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Q2 2021 GDS Holdings Ltd Earnings Call

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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for GDS Holdings Limited's second 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 Q2 2021 earnings conference call of GDS Holdings Limited. The Company 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 website, at:investors.gds-services.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 that GDS earnings press release and this conference call 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 - Chairman and CEO***

Thank you, Laura. Hello, everyone. This is William, thank you for joining me on today's call.

I'm pleased to report another solid set of results. Our year-to-date performance is fully in line with expectations. Our sales in 2Q 2021 was over 44,000 square meters, including over 25,000 square meters of organic bookings and 19,000 square meters from acquisitions.

We have maintained our quarterly run rate since the beginning of last year. We are confident of achieving our full year sales target.

In 2Q 2021 we won three hyperscale orders, each of which tells a different story about our competitive edge.

LF13 is a 14 megawatt expansion order from an existing customer. It's an edge of town site in Langfang, where the customer already has a big presence with us. This is an example of land and expand. A lot of our new business fits into this category. The cycle starts with joint planning and then we enter into a sales MOU, covering multiple phases of deployment. This gives both GDS and our customers a high degree of certainty. Once the customer has landed, there is little or no competition for the expansion orders. We currently have over 50,000 square meters of planned commitments in MOUs, which is not yet reflected in our bookings.

BJ16 is a 15-megawatt first time deployment by a new cloud customer. They specifically required capacity in downtown area of Beijing, where resource is scarce. The customer is a relatively new cloud service provider, focused on government and SOEs. We have a great track record with cloud customers which is important for winning new business. We have diversified our cloud customer bases and serve all the leading players. The cloud market is growing as strong as ever and we are well positioned across the spectrum.

CS2 is a 34-megawatt first-time deployment by a new large internet customer. It's at our Changshu Campus in Jiangsu Province. Over the past few years, we have seen an increasing number of opportunities like this where large internet customers started to build their own IT platforms and outsource to data center operators. For orders of this size, they require edge of town locations with large scale, low cost and low latency connectivity to downtown. We are well positioned with this edge of town product and have a lot of success with customers.

Despite the recent regulatory developments affecting internet companies, our sales pipeline has been very stable. Our backlog is safe and churn is immaterial. Looking at the big picture, we serve the whole digital transformation in China, not just a few customers.

The government is strongly committed to sustained economic growth, enabled by technology growth innovation. We do not see any change in our long-term growth trajectory.

The government has designated data centers as new infrastructure. The industry receives strong government support.

The National Development and the Reform Commission, together with other central government agencies, recently published an important policy document, setting out an overall vision for accelerating data center development in China. This was followed by a three-year action plan published by the Ministry of Industry and Information Technology.

In these documents, the government recognizes the need for data centers to be physically located in Tier 1 markets for low latency applications and in designated remote areas for non-real time computing. They want to see high efficiency data centers using more renewable energy. They want to promote data centers which are more technologically advanced, reliable and secure and they want to encourage Chinese data center companies to expand overseas.

From our perspective, these policies are a natural continuation of the policy direction of the past few years. We feel that GDS is already very well aligned with the government's objectives. At the same time, we think that the bar has been raised for the industry as a whole. It's created a much bigger challenge for small players with less expertise and resources. We very much welcome these policies, which we believe are good for the industry and good for us.

We realized several years ago that as hyperscale demand took off it could not be satisfied just in downtown locations. Supported by our customers, we were the first mover in edge of town locations. We have built good relationships with local governments and established a strong track record. These are critical success factors when it comes to securing more pipeline.

As at mid-2021, we had successfully secured over 500,000 square meters of capacity held for future development, roughly 90% of which comes with power quota commitments, far more than any of our peers.

As shown on slide 9, in the Shanghai market we have 28,000 square meters held for future development at downtown sites and close to 120,000 square meters held for future development at three edge of town sites in Jiangsu Province, all of which have power quota commitments.

As shown on slide 10, the situation in Beijing market is quite similar. We have 14,000 square meters held for future development downtown and 133,000 square meters of secured pipeline in Langfang and other edge of town locations.

While edge of town is driving our volume growth, our customers still look to us for help in sourcing downtown capacity. We approach this in a number of different ways, including by acquisitions.

During the second quarter, we closed our previously announced Beijing 15, Tianjin 1 and Shenzhen 8 acquisitions. We also recently completed a new deal for over 10,000 square meters of capacity at an urban site in Beijing which we call BJ17, 18 and 19. This came with nearly 4000 square meters of commitments from a new hyperscale customer. The acquisition was done on a high single digit multiple.

The data center industry has attracted a number of new entrants, they are mostly local project companies. They compete at an entirely different level from us, they do not have any competitive advantages. Sometimes you see announcements, but then they do not move forward with their projects. You would be surprised how often we are approached about partnerships or acquisitions. While investors may see these project companies as increased competition, from our perspective they are market consolidation opportunities.

Our hyperscale customers use Hong Kong as a launchpad for their overseas business. We therefore view Hong Kong as an integral part of our regionalization strategy. We are currently developing two purpose-built data centers in the Kwai Chung area of Hong Kong, HK1 and HK2. Most of the capacity in these data centers has already been allocated to strategic customers pending contracts.

In order to build on this success, we have entered into a definitive agreement to purchase another nearby building which we plan to redevelop as HK4. Given the real estate challenge in Hong Kong, it's a great achievement to put together three major projects in such close proximity. It creates a big operational benefit for our customers. We also signed a heads of agreement for the lease of a building shell, which will house HK3. Altogether, this gives us a securer pipeline, with nearly 80 megawatts of purpose-built capacity through to 2027 and beyond.

Complementing our presence in Hong Kong, we recently entered into a definitive agreement to form a joint venture to acquire brownfield sites in Macau for redevelopment as a data center, with nearly 20 megawatts of capacity. Real estate is a big challenge in Macau and there is very little data center capacity. Our project is a groundbreaking move, we will be the only player who covers Hong Kong, Macau, Shenzhen and Guangzhou.

We recently announced the first concrete steps in our Southeast Asia expansion, with the acquisition of greenfield land in Nusajaya Tech Park in Johor, Malaysia, with developable capacity of 22,500 square meters or 54 megawatts. The site is ideally located to meet regional demand as it is only a few kilometers from the Singapore border.

Furthermore, it's right next door to Telekom Malaysia's main regional data center, which gives us an opportunity for collaboration, as well as for leveraging their low latency network into Singapore and the rest of Malaysia. We received very positive feedback from our leading customers about this project. We aim to secure commitments for the first phase within the next couple of quarters.

Beyond Johor, we are actively pursuing a number of other opportunities in and around Singapore, in Kuala Lumpur and in Jakarta. In all cases, the logic is follow our core market customer by extending our interconnected platform. Echoing the government policy of supporting Chinese companies to go overseas, we have already identified over 200 megawatts of demand from Chinese customers in Southeast Asia within the next five years.

In conclusion, the market opportunity for GDS in China is intact and our bookings are consistent. We are fully aligned with the government's policy objectives, new markets, regionalisation and consolidation are creating exciting new opportunities for us. We are not distracted from our mission and continue to execute our long-term business plan with great discipline.

Thank you. Now we'll hand over to Dan for the financial and operating review.

Dan Newman ***GDS Holdings Limited - CFO***

Thank you, William. Starting on slide 16, where we strip out the contribution from equipment sales and the effect of FX changes.

In Q2 2021, our service revenue grew by 9.3%. Underlying adjusted gross profit grew by 8.5% and underlying adjusted EBITDA grew by 9.8% quarter-on-quarter. Our underlying adjusted EBITDA margin was 48.1%.

Turning to slide 17, revenue growth is driven mainly by delivery of the committed backlog and closing of acquisitions. Net additional area utilized during 2Q 2021 was 29,000 square meters, including 15,000 square meters from the BJ15 acquisition. At mid-year, we are where we expected to be in terms of move-in.

MSR declined 0.4% quarter-on-quarter in 2Q 2021, RMB2416 per square meter per month. In the second half of this year, we expect MSR to be relatively flat. Looking further ahead, we do expect slight decline next year, mainly driven by edge-of-town capacity where pricing and development costs are both lower.

Turning to slide 18, our underlying adjusted gross profit margin was 54% for 2Q21, a decrease of 0.4 percentage points quarter over quarter, as a large amount of new capacity came into service. For the same reason, our utilization rate also dropped slightly to 69%. Our underlying adjusted EBITDA margin was 48.1% for 2Q21, an increase of 0.2 percentage points quarter over quarter, mainly due to leverage on SG&A.

As you can see on slide 19, we have a lot of data center capacity coming into service in the second half of the year. As a result, we expect some growth drag. We also expect higher SG&A as a result of some of our corporate activities. Our underlying adjusted EBITDA margin in the second half will be slightly lower but still in line with our guidance.

Turning to slide 20, our CapEx for Q2 2021 was RMB4.8 billion, consisting of RMB1.9 billion for organic CapEx and RMB3 billion for acquisition consideration mainly related to BJ15. As at mid-2021, we had around RMB1 billion on our balance sheet of deferred and continued consideration for acquisitions.

Looking at our financing position on slide 21, we have RMB12.3 billion or US$1.9 billion of cash on our balance sheet, and our net debt to LQA adjusted EBITDA ratio increased to 4.3 times after paying for the Beijing 15 acquisition in the second quarter.

During 2Q21, we completed debt financing with a total facility amount of RMB4.7 billion. We continue to lower our financing cost. This is best illustrated by looking at the refinancing portion which accounted for RMB2.7 billion.

As shown on slide 22, the all-in cost for the refinancings came down from 6.7% for the original facilities to 4.6% for the new facilities. At the same time, we have had significantly extended the tenors of these facilities, which is visibly apparent in our improved debt maturity profile. We have a further RMB2.1 billion of refinancing left to do as part of our plan for this year.

Overall, we are in a good position in terms of the financial resources which we have already secured. Access to capital gives us competitive advantage. We are therefore looking at different structures such as partnerships, JVs and funds to further diversify and enhance our access to capital in ways which are beneficial for all our shareholders.

Turning to slide 23, as at mid-2021 we have a backlog of close to 198,000 square meters. It gives us high visibility to future growth. Assuming that we complete the existing projects, deliver the backlog and sell out the remaining inventory, our revenue-generating area would almost double from today's level. This is without initiating any new projects. The cost to complete the existing projects is RMB10.7 billion, which is less than the cash on our balance sheet.

As William mentioned at the beginning, our first half performance is in line with our expectations. They are therefore confirming our original guidance with respect to revenue, adjusted EBITDA and CapEx. We would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). For the benefit of all participants on today's call, please limit yourself to one question. If you have more questions, please re-enter the queue. (Operator Instructions). Your first question comes from the line of Tina Hou of Goldman Sachs. Please ask your question.

Tina Hou ***Goldman Sachs - Analyst***

Thank you for your time management. My question is regarding the Jiangsu supply situation. What is the current situation there in terms of the supply demand? Also, are you seeing similar cases as what happened before? What is the current pricing and return trend in Jiangsu? Also, is this potential over-supply happening anywhere else? Thank you.

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

Thank you for your question. This is the question I tried to address. When we talk about Jiangsu, we are talking the Shanghai market. It is a global Tier 1 data center market, one of the largest in the world. As you are well aware, supply in urban parts of Shanghai is limited. Therefore, the market has moved to the edge of town.

We see some very big deal opportunities in Jiangsu with hyperscale customers. We have secured around 250 megawatts of supply. It is far more than any of our competitors. They would all love to have that.

With high barriers to entry for new project approval and quotas secure supply is very valuable. Our supply is at the campus locations. There are three other data center players in the same general area, each of which has one campus location. Nobody builds on spec. There are no empty data centers already there. Everybody builds based on customer commitments.

We are the only platform player in China. We have by far the greatest market presence. We have customer relationships that span multiple data centers. When there is a new business opportunity, we can choose whether or not to go for it. We do not have to win every piece of business because it is our only opportunity.

We target returns across our portfolio and profitability across customer relationships. It would be meaningless to talk about the pricing for one particular deal. Our position in Langfang is even stronger than in Jiangsu. We do not see any major player in this same general area as us.

We have one business from multiple hyperscale customers, which means that we have already landed them in Langfang. Dan, do you want to add something more?

Dan Newman ***GDS Holdings Limited - CFO***

If we talk more generally, on a like-for-like basis returns have been quite well sustained. As we commented quite a number of times before, we are transparent with our hyperscale customers. We give them a reasonable price and we make a reasonable return. They know our costs. It has been this way for several years already. It works well. It's a good dynamic.

Operator

Your next question comes from the line of Yang Liu of Morgan Stanley. Please ask your question.

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

Thanks for the opportunity. I have one question related with the recent power quota allocation in Shanghai. We know that GDS together with several other industry leading players do not get power quota. Could you please share what your thoughts are behind the government's power quota allocation logic? Are they favoring SOE or favoring new entrants or favoring whoever pays more tax locally? Could what happens in Shanghai be repeated in other markets?

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

I think this is a question you used to mention, so now I have the chance to answer your question directly. The Shanghai government has taken an approach of annual quota allocation for the past three years. It's not a new development. The Shanghai approach has not been adopted anywhere else in China.

The government allocates a small quota to different players. As a result, there are no big winners. We do not believe that the Shanghai government is trying to engineer the competitive landscape. The allocation approach results in the small data centers, a fragmented market and unproven operators, which does not reflect what many of our larger customers are looking for.

We foresaw that most of demand would go to the edge of town. We put ourselves in a great position with our continuous secured supply in edge-of-town areas.

The downtown piece is an add-on. We look at the different ways of generating some downtown supply, including partnering and acquisitions. One way or other, we deal with the challenge.

Operator

Your next question comes from the line of James Wang of UBS. Please ask your question.

James Wang ***UBS - Analyst***

Good evening, management. Thank you for your time today. Just a quick one from me. Mine are on the recent cyber security review by the regulator in China, Cyberspace Administration of China. The regulation specifically targets companies which are listed overseas. As a US-listed company using a VIE structure, is that going to affect you, and how? Thank you.

Dan Newman ***GDS Holdings Limited - CFO***

Let me be absolutely clear what we're talking about. The cybersecurity administration of China recently issued a draft of new regulations on cybersecurity review for public comments. These regulations are applicable to what they call operators of critical information infrastructure, CII operators, as well as other companies who are involved in processing data.

Whether a data center company such as GDS is a CII operator remains to be determined by the relevant government authorities. If it is determined that GDS is a CII operator, then we would need to comply with a set of requirements to ensure data security. For us, this is not a concern, not a concern at all. It is part of our DNA to operate to the highest standards of security and reliability.

We have implemented already the highest standards of physical and information security. Our business is about business continuity. We commit to SLAs around many of these factors. So, these things which are important aspects or the requirements of a cybersecurity review are our everyday business.

So far as we're aware, there have been no recent developments regarding VIEs. I think the issue of VIEs and cybersecurity gets mixed up, maybe because most of the internet companies are VIEs. But the situation in our industry is a little bit different from the internet. Foreign ownership is not prohibited. Foreign ownership in our industry is just restricted to 50%. There has been some movement even recently to further open up the data center industry to a higher level of foreign ownership just in very specific zones.

Meanwhile, there's no foreign ownership restriction on real estate, no foreign ownership restriction on plant and equipment. So, if you look at our corporate structure, we had around 90% of our assets held directly by GDS and not through our VIE. I think this setup in terms of AssetCo's and OpCo's is quite common in our industry globally. Once again, I emphasize this is quite a different situation from internet companies. We don't look like an internet company.

Operator

Your next question comes from the line of Hongjie Li of CICC. Please ask your question.

Hongjie Li ***CICC - Analyst***

Good evening, management. Can you give any color on the move-in pace for the second half of this year? Do you see any slowdown in move-in from the downstream customers, especially some public firm business may be impacted by the regulation from the online education and gaming. Thank you.

Dan Newman ***GDS Holdings Limited - CFO***

We don't have any education customers. We're not aware of our customers being impacted by regulatory developments in the internet sector. There are always operational factors which can lead to faster-moving or slow-moving. That's true at any time.

As we said, the movement in the first half of this year was fully up to our expectations. A lot of data center capacity came into service in the second quarter. A lot more is coming into service in the third quarter. If you follow our logic, this creates the condition for a higher level of move-in, although there does tend to be a time-lag of a couple of quarters because not much happens immediately after a new data center comes into service.

But high level of move-in is what we are expecting in the second half of the year. We've said that we are on track with our guidance. Of course, our guidance is a range that covers potential variances. More than that, it's too early to say.

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

Yes. In general, we still confirm our guidance, no doubt.

Operator

Your next question comes from the line of Colby Synesael of Cowen. Please ask your question.

Colby Synesael ***Cowen - Analyst***

Thank you. I have two. You talked previously about potentially taking ownership up of your JVs with I think GIC. I'm curious if there's an update on what your thinking is there.

Then you talked about various financing opportunities. You talked about partnerships, JVs and so forth. I'm wondering if you can give us additional color on what types of regions are you anticipating doing those? Are those in the Tier 1 or edge markets, or are those in the more rural type areas, or are those for even overseas? Just trying to get a sense of where you're intending to potentially do some of those things. Thank you.

Dan Newman ***GDS Holdings Limited - CFO***

Thank you, Colby. The first question, we have just about reached agreement with our joint venture partner for the change in shareholding that we were looking for in relation to specific of those BOT projects.

I know it's been a long wait, but we will very likely disclose that in our next earning call. That will result in those projects being consolidated and the balance of our investment and the income will be a little different from how we originally envisaged it, but very acceptable to us in the current circumstances.

About your second question, as you can imagine there's quite a number of discussions going on now, so I can't talk more specifically, but I can comment thematically and say that what we're looking to do is to introduce private capital at a lower level. It could be through a fund or through intermediate holding company, or it could be directly into projects. And it could be several different structures with different partners. Some of it will be in Tier 1 markets. You know this is not a custom-approach for BOT projects like we talked about before. This is a way of leveraging our capital with partners' capital in such a way that we're able to make our capital go further and enhance the return on our capital by trading a little gross for the opportunity to earn fees.

Eventually we may look at doing this for special types of projects; we may look for doing this overseas as well. But initially we're going to focus on doing this for our core business in China so that we can open up a channel to a very deep pool of capital, possibly at a lower cost than we could achieve in the public equity markets even in the best of times, yeah.

Operator

Your next question comes from the line of Edison Lee of Jefferies. Please ask your question.

Edison Lee ***Jefferies - Analyst***

Hi, William and Dan. Thank you very much for giving me the chance to ask questions. Number one is simply on CapEx. I think you stick to the RMB12 billion CapEx guidance for the full year. And in the first half, you did an acquisition in Beijing, and the CapEx for the first half was I think RMB3 billion - roughly RMB3 billion according to your slides. I just want to know how much of the RMB12 billion for the full year will be spent on acquisitions based on your current estimate. So that's the first question.

The second question, very quickly, is about M&A opportunities in the market. Have you seen any change in M&A market over the past, I would say 2Q versus 1Q or versus 4Q last year, given the internet regulations, and given I think the macroeconomic situation?

Dan Newman ***GDS Holdings Limited - CFO***

Yes, thanks, Edison. I think if you look at our CapEx in the first half, and you take our organic CapEx in the first half and double it, you're going to get to around RMB12 billion, which was our full-year CapEx guidance. We have announced today that we did another acquisition, which in fact has already closed during the current quarter, during the third quarter. The consideration for that was a few hundred million RMB. so you can take that as being included in the original guidance.

About the acquisition scene - there's two different kinds of deals we're talking about. There's the, call it single-site deal, which is happening all the time, and it's a good pipeline. And then there are potentially larger deals, you can call them platform deals, but they're kind of mini-platform deals compared with us. And what we were intimating in the prepared remarks is that if we do get a sense that owners think the time is coming for in-market consolidation, and of course GDS is positioned to be the consolidator.

We talk about multiples. We talk about competition - it's situation-specific. Most of the deals, single-site deals that we're doing, there's limited competition and we're doing it on single-digit multiples -mid- to high-single digit multiples. But there are a few where there is more competition. But we're disciplined and, on the whole, we've been able to carry on doing this business without paying multiples that are higher or than we typically did in the past.

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

Yes, maybe I can add some current event. We do see some platform players, we do not call them platform player, they're multi-asset players.

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

Yes, multi-asset players, now considered to as I just mentioned, there's a lot of very frequency recently we've received a lot of approaches to talk to partner with us or merge with us or sell to us. I think this is something new than before, yeah. So I think given time, that means this is a huge - big opportunity for us to consolidate market I think that we will see. We are very open to talk to them and if everything is going well, and the timing's good or the price is good, then definitely we take action.

Operator

Your next question comes from the line of Gokul Hariharan of JP Morgan. Please ask your question.

Gokul Hariharan ***JP Morgan - Analyst***

Hi William, hi Dan, thanks for taking the questions. Could you talk a little bit more in detail about how the competitive landscape has been, how the economics have been for these large hyperscale orders that you've won in the last quarter, roughly about 24,000 square meters and a fair bit of power capacity committed as well. How does the pricing look and how does the competitive landscape look for these specific projects? If we could talk a little bit in detail.

Dan Newman ***GDS Holdings Limited - CFO***

William, do you want to answer that?

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

Yes, go ahead.

Dan Newman ***GDS Holdings Limited - CFO***

Yes, we talked about the three hyperscale orders which we won, and I think we provided more commentary than we normally do. We're happy to do that in future. The intention was to give investors a flavor for what the kind of opportunities are that we see and how we come to win them.

The first one was a land and expand, meaning that we won that deal, in effect, quite some time ago when the customer first made a commitment to deploy an availability and I believe, in our Langfang campus. When that was done it was with an explicit plan reflected in the sales memorandum to expand in multiple phases in future years. That business does not go out to open tender. You don't see it going through the market. You won't hear about it from our competitors.

You'd be surprised how much of our business is like that. William mentioned that we're sitting on MoUs which have future planned deployments of over 50,000 square meters which is not yet contracted, so we don't disclose it as part of our bookings. But it's highly assured to happen. That number, by the way, could go up quite a bit between now and the year-end because there are some new opportunities coming which are in that land and expand category.

So that's one part of our business where of course the initial deployment can be competitive, but the tendency is for customers to work very collaboratively on these because these are very strategic deployments for the customers and it's not just a question about publishing a request for proposal and conducting a tender. It's much more intermate and complex than that.

The second deal that William talked about was a, call it, downtown Beijing deal. It was the cloud service provider. I think we have, well, I'd say a tremendous edge in serving cloud service providers. We are a significant supplier I think to all the leading cloud service providers in China. There's an advantage to cloud service providers to work with us because they benefit from being in close proximity to each other.

It so happens that customer's requirement was very location specific and there was not much choice. That kind of deal obviously is also not very competitive.

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

Yes, what I tried to say, this SOE cloud, I think it's -- they are more appreciate GDS's capability and track record and service level commitment capability. So I think it's - they didn't go outside and ask for a lot of bids. So this deal is very good and our profile, GDS as a operator, our profile fully fits their criteria.

So I think the competition is very less and we won very, very straightforward and got very good price.

Dan Newman ***GDS Holdings Limited - CFO***

Yes. The third deal was the large deal. That was a very strategic business. Our offering is clearly differentiated from any other data center company because of our platform, our market presence, our continuous supply. Customers appreciate that. They start maybe with a requirement which is quite straightforward, but we've seen again and again that their requirement gets more complicated, more complex, more challenging over time. It starts straightforward and then increasingly plays to our strength.

So that's a cycle we've been through very many times, and that's really how we look at those -- we target those opportunities because we know that's how we can grow the relationship.

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

Yes.

Operator

Your next questions comes from the line of Frank Louthan of Raymond James. Please ask your question.

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

Great. Thank you. With the government's new stance on IT and the emphasis there, have you seen any shift in their allocation space and power? Can you give any other evidence of some tangible benefits of that policy beginning to benefit your business or to see evidence of the market growing or anything like that that's just a more tangible benefit to GDS?

Dan Newman ***GDS Holdings Limited - CFO***

Well, Frank, I think it's something that we and investors can take a great -- I think more than comfort but have a very positive opinion about, is that it is very clear that the government recognizes the importance of the data center industry. It's one of the seven categories of new infrastructure which is essential to facilitate digital transformation.

On the back of that, there's been a series of policy documents at the national level, at the local level, setting out how the government will approach the allocation of resources to ensure a very healthy industry development. In these recent policy documents there is -- it's very I think clearly expressed in terms of what the government's objectives are, what they want to see. We feel that it -- I'd use the expression again -- plays to our strengths because the government wants to see more technological advanced data centers, more reliable, more secure, more green, more power efficient, better integrated with the supply chain and more technological innovation.

The government is not trying to engineer the competitive landscape. That's not part of their thinking at all, but I think what they will do is ensure that sufficient resource is allocated to data centers to enable data centers in Tier 1 markets and in other locations are not a bottleneck to digital transformation, that there is sufficient capacity to support ambitious targets for a digital transformation.

Operator

Your next question comes from the line of Joel Ying of Nomura. Please ask your question.

Joel Ying ***Nomura - Analyst***

Thank you for the opportunity. So actually I have one question about the policy, potential concern and risk regarding the things that happened in the past year. Maybe I can ask you to think about it, is there any new industry acquisitions for data center vertical, potentially, in the -- from government or are there any aspects the government has flagged out and are potentially concern for the industry? Thank you.

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

Okay, thank you. I will answer your questions. Yes, as you guys know, the carrier-neutral data center industry in China has been around for almost 25 years. The industry is regulated as part of the telecom value added service, but regulation is very well developed and effective. GDS has been fully compliant, as I mentioned just - and as Dan mentioned.

So this situation is not like some of the verticals which emerged in recent years and where the regulation is catching up. So this is the current situation.

Operator

Your next question comes from the line of Tina Hou of Goldman Sachs. Please ask your question.

Tina Hou ***Goldman Sachs - Analyst***

Hi. Thank you very much for a second round. So I have a few follow-up questions. The first one is that in terms of demand, do management still maintain your sales guidance of around 120 square meter of sales for the next three years?

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

Yes.

Tina Hou ***Goldman Sachs - Analyst***

Yes. Okay, great. Thank you.

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

Yes. I'll tell you the reason why, because the whole digitalization, it's a global trend. It's also the central government's strategy to drive the economic growth. This has never changed.

On the other hand, no -- we didn't see any regulation impact the market demand. On the other hand, GDS already well positioned our -- because we have the largest in-store based customer, cover the whole industry vertical, so we are well positioned to capture the future growth.

So again, I would say we are confident to maintain this growth in the next three, even five years.

Tina Hou ***Goldman Sachs - Analyst***

Right. Thank you very much.

Operator

Due to time limit, I'd like to now turn the call back over to the Company for closing remarks.

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

Well, thank you all for -- once again for joining us today. If you have further questions, please feel free to contact GDS Investor Relations through our contact information or website or Piacente Group Investor Relations. Bye. See you next time.

Operator

This concludes this conference call. You may now disconnect your line. Thank you.
