Thank you.

Operator

Binnie Wong; Merrill Lynch

Binnie Wong - *Merrill Lynch - Analyst*

Thank you for taking my follow up. Just a question on James' opening remark on Ctrip's dedication in the innovation and devoting more resources to technologies. I think that will become increasingly important especially if we do more cross selling. Is there any metrics that you can share with us on in terms of customer booking train, bus, air ticket and then will cross sell into other segments?

Or maybe any color or details into your innovations technologies, that will be very helpful for us to understand.

Thank you.



James Liang - *Ctrip.Com International Ltd - Chairman and CEO*

Thank you. We don't break down the numbers by individual products but the new business units like train and bus tickets, it has been a significant growth driver for our overall transportation volume and revenue. So just in a short two or three years, they become a significant growth factor.

There are other business units that have been doing very well and not just new business units, I think the innovation also comes in the form of improvement, enhancement in the technology, business process and user experience as well. So they help all business units to increase their efficiency to have better financial profits.

We measure these performances by a very detailed metric, in dollar terms, in customer experience, we try to measure a customer experience by many measures and we calculate the return -- innovations very carefully. We tolerate failures but will also reward success very generously. And we try to promote the most innovative employees to higher level positions quickly. That is our approach to innovation at Ctrip.

Thank you.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Thank you.

Operator

There are no further questions.

(Multiple speakers)

Shiwei Zhou - *Ctrip.Com International Ltd - Senior IR Director*

I guess there is no more questions, so I think we should conclude this call.

Jane Sun - *Ctrip.Com International Ltd - Co-President and COO*

Thank you very much for your participation, we look forward to seeing you next time.

Thank you.

James Liang - *Ctrip.Com International Ltd - Chairman and CEO*

Thank you.

Operator

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



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