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CTRP - Q3 2016 Ctrip.Com International Ltd Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2016 Ctrip.com International Ltd earnings conference call. My name is Lacey and I will be your coordinator for today.

At this time, all participants are in a listen-only mode. We will facilitate a question and answer session towards the end of the presentation. (Operator Instructions).

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today, Shiwei Zhou, senior director.

Please proceed.



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

Thank you. Good morning and welcome to Ctrip's third quarter 2016 earnings conference call. Joining me today on the call are James Liang, Chief -- Executive Chairman of the Board; Ms Jane Sun, Chief Executive Officer and Ms Cindy Wang, Chief Financial Officer.

During this call, we will discuss our future outlook and performance which are forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today.

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

James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the third quarter, as well as the outlook for the fourth quarter of 2016. And we will have a Q&A session after the prepared remarks.

With that, I will turn the call over to James for our business update. James, please.

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**James Liang** - *Ctrip.com International Ltd - Executive Chairman of the Board*

Thank you, Shiwei. Thanks to everyone for joining us on the call today.

As you have read in the press release, Jane, our former co-president and Chief Operating Officer has been promoted to the role of Chief Executive Officer. I have complete faith in Jane taking on the CEO role.

Going forward, I will serve as the Executive Chairman of the Board and will work closely with Jane and the rest of the team to bring Ctrip to the next level. Congratulations to Jane for this well-deserved promotion.

Now, let us discuss our third quarter results. We had a great third quarter with strong results. Net revenues were up 75% year-over-year, driven by solid organic growth and the inclusion of the invested company.

Operating margins saw healthy improvements. The non-GAAP operating margin of 18%, materially exceeded our original expectation.

We have generated a positive net profit two quarters after we consolidated the invested company's operating results.

In the following discussion, I will comment on the travel industry's growth potential and its impact on innovations and the recent progress we made in international expansion. China's travel market is a very promising industry with great long-term growth potential.

With the rise in personal income, Chinese are looking to satisfy not just their material needs but also their higher aspirations such as spiritual, intellectual, or cultural pursuits.

Travel is an important means to help them achieve these aspirations and improve their overall happiness. Over time, travel should make up an increasingly large part of the Chinese economy. Because one can only spend a finite amount of money on meeting material needs, one can spend a lot more on satisfying non-material needs.

Comparing China's travel market to the US, we also see great growth potential. For example, the number of flights per capita is 0.3 in China, and the figure is 3 in the US. So China's per capita flight is only 1/10 of that of the US. That just shows how much more China's travel market can grow.



In addition to direct economic contribution, travel also serves great social purpose such as the exchange of ideas which can lead to innovations. If a Chinese person goes to a new place, meets with new people and sees new things, he is more likely to be inspired to come up with new thoughts and ideas.

If many Chinese people do that, Chinese society will become much more vibrant and innovative.

Ctrip itself is a very innovative organization, always adding new services to its platform. A recent example is [Fa Ming] a restaurant review service catering to Chinese restaurant goers by providing comprehensive and fair reviews of top restaurants, established industry standards enables users to make more informed decisions and helps restaurants attract more customers.

Next I would like to comment on the solid progress we've made in our international expansion efforts. We have been adding more service and products in various parts of the world to provide ever improving user experience to our customers. I'm pleased to see several international investment deals consummated in recent months.

We have further strengthened our overseas product offerings through investments in the two largest tour operators, specialized in serving Chinese travelers in the US. These two operators are very experienced travel agencies in their respective markets and have established partnerships with many local resorts, national parks and major attractions.

By securing such strategic supplier relationships, we will provide much more diversified and customized destination services to Chinese travelers visiting the US and grow the US market into one of the top destinations.

We have partnered with many international distribution platforms to serve foreign markets. The recent investment of Skyscanner, a leading travel meta search company headquartered in Scotland is one such example.

Skyscanner is one of the largest travel search platforms in the world, serving more than 60 million monthly active users. It has a global footprint and provides customized services in over 30 languages.

Investment will strengthen our positioning at the global scale and serving customers in other parts of the world. These investments have helped us develop a more comprehensive global travel ecosystem to better serve both our existing and potential customers.

Over time, Ctrip has the vision to grow the Company into a world-class travel group. We are fortunate to operate in one of the industries that have the most growth potential.

As long as we can continue to execute and innovate and increase our international presence, we will enjoy a long runway of growth for many years to come. With that, I will turn the call to Jane for our operating highlights.

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**Jane Sun - Ctrip.com International Ltd - CEO**

Thanks, James. I would like to thank the Ctrip Board for the opportunity to serve as the CEO of this great organization.

I will work closely with James and the rest of our team towards the goal of making Ctrip one of the most innovative and valuable travel companies in the world.

Now, let's go over the quarterly updates for each of our main businesses. First, hotel and other accommodations. At the end of the third quarter of 2016, Ctrip's domestic coverage reached 510,000 hotels, increasing by more than 40% over a year ago.

Total hotel revenue grew 51% compared with the same period last year, driven by both volume growth and the inclusion of an invested company.

This quarterly growth rate reflected the negative impact of the adoption of the VAT tax of approximately 5% to 10%.



The hotel business saw strong margin expansion in the quarter, driven by operating efficiency, revenue growth, and a strong seasonality. This margin expansion was achieved in spite of our expansion effort into lower tier cities.

Recently, we exchanged our homestay business with Tujia, one of our invested companies, in exchange for a larger stake in the company.

The transaction will help Tujia increase its scale and strengthen its positioning in the fast growing vacation rental space.

Second, transportation ticketing service. Total transportation revenue grew 101% year-over-year in the third quarter, also benefiting from the organic volume growth and the inclusion of an invested company.

Train ticketing maintained its healthy growth momentum, with volume growth at triple digits, driven by a strong execution and the investment we made last year.

Bus ticketing continued to generate strong volume growth. The business grew about 200% in the quarter, an impressive achievement considering it is only three years into operation.

Air ticketing had adjusted to the changes in the China air ticket distribution system. We will continue to collaborate with major domestic airlines to create a healthy ticketing distribution environment.

The international air ticketing site, the business continued its healthy growth momentum, the Skyscanner investment will significantly improve our overseas air ticketing distribution capability. With our strength across all the major transportation vehicles, we have been exploring different transportation packages that offer air and train, bus and air, and other multi-mode transportation solutions for our customers.

Third, the packaged tour business. Packaged tour revenue increased steadily, up 37% year-over-year, due to healthy volume growth. We have made several major investment in the packaged tour space in the recent weeks.

We reached an agreement with Travelling Bestone, a large offline travel agency with more than 5,000 stalls in tier 2 and tier 3 cities. Many packaged tour customers need some in person counseling before they make a purchase decision. Their stalls serve as a physical point of contact to serve our customers.

They also help increase Ctrip's brand awareness among customers in the lower tier cities. Also, we have made investment in the two largest US travel agencies specialized in serving Chinese travelers.

Ctour Holiday on the West Coast, and Universal Vision on the East Coast. The investments will further enhance our destination tour offerings in the US and help drive it to become one of the largest [travel] market for Chinese travelers.

Fourth, corporate travel. For the corporate travel business, it has continued its healthy growth trajectory year through year, in spite of the challenging operating environment.

Our corporate customers are becoming increasingly adapted to our mobile platform, more than 50% of the orders now come from our dedicated corporate travel [app] to better serve our corporate customers, we now provide an integrated user experience that starts from the application for approval, booking, all the way to reimbursement and expense reports. So an employee can file a travel application and his supervisor can authorize it anywhere at any time.

Lastly, I wanted to take a moment to comment on Qunar's operations. The Company made great strides to improve operating efficiency since late last year, and finally, generated positive non-GAAP operating profit this quarter. I would like to congratulate our Qunar colleagues for their hard work and dedication.



Overall, third quarter was a great quarter. We achieved both strong operating and financial results and the margin expansion is much stronger than we originally expected. We will work hard and keep the strong momentum and achieve our operating targets in the coming years.

With that, I will turn the call to Cindy for financial highlights.

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

Thank you, Jane. Thanks everyone.

For the third quarter of 2016, Ctrip reported net revenues of RMB5.6 billion, or \$836 million, representing a 75% increase from the same period in 2015 primarily due to the consolidation of the financial results of Qunar starting from the end of last year. Net revenues for the third quarter of 2016 increased 26% from the previous quarter, primarily due to seasonality.

Accommodation reservation revenues for the third quarter of 2016 were RMB2.1 billion or \$311 million, representing a 51% increase from the same period in 2015 and a 17% increase from the previous quarter, primarily driven by an increase in accommodation reservation volume and the consolidation of Qunar.

Transportation ticketing revenues for the third quarter of 2016 were RMB2.4 billion, or \$364 million, representing a 101% increase from the same period in 2015 and a 21% increase from the previous quarter, primarily driven by an increase in ticketing volume and the consolidation of Qunar.

Packaged-tour revenues for the third quarter of 2016 were RMB813 million or \$122 million, representing a 37% increase from the same period in 2015, primarily driven by an increase in volume growth of organized tours and self-guided tours. Packaged-tour revenues for the third quarter of 2016 increased 72% from the previous quarter, primarily due to seasonality.

Corporate travel revenues for the third quarter of 2016 were RMB166 million or \$25 million, representing a 34% increase from the same period in 2015 and a 13% increase from the previous quarter, primarily driven by increased corporate travel demand from business activities.

Gross margin was 78% for the third quarter of 2016, compared to 73% in the same period last year and 72% in the previous quarter, which was benefited from the seasonality as well as synergies that generated from the invested companies.

Product development expenses for the third quarter of 2016 increased by 122% to RMB1.8 billion or \$277 million from the same period in 2015, primarily due to the consolidation of Qunar.

Product development expenses for the third quarter of 2016 increased by 7% from the previous quarter, primarily due to the increase in product development personnel related expenses.

Excluding share-based compensation charges, product development expenses for the third quarter of 2016 accounted for 27% of the net revenues, which increased from 24% in the same period last year, primarily due to the consolidation of Qunar.

Excluding share-based compensation charges, product development expenses for the third quarter of 2016 decreased from 31% in the previous quarter, primarily due to the improvement in efficiencies.

Sales and marketing expenses for the third quarter of 2016 increased by 80% to RMB1.5 billion or \$226 million from the same period in 2015, primarily due to the consolidation of Qunar.

Sales and marketing expenses for the third quarter of 2016 increased by 12% from the previous quarter, primarily due to the increase in sales and marketing related activities in the peak season.



Excluding share-based compensation, sales and marketing expenses for the third quarter of 2016 accounted for 26% of the net revenues, which remained consistent with the same period last year.

Excluding share-based compensation charges, sales and marketing expenses for the third quarter of 2016 decreased from 29% in the previous quarter, primarily due to a meaningful improvement in operating efficiency.

General and administrative expenses for the third quarter of 2016 increased by 106% to RMB539 million or \$81 million from the same period last year, primarily due to the consolidation of Qunar.

G&A expenses for the third quarter of 2016 increased by 6% from the previous quarter, primarily due to the increase of personnel related expenses and office expenses. Excluding share-based compensation charges, G&A expenses accounted for 7% of the net revenues, which increased from 6% in the same period last year and decreased from 8% in the previous quarter.

Income from operations for the third quarter of 2016 were RMB447 million or \$67 million, compared to income from operations of RMB405 million in the same period last year and loss from operations of RMB396 million in the previous quarter.

Excluding share-based compensation charges, income from operations was RMB1 billion or \$151 million, compared to RMB539 million in the same period last year and RMB182 million in the previous quarter.

Operating margin was 8% for the third quarter of 2016, compared to 13% in the same period last year, and negative 9% in the previous quarter. Excluding share-based compensation charges, operating margin was 18%, compared to 17% same time last year and 4% in the previous quarter.

Net income attributable to Ctrip's shareholders for the third quarter of 2016 was RMB24 million or \$4 million, compared to net income of RMB2.4 billion in the same period last year and net loss of RMB521 million in the previous quarter.

Excluding share-based compensation charges, net income attributable to Ctrip's shareholders was RMB581 million or \$87 million, compared to RMB2.5 billion in the same period last year and RMB57 million in the previous quarter.

Diluted earnings per ADS were RMB0.05 or \$0.01 for the third quarter of 2016. Excluding share-based compensation charges, diluted earnings per ADS were RMB1.15 or \$0.17 for the third quarter of 2016.

As of the end of the third quarter, the balance of cash and cash equivalents, restricted cash and short-term investment was RMB39 billion or \$6 billion.

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

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions).

And our first question comes from the line of Alicia Yap with Citigroup. Please proceed.

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### Alicia Yap - Citigroup - Analyst

Hi, good morning, James, Jane and Cindy. Thanks for taking my question and Jane, congratulations on your CEO promotion.



My question is related to the 4Q guidance and also Skyscanner. So can you share with us, maybe some detail what will be the guidance growth rate would be if we exclude the new acquisitions that you feed in the fourth quarter this year.

And then specifically, can you share results on the revenues and margin profile for Skyscanner and is that only one month contribution for the fourth quarter?

On the acquisition related, the percentage stake that you acquired and is that mainly a cash deal? Any detail you can share would be great. Thank you.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Yes, in the third quarter, we saw very strong growth across all our business lines. And we have strong confidence that this very healthy growth trajectory will move into the fourth quarter.

So for each business line item, for the accommodation reservations, we will guide the year-over-year growth will be around 45% to 55% and transportation revenues will grow 85% to 95%, and packaged tour business will also have very healthy growth at around 30% to 40%.

So in total, the net revenue will grow 70% to 75% year-over-year.

For the Skyscanner, we just signed a definitive agreement with the company and the transaction is estimated to close toward the end of this year. So the total financial impact for Ctrip this year will be very immaterial. All the forecast or the guidance we provide are just based on organic growth.

Skyscanner is a very good company with very good company with very healthy both the top line growth as well as they're a profitable company, with a very healthy margin, EBITDA.

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**Operator**

Our next question comes from the line of Binnie Wong with Merrill Lynch. Please proceed.

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**Binnie Wong** - *Merrill Lynch - Analyst*

(technical difficulty) questions. On the growth side, we see a softer growth this quarter in the hotel business, even if we excluded the impact of the close up of Qunar's merchant model last year. What are the major reasons? Can you share with us the trends we see in volume, commission rate, and also on the couponing? And a bigger picture question into 2017 is that, how should we see what are the important drivers into 2017 that Ctrip can continue to deliver faster-than-industry growth?

And then a second question here is just on the investment strategies. After we made several investments into our, like, the vertical supplier, the swipe card machine, I want to get management's thoughts about potential acquisitions of domestic peers, say, horizontally, right, especially on investment that can help us penetrate deeper into lower-end and young travelers?

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Okay. Thanks for your questions. First, on the growth, yes, I think mainly it was impacted by the VAT tax that is adopted this year. And the VAT tax represents about 5% to 10% of the gross revenue. But on the net revenue, the impact is immaterial. We still see very strong trajectory in the business across the line, including hotel, air ticketing, packaged tour and corporate travel.



We normally plan our business by looking at a couple of line items. The first one is our GDP growth rate, which is somewhere around 6%. And then the second line item is the travel growth rate which normally can double that rate, at about 10%. And we will be able to double or triple the industry growth. And the excessive portion, above the industry growth rate, is mainly due to our strong execution by gaining more customers in the future, and we see it -- the strong growth going forward.

The second thing is on M&A strategy. Again, I think we have been very disciplined in executing our M&A strategy. We have always stressed the three principles we adhere to. The first one is we always look at travel-related business. And secondly, we look at the verticals and always select the number one and number two players in each vertical and try to achieve synergy by teaming up with these industry leaders. And the third one is also valuation-wise we want to make sure every investment we make, the valuation is reasonable.

So, through these investments, we either can extend our business line or extend our geographic penetration, so the investment we made in Skyscanner will be able for us to strengthen our air ticketing business in the global footprint. But our belief has always been we need to be very strong organically. So, organic growth has always been our focus.

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**Binnie Wong** - *Merrill Lynch - Analyst*

Thank you.

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**Operator**

Our next question comes from the line of Ronald Keung with Goldman Sachs. Please proceed.

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**Ronald Keung** - *Goldman Sachs - Analyst*

Hi. Thank you. Thank you, James, Jane, Cindy and Shiwei.

Just a question. Can you share a bit on the competitive landscape and how you're seeing the industries developing? We've seen some expansion, so, during the Singles Day, obviously, [inaudible] from Baba and on Maytuan, and some recent developments on Airbnb. Just want to hear your thoughts on the industry landscape and whether you're confident in just growing faster than peers in each of your segments. And if you could also share some of the take rates and coupon rates. I think the previous person also asked on this question as well. Thank you.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Okay. Thanks for your question. In terms of competition, because travel is such a promising industry, everything will join the company, there is newcomers every year. Our belief has always been we need to build up our strengths in terms of technology, service, product offering and branding. If we can be very strong in this perspective, it will make the newcomers very difficult to compete with us.

So we just need to further penetrate into the new verticals that is associated to travel, and also for the -- penetrate into the lower-tier cities; it's an ongoing effort for us. And this year, internationalization also is a very important step for us to make. So the investment we made in Skyscanner will be -- enable us to extend our air ticketing business to a much bigger footprint in the global place. So that's our focus right now.

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**James Liang** - *Ctrip.com International Ltd - Executive Chairman of the Board*

The margin on the international expansion, I think the margin will gradually improve as we continue to gain market shares and achieve scale. But on the low end, second, third-tier cities will continue -- we'll expect to have continued ongoing very competitive price competition going forward. So we don't expect any meaningful margin expansion in the lower end. And of course, our competitors probably will have even lower margin than us, because that's the general picture going forward.



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**Operator**

(Operator Instructions).

Our next question comes from the line of Natalie Wu with CICC. Please proceed.

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**Natalie Wu - CICC - Analyst**

Hi, good morning, management. Thanks for taking my question. My question is mainly related with the acquisition of Skyscanner. So I noticed that Skyscanner's revenue in 2015 was roughly 150 million (sic, currency not stated), with 30% year-on-year growth. So, just wondering, what's the growth rate this year and also in the future of this business should we be expecting? And what kind of margin profile does it have compared with Ctrip? Will this acquisition have any kind of impact on your longer-term margin target? Thank you.

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

Yes. For Skyscanner, they published their financials on their website in the last two years. And their revenue, total revenue, will be roughly about 6% to 7% of Ctrip's total revenues. But Skyscanner only since later part of last century, they already achieved their profitability. They have a very healthy margin level at around 20% to 25% in their history. And going forward, Ctrip has the confidence that we can leverage our experience, our technology, as well as our booking capabilities to help Skyscanner improve their, for example, the cross-selling capability to drive their growth as to be a more comprehensive travel search provider. So we have the confidence, we, together with Skyscanner's management, have the strong confidence that they can still maintain mid to high double-digit growth rate in the next -- in the years to come.

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**Operator**

Our next question comes from the line of Jed Kelly with Oppenheimer. Please proceed.

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**Jed Kelly - Oppenheimer - Analyst**

Great. Thanks for taking my question. Can you just give us 4Q guidance around -- for your non-GAAP operating income and the diluted share count?

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

Sure. On the margin, in the third quarter, because this is the peak season for Ctrip, we have -- we achieved the highest non-GAAP operating margin level since early 2014, and most importantly, this actually is the first quarter that Qunar had a positive non-GAAP operating margin. Moving into the fourth quarter, I think it's comparatively slow season for the travel industry, but we still forecast that we can deliver RMB400 million to RMB500 million non-GAAP operating profit.

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**Operator**

Our next question comes from the line of Chi Tsang with HSBC. Please proceed.

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**Chi Tsang - HSBC - Analyst**

Great. Thank you very much for taking my questions, and Jane, congratulations on the promotion.

I wanted to ask you about sort of -- can you comment on up, down trends please? I'm interested in seeing how that's going.

And secondly, I was very curious about your comments on gross margins and how the very strong gross margins this quarter was reflecting the synergies from invested companies. I was wondering if you can expand on that please. Thank you.

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**Jane Sun** - *Ctrip.com International Ltd* - CEO

Sure. I will take the first question and Cindy will take on the second question.

For outbound business, we do see a strong growth trajectory in the market. As income per capita is increasing, more and more Chinese travelers will be able to afford going abroad. And secondly, a lot of countries are relaxing their visa restrictions to the foreign countries and to welcome Chinese travelers. And thirdly, a lot of airlines are establishing new routes, which have direct connection for Chinese travel into their city.

So with all this support, it gives us a very good foundation to expand our outbound business. So, Ctrip offers international air tickets, and when we know where the customer goes, then we will be very targeted when we offer the hotel products to them. We also have car services, local attractions, Euro trains, etc. And our review site also are very strong. It includes all the reviews for travelers to plan their trips. And as James mentioned in his script, that we also started a smiling review site which is a review generated by our user to rank the restaurants for the most favored restaurants ranked by our travelers.

So with all these comprehensive offerings and 24 hours service around the world, we'll be able to attract and support a lot of customers when they travel around the world. So that is our focus for the next few years, to make sure our service, product, IT and branding all support this growth. So it's very promising.

And I will turn to Cindy for your gross margin comment.

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

Yes. I think the gross margin, first of all, because the third quarter is the peak season for us, so we can achieve a very high gross margin. But it's also because of the -- we have a continuously closely monitor and improve our operational efficiencies. For example, our call center headcount decreased 16% year over year and 6% quarter on quarter, despite we have a very strong business growth and improved the service qualities in our invested companies, thanks to our continuously process optimization as well as automation technology.

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**Operator**

Our next question comes from the line of Justin Patterson with Raymond James. Please proceed.

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**Justin Patterson** - *Raymond James* - Analyst

Great. Thank you very much, and Jane, congratulations for the promotion.

Just wanted to expand on that question around automation and process improvement within the call center. How early are you in that process right now? Should we think of those gains persisting into the fourth quarter?

And then secondly, around the Skyscanner acquisition. Can you talk about whether or not that was a competitive bidding process, and just how you got comfortable with the valuation? Thanks.



**Jane Sun** - *Ctrip.com International Ltd - CEO*

Sure. First of all, on the automation. Yes, it has been our focus for the past few years. We -- when we push all the products onto mobile, that gives us the leverage for us to save many steps and a lot of steps becomes very automatic. And it's a continuous effort. For example, for air ticketing, every year, in the past three years, we have been able to achieve more than 40%, 50% growth, yet the headcount did not increase but decreased.

So, for each business line, we work very hard to make sure if the machine can provide the service, and do the calculation. We will make sure our big data and also our system will be very powerful to provide these services. But for certain events, for example, earthquake or tsunami in Japan, political turmoil, this kind of situation, then our staff will reach out to our customers to make sure that we're taken care. So it's a balance between standard of service versus emergency services in our team. And we will make sure our customers are well-protected and served throughout the process.

The second thing is Skyscanner. We looked at their past performance, the team is very strong, very lean, quick learner, very aggressive in expanding their brand and services. And we also looked at the synergies the two teams can achieve if we work together. Skyscanner provides the front-end on search and Ctrip will have the opportunity to pass on our experience in the booking, and then how much more money we can make. So the valuation is very much based on how much we can make in the next five to ten years, and both teams are highly motivated to achieve that target.

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**Operator**

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

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

Hey, good morning, and congratulations, Jane. I just had a couple of questions.

First, you've seen margin expansion play out faster than you anticipated. And based on that, can you talk about what you're expecting 2017 operating margins could look like?

And then secondly, on Skyscanner, obviously gets you better positioned for metasearch internationally. Can you talk about the current dynamics for travel metasearch in China and how Ctrip is positioned if metasearch continues to grow as a category in China? Thanks.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Sure. The margin expansion is very much based on our increased efficiency and it has been our focus in the past couple of years. We will give solid guidance when we move into Q4, but we do expect a long-term margin of operating income similar between 20% to 30% is very much achievable and sustainable. But we need to get better visibility when we move into Q4 and give you quarter -- Q1 guidance.

And then the second thing is on the metasearch market. In China, Ctrip offers a metasearch product offering, so they do price comparison, and Ctrip is very much on the backend providing the booking services. So it's complementary. Globally, I think Skyscanner is one of the strongest players globally, offering very strong technology capability and branding also in this space. So we feel, if our booking capability is passed on to Skyscanner team, the synergy will be great.

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**Operator**

Our next question comes from the line of Eric Wen with Blue Lotus. Please proceed.

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**Eric Wen** - *Blue Lotus - Analyst*

Hi. Thanks, Jane, Cindy and Jim, for taking my questions, and congratulations, Jane, on the new promotion.

So again on Skyscanner. We know brand formation is very difficult in travel and congratulations on the acquisition. Can you elaborate on how do you plan to integrate with your acquisition of Travelfusion last year to combine these two assets to leverage our market position in the value chain? How many people do we have on Travelfusion and what is the geographic coverage in Europe right now? Thanks.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Sure. For Travelfusion, it's a B2B business. They are a traffic hub for low-cost carrier. They are located in London. And Skyscanner is also in UK, in Scotland. So the two teams definitely will meet in the future and see how much they can work together to achieve greater synergy.

Both teams have common characteristics. It's very technological driven. Travelfusion is IT-driven company, total employee is about 150 employees, they're relaying very fast and sharp. Skyscanner also has a very strong technology team. Almost all the services are empowered by that backend technology platform to go globally. So the team has similarity and we very much look forward to bringing all the teams together and discussing future cooperation among them.

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

Yes. And just to comment on Jane's point, Travelfusion is more, in terms of traffic funnel -- Skyscanner, because it's metasearch, so it's more towards the high end of the traffic funnel, and Travelfusion is more on the supply side. So we do have the plan that going forward Skyscanner will gain access to both Ctrip's flight offerings as well as Travelfusion's product offerings.

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**Operator**

Our next question comes from the line of Jialong Shi with Nomura. Please proceed.

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**Jialong Shi** - *Nomura - Analyst*

Hi. Good morning, James, Jane and Cindy. Thanks for taking my call. I have a few quick questions about your transportation business.

I just wondered if management can provide any colors about the revenue contribution from air, train and bus. And for the air ticketing business, what is the split between your direct sales and marketplace by the air ticketing volume for Q3?

And also a follow-up on the Skyscanner's deal, and my understanding is Skyscanner's primary users are foreign tourists. So I just wonder if this acquisition is mainly aimed to prepare Ctrip to penetrate western travel market and to target western tourists. Thank you.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Thank you. So for the -- within the transportation revenues, train and bus, as well as ground transportation, accounts for roughly about 10% to 15% of the total revenues. And air -- regarding the air ticket, because of the new policies that airline implemented from the third quarter, the platform model, it used to be contribute roughly about 60% of our traffic volume, now decreased, significantly decreased, to 30%. But the take rate -- Ctrip's take rate remained -- Ctrip and Qunar's take rate remained very consistent within the original level.

**Operator**

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

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**Wendy Huang - Macquarie - Analyst**

Thank you. First, on your comment made earlier about the take rate. So, with increasing cross-selling, especially on the Qunar's volume, how should we expect the blended take rate to play out on the air ticketing side? And also on the hotels ASP and take rate, can you give us some updates and also the update on the hotel couponing and subsidy wise?

Lastly, on the international business, can you give us a breakdown or the international exposure by different business lines, and also what are your top overseas destination right now? Thank you.

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

Thank you, Wendy. So for the hotel take rate, yes, we are helping Qunar to continuously improve the cross-selling. So their take rate gradually moving up. But because Ctrip and Qunar, we capture different market segments, Qunar is more toward the mid to lower end, so their take rate is still lower than Ctrip's level.

On the hotel side, we have a stabilized take rate. On the couponing, the couponing is still at mid to higher range of -- mid to high end of the -- compared with last few quarters.

On the higher end of the hotel, we actually minimize the coupon that we offer to our end-users, but on the lower, mid to especially the lower end of the hotel market, as Jane explained, we still will be very aggressive pricing competition to put pressure on any potential competitors.

Regarding the international product, the hotel, volume, international hotel accounts for roughly 10% to 15% of total hotel room nights, and contributes 15% to 20% of total hotel revenues. And air ticket, international air ticket, contributes roughly 30% of our total air ticket volume.

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**Operator**

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

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**Juan Lin - 86Research - Analyst**

Hi. Good morning, James, Jane, Cindy and Shiwei. And Jane, thanks -- congratulations on the promotion. Thank you for taking my question.

I have one quick question, on the consolidation of Qunar's packaged tour business. I'm wondering whether the packaged tour business unit itself will operate independently going forward. And I understand that Qunar's hotel booking and air ticket booking business are currently still relatively independently operating. I'm wondering whether we'll see similar consolidation in Qunar's hotel and air business going forward. Thank you.

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**Jane Sun - Ctrip.com International Ltd - CEO**

Yes. So for us, each vertical business line, we try to create very entrepreneur spirit within a big organization. So each business line is equipped by their own CEO, CTO, CFO, and their own set of financials. So they're empowered to do everything they can to drive up the market share as well as to drive the bottom line. So, Qunar and Ctrip have two different brands and different methods.

The Qunar model is a platform model, which enable them to have a very wide coverage in terms of product offering and pricing. And also it's targeted at younger generation, more price-sensitive customers. Ctrip mainly sells packaged tour focused on business travelers and also mid-to-high-end customers. So the focus is a little bit different. Our product presentation, the apps on the PCs are also quite different.

So we try to differentiate different products and services under the different brand to cover both high end of the market as well as the young, energetic, price sensitive customer pool. By doing that, Ctrip's market share will be extended through both brands.

So for all the business lines we encourage the CEOs, think broadly, not only focusing on the first tier, second tier cities but also aggressively penetrate into the lower tier cities. So it's a good complementary products and services by utilizing both brands.

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**Operator**

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

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**Alex Yao** - *JPMorgan - Analyst*

Hi, good morning everyone. Thank you for taking my questions. I just want to follow up on Jialong's question regarding the acquisition in Skyscanner.

We understand the vast majority of your outbound travel is actually driven by China towards types of the demands. Does this acquisition indicate that you guys are expanding the China towards a model, towards more of a wall-to-wall model? How should we think about the long-term growth opportunities in the so-called wall-to-wall travel? Thank you.

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**James Liang** - *Ctrip.com International Ltd - Executive Chairman of the Board*

Yes. Ctrip will gradually but steadily pursue international opportunities. Ctrip already has a very strong technology platform and a very broad, wide and deep product coverage, especially in China and in Asia. But it takes a while to establish our brand names in other markets, other countries.

So we will pursue both an organic growth strategy and also help with -- by our acquisitions. So I think Skyscanner acquisition is one of the very prominent, very successful companies, especially in Europe and we will continue to look for other potential acquisition targets around the world and we will continue to pursue international opportunities and acquisition targets, especially within Asia, to grow our global presence. Thank you.

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**Operator**

Our next question comes from the line of Amanda Chen with Morgan Stanley. Please proceed.

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**Amanda Chen** - *Morgan Stanley - Analyst*

Hi, good morning management. Thank you for taking my question.

First question is regarding the corporate travel. We noticed that this quarter the revenue growth is very strong. Can we know the reasons behind that? And also, how do we see the competitive landscape in China, because we know the competitors recently quite active in this space.

And the second question is a quick one regarding our packaged-tour GMV growth in Q3. Is that in line with our revenue growth and what's the trend in Q4? And number 3 is regarding the [Dashit Home]. We want to know -- I think the Company will be consolidated in Q4, right, so what's the revenue contribution from Dashit Home? Thank you.



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

Sure. First of all, on corporate travel, yes, our team have been working very hard to innovate the model. So they were the first who built the APP which enabled the managers to follow where their employees are.

And it's very easy for employees when they are traveling on-road they can submit their application and their OA system is linked and approval process is linked and we can issue the ticket to get the reimbursement then, all on the app while they are on the road. So that is innovation in the industry.

In terms of the volume, I think our corporate travel is a leading player -- number 1 player, more than number 2 and number 3 combined. So they are extending their leadership in this field every year. So that's the first question.

The second one is on the GMV. Yes, we are very much on track with our target to reach our 2020 goal of GMV [RMB1.2 trillion to RMB1.4 trillion]. So we are on target for that.

(Spoken in foreign language). Home, the revenue contribution will be very small, immaterial. So it mainly enables us to further penetrate into the lower tier cities. Thank you.

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**Operator**

Our next question comes from the line of Alvin Jiang with Deutsche Bank. Please proceed.

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**Unidentified Participant**

Hi, management. This is [Mira Ma] on behalf of Alvin Jiang. Thank you for taking our question. We have just a quick question on outbound travel. So can we get some update regarding outbound travel for the second half this year and also the outlook for next year? Thank you.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Yes, outbound travel it's one of the faster-growing segments in all our business lines. So they have contributed more and more in terms of both of the volume as well as our revenues. For each business item, we see we will sustain a very much higher growth percentage than the average industry growth moving into fourth quarter as well as next year.

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**Operator**

Due to time constraints, our final question will come from the line of Ella Ji with China Renaissance. Please proceed.

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**Ella Ji** - *China Renaissance - Analyst*

Thank you for taking my questions. Firstly, regarding the Skyscanner acquisition, I wonder how big is China-related business was in this total. I would assume this is not very large.

Then I'm just curious, what is Ctrip's value proposition to this Company? What made this Company agree to sell to you? I'm just curious about that.

Then second question is regarding your 4Q guidance. If I took down correctly, I think the three major business segments' growth expectation, the low end are all a little bit lower than 3Q, while high end is about the same. Can you just provide more color about that?



And just lastly, given that we are seeing continuous -- on the depreciation, I wonder if you can talk about the impact on the outbound travel. Are people switching from relatively high-end luxury travel to relatively low-end international travel? Thank you very much.

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**James Liang** - *Ctrip.com International Ltd - Executive Chairman of the Board*

Yes, I'll take the first part. I think Skyscanner is -- has an outstanding team and they also have a global aspiration. They already are the dominant player in the (inaudible).

Ctrip can work with Skyscanner to achieve a lot of synergies. Ctrip is already up there in terms of volume; it's already the largest ticketing and transportation ticket travel agency in the world. We have a lot of experience with building search technology for international airfares and also for human technologies for international airfares, and these will be shared with our Skyscanner team and they will be able to realize more efficiency gains in terms of procurement and search technology.

So I think that this is a very good merge, a very good investment both from Ctrip's point of view and Skyscanner point of view. We have very high expectations; together they can grow their market share in their markets and possibly in Asia markets, especially in the air ticketing arena, yes. We have quite optimistic targets in these markets combining the strength of both companies.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Yes, on the guidance, the current guidance reflects our current visibility on the business but as always, our team will do our best to achieve a good result as we can.

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**Operator**

Ladies and gentlemen, we will take one final question. That question will come from the line of Thomas Chong with Bank of China International. Please proceed.

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**Unidentified Participant**

Thank you very much for the opportunity. I have two questions on behalf of Thomas Chong. The first one, can you provide guidance on non-operating items that we have to take into consideration, for example the interest rate, the minority interest and tax?

And the second question is how should we think about the negative seasonality during Chinese New Year in the first quarter of next year? And any color about Q-on-Q and year-on-year growth, in particular the apple-to-apple comparison on Qunar consolidation. Thank you very much.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Yes. So the second half of last year, Qunar had a pretty high base, especially on the hotel business by introducing the merchant model, which bring a huge loss on their bottom line. But after we worked together with Qunar's team, provide the hotel inventories, especially high-end hotel inventory, Qunar has significantly reduced their loss in this third quarter due to their hard work as well as Ctrip's help to provide inventory to them. They achieved the profitability on a non-GAAP operating margin level.

So going forward, both Ctrip and Qunar team will work very hard to have a very healthy growth on both the top line as well as the bottom line. Thank you.

**Operator**

And ladies and gentlemen, I would now like to turn the call back to Shiwei Zhou, Senior Director, for closing remarks.

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

Thanks to everyone for joining us today, especially on the Thanksgiving Eve for our US investors. You can find the transcript and webcast of today's call on [ir.ctrip.com](http://ir.ctrip.com). We look forward to speaking with you on our fourth quarter 2016 earnings call. Thank you and have a good day.

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

Happy Thanksgiving.

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**Jane Sun** - *Ctrip.com International Ltd - CEO*

Thank you.

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

Bye-bye.

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**Operator**

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

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