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Q3 2021 GDS Holdings Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 16, 2021 / 1:00PM GMT

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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for GDS Holdings Limited's third quarter 2021 earnings conference call. (Operator Instructions).

I will now turn the call over to your host, Ms. Laura Chen, Head of Investor Relations for the Company. Please go ahead, Laura.

Laura Chen ***GDS Holdings Limited - Head of Investor Relations***

Thank you. Hello, everyone, welcome to 3Q21 earnings conference call of GDS Holdings Limited. The Company's results were issued via newswire services earlier today and are posted online. A summary presentation, which we will refer to during this conference call, can be viewed and downloaded from our IR website at investors.gdsservices.com.

Leading today's call is Mr. William Huang, GDS Founder, Chairman and CEO, who will provide an overview of our business strategy and performance. Mr. Dan Newman, GDS CFO will then review the financial and operating results. Ms. Jamie Khoo, our COO, is also available to answer questions.

Before we continue, please note that today's discussion will contain 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, the Company's results may be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in the Company's prospectus as filed with the US SEC. The Company does not assume any obligation to update any forward-looking statement except as required under applicable law.

Please also note the GDS earnings press release and this conference call can include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. GDS press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

I will now turn over the call to GDS Founder, Chairman and CEO, William. Please go ahead, William.

William Huang ***GDS Holdings Limited - Founder, Chairman and CEO***

Thank you, Laura. Hello, everyone. This is William, thank you for joining me on today's call. I am pleased to report another quarter of solid results, with revenue and adjusted EBITDA up around 35%.

During the third quarter, we made significant progress in key areas, which underpins our future success. We sustained our sales momentum. We further diversified our customer base with another great hyperscale win. We enhanced our capacity pipeline with strategically important resource acquisitions. We took steps to secure our transition to renewables. And we put in place further foundations for our [exciting] (corrected by company after the call) platform expansion in Southeast Asia.

In 3Q21 we booked 23,000 square meters of new organic commitments in Tier 1 markets. We remain well on track to hit our sales target

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of over 90,000 square meters organic booking for the full year.

As shown on slide 5, we won five hyperscale orders. Two orders were under an existing multiyear sales framework agreement with a top customer.

Two were from one of China's largest internet platforms, which is a new hyperscale logo for us, demonstrating the strength of demand from internet. And a further order was from a major Chinese bank, which highlights the growing potential of financial institutions.

Our sustained sales is strong evidence that customers are not holding back on their medium-term and long-term business plans.

For us to offer a complete solution to our customers, we must have continuous capacity supply in each Tier 1 market. Securing this supply means working with government policy.

The Government recognizes the importance of data centers to the digital economy. The Government also attached great importance to sustainability.

In its plans for the industry, the Government has made clear that they want to see new data centers which are large scale, highly efficient, smart, secure and technologically advanced. They want data centers in Tier 1 markets, used predominantly for low latency applications.

They want a well integrated "edge", "hub" and "remote" data center layout. And last but not least, they want data centers which are more green and lead the way in terms of renewable energy usage. GDS is well aligned with all of the Government's objectives.

Going forward, we expect new project approvals and energy quotas will become even more difficult to obtain in Tier 1 markets. In some downtown locations supply is already constrained. We therefore took the decision to accelerate our acquisition of qualified projects in key locations.

Turning to slide 9, in Beijing we closed the acquisition of Beijing 17, 18 and 19, which brings us 10,700 square meters of developed and developable capacity. In addition, we recently signed an agreement for the acquisition of another 13,000 square meters of capacity, comprising four data centers on land owned by the project company, which are nearly complete and not yet committed. We will market these data centers to financial and enterprise customers whose national headquarters are mostly located in Beijing.

In Shenzhen, we are acquiring a data center with 3600 square meters of capacity, which is nearly complete and already committed to our customers.

In Guangdong, we are acquiring a portfolio of development projects at multiple locations. The portfolio has a total developable net floor area of over 100,000 square meter, or IT power capacity over 250 megawatts. The projects are either at an early stage or held for future development. Guangdong Province has stated that new [approvals] (corrected by company after the call) will be extremely limited for the next few years. This acquisition enables us to materially step up our market presence.

With the acquisition of Wuhan 1 and 2, we are entering a new market. Wuhan is an economic hub of Central China, where many hyperscale cloud and internet companies set up their regional headquarters. The two data centers have a net floor area of 8400 square meters and the first phase is under construction. With the addition of these acquisitions to our secured pipeline, we are well placed in terms of supply in each Tier 1 market.

Turning to slide 11, in a couple of weeks' times we will publish our inaugural ESG report and set out our sustainability targets for 2030. As is typical for data center companies, 99% of our carbon emissions come from electricity consumption. We estimate that for cloud and internet companies, around 60% to 70% of their carbon emissions come from data center operations, including in-house and outsourced data centers. It is, therefore, critically important to us, our customers, the government and other stakeholders that we set proper targets and have a feasible strategy to reach carbon neutrality.

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Where are we today? In FY20, over 20% of our total electricity consumption was green. In the current year we expect the percentage to be over 30% and by 2025 we should exceed 50%. We are increasing our green energy usage in three main ways.

The first is by direct investment in renewable energy generation. We started in a small way by installing solar walls on some of our data center buildings, but our ultimate objective is to have large-scale integrated developments. We are working with partners and government to make this happen, but it will take time to realize.

The second is by direct power purchase, or DPP, which we are already doing pretty much to the maximum extent possible in Shanghai, Shenzhen, Chengdu and Chongqing, as well as for some remote sites. DPP is currently constrained by the availability of renewables in tier 1 markets, but supply will increase significantly over the next few years.

The third is by the purchase of renewable energy certificates, or RECs, which in the near-term is the most practical option. We recently signed a multiyear agreement with CGN New Energy, a state-owned independent power producer with a wind, solar and hydro portfolio, to purchase over 30,000 gigawatt of renewable energy certificates. To put this into context, 30,000 gigawatts is over seven times our current annualized electricity consumption. We believe that this is one of the largest renewable deals done by any private industrial user in China.

In a further sign of progress, some of our data centers in Beijing were recently allocated tradable carbon credits as a result of our success in lowering PUE. These GDS data centers are among the very first to be allowed to participate in Beijing's official emissions trading market.

Turning to slide 12, yesterday we announced our second project commitment in southeast Asia. We are in the process of acquiring greenfield land for a 28-megawatt data center development in Nongsa Digital Park, Batam, Indonesia, a special economic zone which is 25 kilometers from Singapore.

This is the new location for data center development, which you can see from the whole quote in our press announcement has strong support from both Indonesia and the Singapore governments. We expect to obtain renewable energy for this site, which will further enhance its marketability and competitive edge.

With this addition, we now have strategically located hyperscale projects both in the north and the south of Singapore with great potential for creating unique ecosystems and interconnectivity in and around the Singapore hub.

At the Nusajaya Tech Park in Johor, our land is next door to Telekom Malaysia's regional data center. We are pleased to have signed a strategic cooperation agreement with Telekom Malaysia both for network connectivity and for use of available capacity in their facility, which will enable us to kickstart our presence before our own data center comes online.

Our regional strategy is driven by the requirements of our home market customers. To reinforce this point, we have recently signed a strategic cooperation agreement with a major Chinese cloud service provider to support its international expansion. Under the agreement, we will be prioritized as their data center provider in the region. The strategical cooperation extends the mutual trust between us and the customers from China to southeast Asia, providing a strong foundation for the success of our regional strategy.

Now I will hand over to Dan for the financial and operation review. Thank you.

Dan Newman *GDS - CFO*

Thank you, William. Before going to the numbers, I'd like to provide an update on our partnership with GIC. A few years ago, we started to develop projects for our strategic customers in more remote locations using a B-O-T structure. We've done 15 to date, the status of which is shown on slide 14.

As you may recall, we established a partnership with GIC to finance these projects. Our original intention was to [retain a 10% stake while earning management fees. However, we recently signed a new master joint venture] (added by company after the call) agreement with

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GIC under which we will retain a 51% stake. With this higher level of ownership and additional fee income, we are able to deploy more capital while earning a reasonable return on investment.

On the back of this new agreement, we have now signed the first sales and purchase contract with GIC for the transfer of a 49% stake in one of our existing B-O-T projects, Huailai 1. We will work with GIC to transfer 49% stakes in several more B-O-T projects over the next few quarters.

Starting on slide 16 where we strip out the contribution from equipment sales and the effect of FX changes, in 3Q21, our service revenue grew by 10.6%, underlying adjusted gross profit grew by 7.6%, and underlying adjusted EBITDA grew by 7.7% quarter on quarter. Our underlying adjusted EBITDA margin was 46.9%.

Turning to slide 17, service revenue growth is driven mainly by delivery of the committed backlog and closing of acquisitions. Net additional area utilized during 3Q21 was 18,678 square meters. The organic move-in excluding acquisitions and B-O-T projects was 16,037 square meters.

This is a step up from the levels seen in the first and second quarters. However, it was still a few thousand square meters less than our original expectations. We attribute this to a combination of server shortages, power uncertainties and other macro factors which we believe are transitory. In 4Q21, we expect organic net adds to be at a similar level as in 3Q.

Following the new agreement with GIC, we will now include area utilized of all B-O-T projects in MSR calculation for 3Q and prior quarters. On a consistent basis, MSR per square meter increased by 1.3% quarter on quarter in 3Q21 to RMB2,361 per square meter per month. This increase is within the normal range of quarterly fluctuations. The inclusion of all B-O-T projects brings the MSR number down slightly but the quarterly trend line is essentially the same.

Turning to slide 18, our underlying adjusted gross profit margin was 52.5% for 3Q21, a decrease of 1.5 percentage points quarter over quarter. Our underlying adjusted EBITDA margin was 46.9% for 3Q21, a decrease of 1.2 percentage points quarter over quarter.

The margin decrease was mainly due to higher utility costs. In 3Q21, our utility cost was 28.8% of revenue compared with 26.9% in the prior quarter, an increase of 1.9 percentage points. Higher utility cost was partly a result of seasonally higher power consumption during the summer months and partly a result of temporary additional cost from the use of backup power during a period when grid power supply was limited.

In 3Q21, we spent RMB19 million on backup power. The unit cost of backup power is around three times that of grid power. So far in 4Q21, grid power supply is almost back to normal.

During October, the government introduced reforms to further liberalize the power market. These reforms require thermal power generators to sell all of their output through the wholesale markets and allow the electricity price to float between a regulated base tariff and a higher ceiling. When fully implemented over the next year or so, these reforms will enable us to purchase substantially all of our thermal power through direct negotiations with generators.

While this may eventually lead to a lower unit power cost, in the short term we expect thermal power tariffs to go up because of elevated fuel costs. We will start to see this during the current quarter. Accordingly, we estimate that our utility cost as a percentage of revenue will be similar in 4Q21 to the level in 3Q. Around half of our customer contracts in terms of billable revenue have pricing structures which allow us to pass on increased power costs.

Turning to slide 20, our CapEx for 3Q21 was RMB3.8 billion, consisting of RMB3.2 billion for organic CapEx and RMB575 million for acquisition consideration, mainly related to Beijing 17, 18, 19. As at the end of 3Q21, we had a liability of around RMB1 billion on our balance sheet in respect of deferred and contingent consideration for past acquisitions.

After nine months of the year, our total CapEx stood at RMB11 billion, including RMB3.6 billion for acquisitions and a further RMB0.8

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billion for land bank purchases in China, Hong Kong and Malaysia. Based on our expectations for when the acquisitions which we announced today will close and the amount of total consideration which is payable upfront, we expect CapEx in 4Q21 to be around RMB5 billion.

Looking at our financing position on slide 21, at the end of 3Q21 we had RMB10.1 billion or $1.6 billion of cash on our balance sheet, and our net debt to last quarter annualized adjusted EBITDA ratio increased to 5.1 times.

In the first nine months of 2021, we completed RMB3.6 billion of debt refinancing, and we have a further RMB1.3 billion to complete by year end as part of our annual refinancing plan.

You can see on slide 22 that we continued to refinance at a significantly lower all-in cost. We are beginning to see the benefit in our effective interest rate, which dropped to 5.5% during 3Q21 compared with 6.4% a year ago in 3Q20.

Turning to slide 24, as a result of a lower-than-expected move-in rate in the second half of 2021 and recent increases in power costs, we now expect our total revenue and adjusted EBITDA for the full year 2021 to be in the lower half of the originally provided guidance ranges. Accordingly, we are narrowing guidance to correspond to the lower half of the original ranges. The revised guidance is therefore RMB7.7 billion to RMB7.85 billion for total revenue and RMB3.66 billion to RMB3.73 billion for adjusted EBITDA.

When we gave CapEx guidance at the beginning of the year, we explained that the number only included the acquisition which we knew about at that time, namely BJ15, and that there could be more M&A not included in guidance.

During the year, we made the strategic decision to accelerate our resource acquisition, which effectively brings forward some future year CapEx. As a result, we now expect CapEx for the full year 2021 to be around RMB16 billion compared with the originally provided guidance of around RMB12 million.

Out of the RMB16 billion, approximately 50% will be organic, which is consistent with our original estimate for organic CapEx. At the end of the current year, we expect to have around RMB5 billion invested in capacity held for future development. We'd now like to open the call to questions. Operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). We have the first question, which is coming from the line of Jonathan Atkin from RBC Capital Markets. Please go ahead.

Jonathan Atkin ***RBC Capital Markets - Analyst***

Thanks very much. I was interested in the comments about the revised guidance. You talked about a slower pace of move-in. I wondered, how does that affect your growth expectations for 2022?

And then, the higher utility costs that you mentioned due to fuel, how does that affect your margin expectations for next year?

Dan Newman ***GDS - CFO***

Hi Jon. We're not providing guidance today for 2022. I can only make some comments about the fourth quarter, and you can form your own view. The move-in in the third quarter, I said, was a few thousand square meters lower than our original expectations, and the fourth quarter is likely to be another few thousand square meters. In that respect, we will start the next year at a few thousand square meters below where we originally expected to end this year.

I don't have a lot of visibility far into the future, but I do believe that at some point, we will see a rebound in move-in activity. Our customer contracts give customers the flexibility over how fast they move in, as part of the value of outsourcing. It's what enables customers to make commitments in advance. We always see variants around our estimates because it's not up to us, it's up to the

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customers, so we should not be surprised by this.

Once again, we talked about the effects of higher utility costs. In the third quarter, you saw that utility cost as a percentage of revenue was increased by more than 1 percentage point. Partly, it was seasonal; partly, it was due to the higher cost of backup power. In the fourth quarter, the seasonality works the other way, and we no longer have a serious issue, so far, in relation to power cuts.

But we have potentially higher power towers as a result of liberalization of thermal power pricing, and higher thermal power fuel costs. Therefore, we've assumed in the fourth quarter, utility costs will be elevated once again, a similar percentage of revenue as it was in the third quarter. Once again, you have to form your own view about how long that will last. I'm sure it's transitory, we all know that. But I can't predict the electricity price.

William Huang ***GDS Holdings Limited - Founder, Chairman and CEO***

This is William. I'll add some color. In my view, I think that number one, we have the feeling that the market demand is still very strong, and a lot of customers want to move in more quickly. But as Dan mentioned, the server shipment is a problem in this year, it's impacted the move-in rate. Also, the energy shortage led a lot of customers to slow down their move-in. We hope this element will be solved ASAP. If that's the case, I think it will come to the normal, even catch-up move-in. Again, it's too early to say, or estimate next year's revenue guidance, but one thing is the orders still maintain very strong.

Jonathan Atkin ***RBC Capital Markets - Analyst***

Thank you for that perspective. I wanted to ask about the balance sheet. You touched on it in the prepared remarks, but can you maybe just recap your thoughts on future financing needs given the higher CapEx that you've got into, you mentioned joint venture activities but also higher leverage. Putting that all together, how far into the future do you consider yourself funded, and what would be some of the financing options?

Dan Newman ***GDS - CFO***

We're always fully funded in terms of capital for what we have committed to, what we've announced. We had US$1.6 billion of cash on our balance sheet at the end of third quarter this year, which is adequate for all of the things that we are currently doing. If we need more capital, we do have the option of increasing leverage at the HoldCo level. We have a revolving credit facility there for US$300 million, which we could potentially upsize.

However, as I mentioned before, we also think that it's a good strategy to bring in outside equity at the project level, like we are doing with GIC for the BOT projects. As you are all very well aware, there's a lot of private capital looking for data center exposure, and sometimes private capital comes at a lower cost than the public markets. We do want to have a high bid approach, and we're looking actively at some possibilities for fund-type structures, which would give us access to very deep pools of capital, and potentially some value-add from partners. Sorry, Jon, I just want to add, and potentially some value-add from partners. Yes.

Jonathan Atkin ***RBC Capital Markets - Analyst***

Then lastly from my side, slide 39 gives the contract renewals as a percentage of square meters and services, it's between, it looks like between 10% and 11% between now and year-end 2022. What is your thought or expectations around the pricing around those renewals?

Dan Newman ***GDS - CFO***

Jon, most of the renewals are for downtown data centers. The first thing I would note is that customers are holding on to practically all of their capacity when it comes up for renewal. The churn rate has been a fraction of a percent. We've renewed some contracts flat; we've renewed some down to some degree. As I explained before, it's not a mark-to-market exercise, like it is perhaps in the US. For us, it's a strategic decision, in the context of the overall customer relationship, where we agree a renewal in the context of all the business that we're doing with that customer. I don't think you can really look at it as a completely market-orientated pricing.

Jonathan Atkin ***RBC Capital Markets - Analyst***

Thank you.

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William Huang ***GDS Holdings Limited - Founder, Chairman and CEO***

Jon, I can add some color, because in China the different markets' demand and supply situation is different. In my view, the renewals are just like new sales. Maybe in some markets, we will keep a flat price. Some markets, maybe we'll increase price. Maybe in some markets we will give our strategic customers some benefit. This is a mixed strategy. It depends on the different market supply and demand situation.

Jonathan Atkin ***RBC Capital Markets - Analyst***

Thank you very much.

Operator

Thank you. (Operator Instructions) We have the next question which is coming from the line Yang Liu from Morgan Stanley. Please go ahead.

Yang Liu ***Morgan Stanley - Analyst***

Thanks for the opportunity. I have two questions here. The first one is, in terms of the demand, I guess this is a time that GDS starts to talk with customers in terms of their demand next year. Could you please share with us, in terms of the outlook from the key customers, especially internet and public health customers about the demand for new data center buildouts, because we recently observed some of your customers are CapEx relatively low, so I'm not sure of the demand outlook for next year.

The second question is we notice that GDS closed a lot of acquisitions in the past quarter. Could you please update us in terms of the competition in those deals? Is it more intense than before, or less intense, and how about the valuation trend, upward trend or downward trend, versus deals closed several quarters ago? Thank you.

William Huang ***GDS Holdings Limited - Founder, Chairman and CEO***

Let me answer your first question. I think, recently, I went to China to visit a lot of our key customers. In general, I think they are maintaining their previous plan. But as market structure a little bit shift, maybe some traditional hyper-scale customers slow down a little bit. But at the same time, we saw a lot of the new hyper-scale customers grow faster than our expectations. In general, I think the demand is still maintained very strong.

But the market, a little bit of shift to internet and video companies, and e-commerce companies. This is a fact, based on my communication with our key customers. In general, the market is still very -- demand is still very strong. In addition, within this year's practice, we saw a lot of financial institutions, they increased their CapEx tremendously. It's very surprising to us. This year, we also got a lot of the financial institution orders, even bigger, more bigger than before, we expect. I think that this trend still will continue. Dan, maybe you can answer some acquisitions.

Dan Newman ***GDS - CFO***

Yes, there was competition for every acquisition. We have a dedicated team; we try to identify the opportunities early. We monitor them, there's usually a right time to move forward, and we try to leverage our expertise and track record in doing acquisitions to give counterparties a high degree of confidence in dealing with GDS, which can be a factor, not just a matter of price.

If you look at the acquisitions which we've done so far this year, and the ones that we've announced today, they are predominantly in and around Beijing, and in Shenzhen and Guangdong. Those are the places where there is already clearly a constraint on supply or, if not currently a constraint on supply, a constraint on new project approvals and energy quota allocation.

I think everyone in the industry recognizes that having developable capacity in those places, is going to be very advantageous because there is no organic option in the near future or practically no organic option in the near future. So yes, that means these kind of opportunities are highly sought after and there are a few other players in China, mostly private companies, who have the capital and appetite to pursue them. So those are usually the players that we find ourselves in competition with.

As regards multiples, I want to take this opportunity just to clarify what we mean when we talk about acquisition multiples because most

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of the recent acquisition have been of development projects at various stages, all pre-operational. We evaluate them in exactly the same way as we evaluate organic projects but for the purpose of communicating with investors, we take the acquisition cost in terms of enterprise value plus the cost to complete and divide it by the estimated, stabilized EBITDA. That's the basis of when we talk about multiples. And I would say there's no discernible change in multiples as I defined it.

Yang Liu ***Morgan Stanley - Analyst***

Thank you, that's very helpful.

Operator

We have the next question. This is coming from the line of Colby Synesael from Cowen & Company. Please go ahead.

Colby Synesael ***Cowen and Company - Senior Equity Research Analyst***

Hi, this is Michael on for Colby. Two questions, if I may. First you noted a few times that it's getting more difficult to get power approvals in certain Tier 1 markets. But if you could unpack what's driving this. In turn, what that means for the balance of acquisitions versus organic CapEx in those markets moving forward.

Then second, you recently announced that you're entering or you're doing more in Southeast Asia. Could you just give us some more color on what the next steps are as you look to expand further into the region? Thank you.

William Huang ***GDS Holdings Limited - Founder, Chairman and CEO***

Yes, I think the GDS strategy is we think definitely we will obtain the carbon quota by ourselves. This is the main strategy. But in the same time we -- in the last couple of years we also, based on the market demand, shortened demand, we should, we always practically to acquire lot of resource because we want to catch up to our customers' demand. So this is the -- we always use the different strategy to fulfill the market demand. But in general we are, historically, we're driven by our organic. But in the future, we also will maintain this strategy.

Dan Newman ***GDS - CFO***

Yes, I'll answer the second question about what are the steps that we're going through in terms of implementing our strategy in Southeast Asia. Yes, our initial focus has been on the demand in and around Singapore. As you are aware, there is currently a moratorium on new data center project approvals in Singapore and we found from our home market customers that they have very substantial appetite for increased data center capacity in Singapore, but which cannot currently be satisfied.

Therefore, we have focused on coming up with a nearshore solution which can address below the demand from Singapore and act as a hub for serving the region. Where we've got to so far is that we made an acquisition of land in a tech park in Johor Malaysia, which is just seven kilometers from the Singapore border. And then yesterday we announced that we're acquiring land on Batam Island on the other side of Singapore from Johor which is 25 kilometers from Singapore.

Both of those sites are sufficiently large in terms of what we've acquired and what we've got options over to do hyperscale developments, hyperscale, on a scale which cannot conceivably be done in Singapore given the natural geographic constraints of Singapore.

But it's not only hyperscale, we are working to package these sites together with renewable power supply and multi-diverse network connectivity into Singapore and between the sites to create a very well interconnected hub.

We think the combination of hyperscale, renewable energy, multi-diverse network connectivity at a price point which is substantially below the price point of the Singapore data center market will be very marketable.

Of course, as we're working on this, we're having back-to-back conversations all the time with our customers. William mentioned today that we have signed a strategic cooperation agreement with one of largest Chinese customers which gives us priority in working with them for international expansion. It's a replica of the way that we've been working with them in China for the last five or six years.

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Where we go next? We are looking for another site around Singapore. We do anticipate that there could be a relaxation of the moratorium in Singapore, although it may not be a very large - I mean I'm speculating. But it would be very strategic to be able to establish a presence in Singapore.

Then beyond that we would like to connect these sites into KL where our Chinese customers already have cloud availability zones, and into Jakarta where our customers who also already have cloud availability zones.

But that would be the platform that we are aiming to get to as a kind of first base, and then of course that would be highly connected into Hong Kong and China, and that's as far as our vision extends for the time being. We've made very rapid progress and every month I would say we get more excited about the scale of the opportunity that this represents. So in 3 months, 6 months, 9 months' time, I expect there will be plenty more significant developments to report.

William Huang ***GDS Holdings Limited - Founder, Chairman and CEO***

Yes, I would like to say it's a super exciting opportunity for us because we push a lot of - historically we push a lot of the - refer a lot of our - info-based customers South East Asia demand to our shareholder which is STT. Then in the last 5 years we saw the opportunity to step-by-step increase, and we saw is the potential yield is much bigger than before. So that's why we've made a decision to jump into the market directly. It's the right timing we think. It's like, let's say 6 years or 7 years ago what is happening in China, and that the scale is much bigger than 6 years or 7 years ago.

So I think it's a huge opportunity for us because we have a very huge, a strong let's say advantage in this area. Because (1) we bring all our info-based customers, their demand in South Asia - in next 3 years is very clear, very certain. This is number one.(2) GDS, we do not just one project, we try to develop a platform to give - to solve our customer's painful in this region which makes a huge difference than the local player.

In the meanwhile, we leverage our scale, we can build very lower cost data centers in this region which we believe this is a huge advantage because we have the scale, GDS has a scale advantage. So GDS definitely will super success in this region which I believe in the next 3 years or 5 years. This is all new incremental growth. This is not calculated in our previous business plan, 5-year business plan, it's addition.

Operator: Thank you. Our next question comes from the line of Frank Louthan from Raymond James. Please go ahead.

Frank Louthan ***Raymond James - Analyst***

Great thank you. Just two quick questions. On the slower installations, any concerns there that you're losing any contracts or any competitors taking shares, any part of that?

Then I want to go back to the renewal question and ask that through a different way. Looking at that 10% of renewals are there any significant customer or industry concentration between now and year end that could add to the risk of the rent roll-down that you might be facing, thanks?

Dan Newman: Sorry Frank. I'm in a different place from William and I will answer. I mean just to keep it brief, I think the move-in which we say is lower than what we originally expected, which means the view that we took nearly 12 months ago about what our customers would be doing in November 2021, it's a few thousand square meters below. We don't like to talk about individual customers, but I suspect that the reasons for it being slightly slower are different from customer to customer.

You mentioned competition. I would actually say that it actually may be the opposite of what you were thinking. It's not a result of customers prioritizing moving in elsewhere. Generally, we are very fortunate and benefit from customers giving us priority in terms of move in. They may have several data centers with capacity available to them but because of our relationship often benefit from customers giving us the favor of moving into our facility ahead of moving into another service provider's facility.

Again, for renewals, we don't normally mention the churn rate because as I like to say it's statistically insignificant, but I think it was 0.2%

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last quarter. So I think that tells you that there's no movement in the customer base. The data centers which are coming up for renewal I say are downtown. Downtown means that they were amongst the first 5, 6, 7, that we built in Shenzhen, Shanghai, Beijing, and the customers are holding onto that capacity. So it's purely and simply a matter of a price negotiation and William talked about some of the factors that we take into account when we conduct that negotiation.

Frank Louthan *Raymond James - Analyst*

Okay, great, thank you very much.

Operator

We have the next question from Edison Lee from Jefferies. Please go ahead.

Edison Lee *Jefferies - Analyst*

Hi and thank you for giving me the opportunity to ask a question. I will just stick to one for the time being. I think on the BOT projects that you are doing with GIC, so the previous idea was to sell a 90% stake to GIC and then you collect a management fee of 10%, and right now you want to go up to 51%. So in terms of cash flow does it mean that you are going to still collect money from GIC but you will collect less because of the goal you are going to own a higher equity stake in this project. How a change from 10% to 51% change your ROI prospect for these projects.

Dan Newman *GDS - CFO*

Yes, Edison, you are correct. We have not changed the economic arrangement. As a provider of management and operating services to these projects GDS receives a fee which it so happens it's structured as a revenue share. We take a certain percentage of the revenue, and we cover our own costs. We incur operating costs directly and the revenue share that we take covers those costs and gives us a margin.

So we are charging the project companies the revenue share. Originally, we thought that we would be owning 10% of the project companies, now we are owning 51% so in that sense, yes, we are charging 51% of the management fees being charged to GDS and 49% to GIC. Now previously the way we were looking at this is we were trying to maximize management fees and minimize the capital that we invested. We thought that we could do these projects just as a kind of capital light approach.

But then we look at the quantum of the management fees and it's not insignificant, it's not enormous, and then we look at the opportunity to deploy capital and the return on that capital and enhance it with management fees and we simply decided that it made more sense for us now and better I think for our shareholders for us to take the latter approach. It so happens that as we start to work for more different customers with these BOT structures, we did get asked by some customers to maintain a majority stake although I think all the customers very much like the partnership approach and the involvement of GIC, but it did come up a few times so that was another factor for doing it.

Operator

Thank you, we have our next question coming from the line of Hongjie Li from CICC, please go ahead.

Hongjie Li *CICC - Analyst*

Thanks management. My question is regarding the initiatives on green energy because you mentioned in the presentation to do more direct investment in renewable energy just like generation solar panels. So how should we outlook the incremental CapEx impact on the margin? Thank you.

Dan Newman *GDS - CFO*

Yes, we did mention that. I think that strategically our top objective is to be able to invest in some renewable power generation on an integrated basis with data center development. That would be highly innovative in and around Tier 1 markets and it takes time to put together projects like that and time to develop them. So that's an objective which I think will take several years to realize it, to make it happen. In the meantime, it means that most of what we are doing in the area of renewable energy is OpEx.

If you look at the utility cost, typically in Tier 1 markets it averages around RMB0.65, that's RMB0.65 per kilowatt hour for thermal power,

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and renewable energy certificates cost about RMB0.01 to RMB0.02 on top of RMB0.65. Direct purchase of renewable power which can only really happen in places where we are able to take delivery of renewable power as land user, as renewable power right now I'd say the premium is typically around RMB0.05 and RMB0.05 on top of RMB0.65. Well, that gives you some idea of what the cost is in terms of OpEx.

We haven't yet made any significant CapEx allocation to investment in renewable energy generation.

William Huang ***GDS Holdings Limited - Founder, Chairman and CEO***

Yes, I would add on some color on that, because our customers are all getting the pressure from the green data centers or carbon neutral, right? So they're facing more strong pressure. So based on this, we already talked to our customers. We believe the costs we will transfer to our customers.

Operator

Thank you. As there are no further questions at this moment, I'd like to turn the call back to the Company for closing remarks. Please go ahead.

Laura Chen ***GDS Holdings Limited - Head of Investor Relations***

Thank you all, once again, for joining us today. If you have further questions, please feel free to contact GDS Investor Relations through the contact information on our website, or the Piacente Group Investor Relations. Thank you all, bye.

Operator

This concludes this conference call. Thank you all for your participation, you may now disconnect your lines.

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