

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TOUR - Q1 2018 Tuniu Corp Earnings Call

EVENT DATE/TIME: MAY 24, 2018 / 12:00PM GMT



CORPORATE PARTICIPANTS

Dunde Yu *Tuniu Corporation - Co-Founder, Chairman & CEO*

Mary Chen *Tuniu Corporation - IR Director*

Yi Xin *Tuniu Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Weijia Wu *ICBC International Research Limited - Research Analyst*

PRESENTATION

Operator

Hello, and thank you for standing by for Tuniu's 2018 First Quarter Earnings Conference Call. (Operator Instructions) Today's conference is being recorded. (Operator Instructions) I would now like to turn the meeting over to your host for today's conference call, Director of Investor Relations, Mary Chen.

Mary Chen - Tuniu Corporation - IR Director

Thank you, and welcome to our 2018 first quarter earnings conference call. Joining me on the call today are Donald Yu, Co-Founder, Chairman and Chief Executive Officer; and Maria Xin, Chief Financial Officer. For today's agenda, management will discuss business updates, operation highlights and financial performance for the first quarter of 2018.

Before we continue, I refer you to our safe harbor statement in the earnings press release, which applies to this call, as we will make forward-looking statements. Also, this call includes discussions of certain non-GAAP financial measures. Please refer to our earnings release, which contains our reconciliation of non-GAAP measures to the most directly comparable GAAP measures. Finally, please note that, unless otherwise stated, all figures mentioned during this conference call are in RMB.

I would now like to turn the call over to our Co-Founder, Chairman and Chief Executive Officer, Donald Yu.

Dunde Yu - Tuniu Corporation - Co-Founder, Chairman & CEO

Thank you, Mary. Good day, everyone. Welcome to our 2018 first quarter earnings conference call. During the first quarter of 2018, we've continued to execute our cost strategy to lay the foundation for better Tuniu, with stronger sales and service networks in both departure and destination cities.

Despite being negatively impacted by external factors in destinations such as Maldives, South Korea and Bali, our package tour revenues increased by 13% year-over-year. We continue to see strong recovery in Europe with revenues growing by more than 80% year-over-year during the quarter. Other regions also continue to grow organically, for example, revenues with Australia and New Zealand grew more than 30% year-over-year.

We continue to narrow our losses through a number of key strategies. For our sales network, our off-line retail stores continue to help Tuniu attract new users and efficiently and effectively lower user acquisition costs.

Our store utilizes the new retail model concept, allowing our off-line customers to have an online experience with price transparency and full customer support. During the first quarter of 2018, users acquired through our retail stores contributed more than 10% of our packaged tour GMV. For our service network, we also made strong progress. We've been taking our local tour operator model to more efficient as we launched 7 more local tour operators regionally.



We continue to make strides in the optimization of our expense structure. In the past, Tuniu primarily focused on branding promotions to the general public in order to establish our brand. Now that Tuniu is the household name among Chinese consumers, we have shifted our promotions to channel-based marketing, targeting specific demographics to customize [convenience]. This also contributed to the lowering of our user acquisition cost.

We believe there is still room for additional expense optimization to be unlocked in the next few quarters, which will ultimately maximize shareholder value in the future.

Now I would like to give an update on our strategies in the -- in greater detail. I will first start with our sales network. Since our founding in 2006, Tuniu has primarily focused on departure cities. We have prioritized creating a network connecting all of the departure cities across China to a centralized (inaudible) travel platform. As of the end of the first quarter of 2018, Tuniu has 420 departure cities throughout China, providing comprehensive products and services to all of China.

Over the years, we have successfully accumulated a large customer base and developed a brand capable of efficiently acquiring new users. Today, our sales network has been more [diverse], consisting of our online website, mobile app, off-line stores, loyalty program, B2B distribution and GMV. For off-line retail stores, we opened 51 new stores recently. We continue to fine-tune our off-line retail stores to further enhance customer experience and increase user (inaudible).

Data have also shown that these off-line retail stores are highly efficient in helping us expand to lower-tier cities due to the lower user acquisition cost of these stores. We expect our increased off-line presence will continue to help Tuniu lower its blended user acquisition cost and help us reach more customers, especially in lower-tiered cities.

As of the end of the first quarter, we have more than [60 million] members in our loyalty program. For our existing members, our loyalty program provides an efficient channels for us to more frequently engage with our customers. By offering loyalty service and various travel perks, we are seeing higher levels of business to Tuniu once the customer enters our loyalty program. During the first quarter, repeat customers contributed to more than [60%] of our GMV.

By continuing to improve our customer service, we expect to continue increasing our commercial reach of both repeat customers and newly acquired customers.

Our other distribution channel also continue to quickly grow. During the first quarter of 2018, GMV from our DMC channel increased more than 200% year-over-year, while our B2B distribution channel grew more than [50%] year-over-year.

As the leading online leader travel company in China, we have developed comprehensive sales network that allows us to efficiently acquire customers through various channels at different departure cities. With a solid foundation established through our sales network, our next step is to replicate that expansion model to our service network at the destinations.

We started our direct procurement in 2014. Since then, we have quickly increased the percentage of direct procurements to more than 40% during the first quarter of 2018. With direct procurement, we are able to design the itinerary of the trip based on user data to (inaudible) better trip and control the quality of the product. However, direct procurement is just the first step in the development of our service network.

Last year, we also launched a number of our own local tour operators at popular destinations, both in China and internationally. As of April 30, 2018, we have local tour operators in 19 domestic and 2 international destinations.

In most off-line [tours], the most important component is the tour guide because of the amount of time spent with the travelers. By having our own local tour operators, we are able to fully guarantee the quality of the tour guide and the service provided by them. It will further enhance our position in the supply chain and allows us to better control the quality of our product. By having our own local tour operators, we are also able to take a higher percentage of the retail price. We believe our local tour operators will able to make meaningful contribution to our financials once it reaches scale.



For international destinations, we have launched a global partnership program aimed at partnering with local tour operators abroad. This program will help us quickly set up our own local tour operators in popular international destination. In the future, our local tour operators will be a key component of our service network as we aim to have 30 domestic local tour operators by the end of 2018.

By combining products with our local tour operators and those that are directly procured by us, Tuniu is able to expand further into the travel supply chain and strengthen our competitive advantage.

In addition to organized tours, our service network, we will also provide better products and services to self-guided tour travelers. We plan to further increase the amount of our content to our mobile destination channel. With this, the channel travelers may find detail information on their destination, including categories such as places to eat and shop, local tours and other destination-based products. By providing these selections to our customers, we give self-guided tour travelers the confidence to design a perfect trip. Currently, we already have dedicated destination channels for more than 1,000 destinations across the world.

Our destination channels will also help Tuniu acquire customers. (inaudible) there are an increasingly higher proportion of customers who prefer to book products after they get to the destination. We believe our destination channel will be able to provide the necessary content of these customers to plan their schedule. We will also work with a variety of business, such as local restaurants and shopping centers to promote Tuniu's products.

In addition to destination-based promotions, we will give you the tours to better share the pictures and itinerary of their trips on social media, allowing our users to promote Tuniu's products within their social circle. Overall, we believe our service network will closely supplement our sales network to create an ecosystem differentiating Tuniu from other -- from our peers.

Lastly, I would like to talk about our other revenues. Even though our other revenues decreased year-over-year during the quarter due to the decline in revenue from our air ticketing and insurance businesses. The change will only temporarily impact our financials as the core package tour business continues to grow.

We believe the change in product bundling process is a positive step for the travel industry and will help increase user experience in the long run. We are confident that the decline in our other revenues will be temporary. Overall, we are seeing a recovery in our growth rate during the second quarter of 2018 and expect the recovery to continue in the upcoming quarters.

With China's rising consumption power, Chinese travelers are demanding better services and experiences. Many of these demands are still unmet and there continues to be an opportunity for Tuniu to provide products and services consistent with current demand through its service network. So our sales network gives Tuniu the ability to efficiently acquire customers through a variety of channels. On the other hand, our service network allows us to service our customers through products with our local tour operators of products directly [operated] by Tuniu.

The 2 networks combined to form an ecosystem that defines Tuniu's competitive advantage within the online dealer travel market in China. With our blended user acquisition cost declining from the expansion of our sales network and bargaining power increasing from the development of our service network, Tuniu's operational efficiency will continue to scale in the future.

I will now turn the call over to Maria Xin, our CFO, for the financial highlights.

Yi Xin - *Tuniu Corporation - CFO*

Thank you, Donald. Hello, everyone. Now I will walk you through our first quarter 2018 financial results in greater detail. Please note that all the monetary amount are in RMB, unless otherwise stated. You can find the U.S. dollar equivalent of the number in our earnings release.

Starting from the first quarter of 2018. Net revenues were CNY 480.5 million, representing 5.4% year-over-year growth. Revenue from packaged tours, which are mainly recognized on a net basis, were up 13% year-over-year to CNY 402.7 million and accounting for 84% of our total net revenue for the quarter. The increase was primarily due to the growth of organized tours and self-guided tours.

Other revenue was down 22% year-over-year to CNY 77.9 million and accounted for 16% of our total net revenues for the quarter. The decrease was primarily due to the decline in revenues generated from financial services, commission fees received from air ticketing and service fee received from insurance companies.

Gross profit was up 5% year-over-year to CNY 262.6 million for the quarter. The increase was primarily due to the increase in efficiency resulting from the economies of scale.

Operating expenses for the first quarter of 2018 were CNY 384 million, down 31% year-over-year, excluding share-based compensation and amortization of acquired intangible assets. Non-GAAP operating expenses was CNY 336 million, representing a year-over-year decrease of 33%.

Research and product development expenses for the quarter were CNY 84 million, down 47% year-over-year. Research and product development expenses as a percentage of net revenue was 17% in the first quarter of 2018, decreasing from the 35% in the corresponding period in 2017. The decrease was primarily due to the increase in efficiency resulting from the economies of scale and refined management and optimization of research and product development personnel.

Sales and marketing expenses for the quarter were CNY 186 million, down 27% year-over-year. Sales and marketing expenses as a percentage of net revenue was 39% in the first quarter of 2018, decreasing from 56% in the corresponding period in 2017. The decrease was primarily due to the optimization of operational expense structures and the preference for marketing channels with higher ROI.

General and administrative expenses for the quarter were CNY 115 million, down 24% year-over-year. General and administrative expenses as a percentage of net revenues were 24% in the first quarter of 2018, decreasing from 33% in the corresponding period in 2017. The decrease was primarily due to the increase in efficiency resulting from the economies of scale and the decline in personnel-related fees.

Net loss attributable to ordinary shareholders was CNY 74.7 million in the first quarter of 2018. Non-GAAP net loss attributable to ordinary shareholders, which exclude share-based compensation expense and amortization of acquired intangible assets, was CNY 26.9 million in the first quarter of 2018. As of March 31, 2018, the company had cash and cash equivalents, restricted cash and short-term investments of CNY 3.1 billion and long-term investment of CNY 1 billion.

In the first quarter, excluding the impact of the payment to HNA Tourism, cash conversion cycle was negative 22 days, compared to negative 20 days in the corresponding period last year.

Cash flow generated from operations for the first quarter of this year was CNY 14.7 million, compared to a negative cash flow from operations of CNY 439.4 million in the corresponding period last year. This was primarily due to the decrease in net loss and the improved management of our working capital.

Cash flow expenditures for the first quarter of this year were CNY 19.9 million. Tuniu currently expect to generate CNY 519.9 million to CNY 538.3 million of net revenue in the second quarter of 2018, which represents 13% to 17% growth year-over-year. Please note that this forecast reflects Tuniu's current and preliminary view on the industry and its operations, which is subject to change.

Thank you for listening. We are now ready for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Vicky Wu of ICBC International.



Weijia Wu - ICBC International Research Limited - Research Analyst

My question is regarding the guidance and could management give more color on the guidance of the packaged tour in the 2Q 2018? And the next question is about the local operator strategy. Can management give more color on this strategy this year, such as the geographic preference or the partnerships and target numbers? And do you consider M&A strategies in the future?

Yi Xin - Tuniu Corporation - CFO

Thank you, Vicky. So let me give you more color on our guidance in the second quarter. Despite the negative impact of external destinations such as Maldives, Bali, our packaged tour revenues continue to grow. We see the recovering of the growth rate in the second quarter and we expect our packaged tour revenues may grow around 30% in the second quarter. For other revenues, because of the impact by the bundling policy, it will still impact our financial results and the negative growth in the second quarter. But overall, we believe there's short-term and temporary impact with our financials. And we will, as we are continuing expanding our sales services network, we are confident with the long-term goal.

Dunde Yu - Tuniu Corporation - Co-Founder, Chairman & CEO

(foreign language)

Unidentified Company Representative

For our local tour operators, we aim to have around approximately 30 within China by the end of this year. And for international local tour operators, we plan to have approximately 5 to 6. So in terms of the future, from a domestic perspective, we believe that approximately 30 local tour operators is probably enough as it covers most of the important destinations throughout China. So given that, we probably would not increase the number of local tour operators by a significant amount next year. As for international destination, we believe there's still a lot of room to grow. And we will push out new destinations throughout the next few years.

Dunde Yu - Tuniu Corporation - Co-Founder, Chairman & CEO

(foreign language)

Unidentified Company Representative

So in 2017, our local tour operators, both domestically and internationally, serves 600,000 trips. We plan to turn that number into 1 million trips in 2018. And by 2019, just on our domestic sites, we have plan to have 1 million trips. So given the scale of our local tour operators, we are one of the largest local tour operators in China in terms of GMV and trips. So our service network, which is essentially our local tour operators, complements our sales networks because our sales network has the traffic to directly send over to our service network. We are able to quickly and efficiently scale our operations at the destinations. So this applies to direct procurement as well. We're able to have sourced services at the destination and meets all of our connections and networks and traffic from the departure cities and completed all at the destination.

Dunde Yu - Tuniu Corporation - Co-Founder, Chairman & CEO

(foreign language)

Unidentified Company Representative

So in terms of our service network, it doesn't necessarily only say that's a local tour operator. Actually, we also encourage our users to share their experiences, their pictures, their itineraries with their friends and families. So we want to promote users to use their own social circles to push our

-- to recommend our products. So this is a very important part because it gives us additional promotions and it gives Tuniu stronger revenue. And this also spreads the word on the high-quality service that we offer at the destination.

Dunde Yu - *Tuniu Corporation - Co-Founder, Chairman & CEO*

(foreign language)

Unidentified Company Representative

Traditionally, we acquire users through -- at the destinations. Most of our promotions are done at the local cities or through our sales network, but we are also going to try more promotions at the destination services. We believe there's still opportunities. So a lot of users are booking their products later in their trip. And by promoting more of our products and services and even content at the destination, we believe it's a positive step for us.

Weijia Wu - *ICBC International Research Limited - Research Analyst*

And can I have a follow-up -- a quick follow-up question? And it's about the take rate in 1Q.

Yi Xin - *Tuniu Corporation - CFO*

Yes, we've continued to see the take rate. The take rate was increasing in the past quarter because we are doing more and more direct procurement as we setup the service network in the destinations. We still have room to improve our take rate in the future.

Operator

(Operator Instructions) Our next question comes from [Elaine Hee] a private investor.

Unidentified Participant

This is [Elaine Hee] (inaudible) other companies?

Dunde Yu - *Tuniu Corporation - Co-Founder, Chairman & CEO*

(foreign language)

Unidentified Company Representative

Most of our off-line stores are directly operated by Tuniu. Only there are a few number of stores at the destination where we partner with our local partners. So from departure cities, all of our stores are directly operated by Tuniu. So no matter which channel, the key difference of our off-line retail stores is our professional service. We offer complete [O-to-O] service procedure, allowing customers have very professional customer service throughout their booking experience. And another difference of our stores compared to our peers is our stores are very centralized within the cities. We are building out different models to find out efficient ways to cover these cities and to reach out to larger cities as well. And in terms of efficiency, we're seeing that a number of small cities offering retail stores are even more efficient and are able to acquire more customer at a lower cost.



Dunde Yu - *Tuniu Corporation - Co-Founder, Chairman & CEO*

(foreign language)

Unidentified Company Representative

We are also testing out a number of retail stores at the destination, however, this is still at its earlier stages. For these destination-based retail stores, we are primarily targeting people who have booked all their products and are already at the destination, so some of the people included are self-guided tourists. And at these destination stores, we offer a number of services, including hotel booking, car rental and other products and services. So we are seeing that once we service them at the destination, a lot of them -- a number of them actually comes back to our stores when they come back to their hometown. So this creates a very strong synergy between the departure cities, retail stores and the destination-based retail stores. So by having these destination-based retail stores, we are able to maximize the lifetime value of customers on our part.

Unidentified Participant

I have another question. I noticed there's a decrease in operation cost, especially the sales and marketing expenses. So may I know how you acquired more customers?

Yi Xin - *Tuniu Corporation - CFO*

Yes, there are a number of factors that, of course, that will reduce our new customer acquisition costs. First, our off-line stores continued the interaction with users. During the first quarter, the user acquired by off-line retail stores, first time, contributed more than 2% of our packaged tour GMVs. Another reason is that we are continuing to diversify our channels. Currently, we have sales network consist of the online website, mobile app, off-line stores, multi-programs, the B2B distribution and the DMC. As mentioned earlier, the channels -- new channels are growing very fast during the past quarter, which also helped us to lower the average user acquisition cost. And in the past, Tuniu's spend of marketing dollar more concentrated in the to build up the brand. Currently, Tuniu's brand is a home-held brand in China. So that we utilize our brand assets, and so this also help us continue to lowering our user acquisition costs.

Operator

We are now approaching the end of the conference call. I will now turn the call over to Tuniu's CFO, Maria Xin, for closing remarks.

Yi Xin - *Tuniu Corporation - CFO*

Once again, thank you for joining us today. Please don't hesitate to contact us if you have any further questions. Thank you for your continued support, and we look forward to speaking with you in the coming months. Thank you.

Operator

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



DISCLAIMER

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

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

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

©2018, Thomson Reuters. All Rights Reserved.