

GDS Holding Ltd(Q2 2025 Earnings)

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Corporate Speakers:

- Laura Chen; GDS Holding Limited; Head of Investor Relations
- William Huang; GDS Holding Limited; Founder, Chairman and CEO
- Daniel Newman; GDS Holding Limited; CFO

Participants:

- Yang Liu; Morgan Stanley; Analyst
- Sara Wang; UBS; Analyst
- Frank Louthan; Raymond James & Associates; Analyst
- Edison Lee; Jefferies; Analyst
- Gokul Hariharan; JPMorgan; Analyst

PRESENTATION

Operator^ Hello, ladies and gentlemen. Thank you for standing by for GDS Holdings Limited's Second Quarter 2025 Earnings Conference Call. (Operator Instructions)

Today's conference call is being recorded.

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^ Thank you. Hello, everyone. Welcome to the Second Quarter 2025 Earnings Conference Call of GDS Holdings Limited.

As the company's results, the company's results were issued via newswire services earlier today and are posted online.

A summary presentation, which we'll 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.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private cities 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 uncertainties is included in the company's prospectus as filed with the U.S. SEC.

The company does not assume any obligation to update any forward-looking statements except as required under applicable law.

Please also note that GDS' earnings press release and its 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'll now turn the call over to GDS' Founder, Chairman and CEO, William Huang.

Please go ahead, William.

William Huang^ Thank you. Hello, everyone. This is William. Thank you for joining us on today's call.

We delivered a solid second quarter, growing revenue by 12.4% and adjusted EBITDA by 11.2% year-on-year.

We raised net proceeds of USD 676 million through the issue of convertible bonds and equity in the international capital market, strengthening our HoldCo balance sheet. More recently, we achieved a significant milestone in our onshore asset monetization strategy with the successful completion of our REIT IPO, the units of our series are now trading on the Shanghai Stock Exchange at implied cap rates of below 5%. This is a major breakthrough giving us access to China equity capital market on highly advantageous terms.

Our gross move-in during 2Q '25 was around 20,000 square meters, which is consistent with the level over the past five quarters.

Our utilization rate has continued to climb, reaching 77.5%. Move-in over the next few quarters will remain solid, driven by delivery of the 152 megawatts order, which we signed in 1Q '25.

We expect to deliver 35% of our total current backlog in the second half of 2025.

In Q2 '25, gross new bookings were 23,000 square meters, mainly from traditional Internet and the cloud business with a good mix of customers and the locations. AI demand was relatively quiet due to the uncertainty of chip supply in China.

Customers have a number of options across both imported and domestically-sourced chips.

It's a complicated metrics of performance, technology, availability and other considerations.

We think that it will take some time for customers to decide which way to go.

We are very confident about AI-driven demand over the medium and long term.

However, we are still in a period of “wait and see”.

We should have a clear view after a few more months.

During this period, we think that the most important thing is for us to be ready to respond, ready in terms of developable capacity and ready in terms of access to capital.

On the capacity side, we have around 900 megawatts of power land held for future development in and around Tier 1 markets.

We believe the coming waves of AI demand is going to be mainly for inference. This kind of demand is latency sensitive and will require relatively large sites distributed across the Tier 1 markets.

For operational reasons, customers will seek to deploy capacity for inferencing within established cloud regions and availability zones.

We have multiple sites suitable for AI inferencing around Beijing, Shanghai and Shenzhen.

We have undertaken preliminary site preparations so that we can develop with a short lead time. This is an important consideration for customers.

We believe there is a good chance that we will develop all of this 900 megawatts and more over the next few years.

The issue is only the timing of take-off.

On the financing side, we completed the first-ever data center ABS transaction in China in late March.

We then followed this up with the first-ever data center REITs IPO in China in August.

By pioneering these transactions, we have proven our ability to recycle capital from stabilized data center assets.

This comes at the perfect time as we can use the proceeds to fund new investment opportunities. Furthermore, the terms on which we have monetized assets established a benchmark for the value of our stabilized asset -- data centers in Tier 1 markets, creating potential to unlock more value for shareholders.

Our powered land and our monetization vehicles are unique in China and give us significant competitive advantage as we enter into the AI era. Lastly, I would like to share some operating updates for our equity investment in DayOne.

In 2Q '25, DayOne added a phenomenal 246 megawatts of new commitments, which brings its total power committed by customers to over 780 megawatts.

The new order in 2Q '25 included an anchor customer commitment for its Thailand project. More recently, DayOne announced that it has secured a second campus site in Finland, building on its successful market entry. DayOne is well ahead of schedule to meet the target of 1 gigawatt of total power commitments within three years.

I will now pass on to Dan for the financial and operating review.

Daniel Newman^ Thank you, William. Starting on Slide 13.

In 2Q '25, revenue increased by 12.4% year on year. This resulted from an increase in total area utilized with 14.1% and a decrease in MSR per square meter of 1.7% as compared with 2Q '24.

In 2Q '25, adjusted EBITDA increased by 11.2% year on year.

Adjusted EBITDA margin for 2Q '25 was 47.3% compared with 47.8% in 2Q '24. Following completion of the ABS transaction in late March, we deconsolidated the underlying projects for the whole of 2Q '25. Following completion of the sale of stabilized data centers to a C-REIT in late July, we will deconsolidate these projects during 3Q '25.

As we report earnings over the next three to four quarters, the reported revenue and EBITDA growth will be impacted because the comparison will not be apples to apples.

We estimate that the apparent year-on-year growth rate without making adjustments to normalize for the asset monetization, will be about 6 percentage points lower.

We will continue to call this out on future earnings calls so the underlying trend is clear.

Starting with 2Q '25 without the ABS transaction, the year-on-year adjusted EBITDA growth rate would have been 13.9% as compared with the reported 11.2%.

As shown on Slide 17, the ABS transaction took place on an EV to EBITDA multiple of 13.3x based on the maximum potential sale proceeds and the projected stabilized EBITDA. This was a good start considering where GDS is trading as a listed company on NASDAQ and the Hong Kong Stock Exchange.

However, for the C-REIT IPO, we achieved an even higher multiple of 16.9x at the IPO price at RMB3 per unit.

The units started trading on the Shanghai Stock Exchange on the eighth of August.

The closing price yesterday was RMB4.04 per unit, about 35% up from the IPO price.

At this level, the C-REIT is trading on 22.8x the projected '26 EBITDA disclosed in the offering memorandum. This is close to double the current year trading multiple for GDS China business after adjusting for the assumed value of our equity investment in DayOne on a sum-of-the-parts basis. Under the current C-REIT regulations, we must wait 12 months before undertaking the first post-IPO asset injection.

We started preparing some candidate assets of various sizes to give us the flexibility to dimension the next monetization in accordance with our financial requirements.

It's important that we continue to grow and diversify the C-REIT so that it remains a viable option for us to recycle capital when it is in our interest to do so.

With the C-REIT platform in place, if we assume that we invest in new projects, ramp up, operate and monetize after five years at a cap rate in, say, the 5% to 6% range, the return on investment is at a very acceptable level. Turning to Slide 18. When we gave CapEx guidance earlier this year, we spoke of RMB4.8 billion of organic CapEx, less RMB500 million net proceeds in the current year from the ABS transaction resulting in CapEx guidance of RMB4.3 billion.

We are now deducting a further RMB1.6 billion net proceeds from the C-REIT transaction, which was not previously factored in.

This brings our CapEx guidance down from RMB4.3 billion to RMB2.7 billion.

On Slide 19, in 2024, we achieved positive cash flow before financing with the benefit of some capital recycling from DayOne back to GDS.

In 2025, despite the fact that our organic CapEx is much higher than for the past few years, we expect our cash flow before financing to be close to breakeven with the contribution from our asset monetization transactions. Turning to Slide 20.

During the second quarter, we raised USD 535 million through the issue of a 7-year CB with 2.25% coupon and 35% conversion premium.

We also raised USD142 million through a simultaneous follow-on equity offering.

One of the main purposes of this capital raise was to enable us to repay short-term debt at HoldCo level and to either repurchase if possible or potentially redeem a CB issued in 2022, which is currently out of the money and puttable in March 2027.

Our net debt to LQA adjusted EBITDA decreased from 6.6x at the end of 1Q '25 to 6.1x at the end of 2Q '25. The reduction in consecutive quarters was partly due to the cash proceeds of the ABS, which were received during 2Q '25 and to the cash proceeds of the follow-on equity offering.

As shown on Slide 21, if we take account of the C-REIT transaction on a pro forma basis, the net debt to LQA adjusted EBITDA ratio will come down to 5.9x.

If we further adjust for the value of our reinvestment in the ABS and C-REIT listed securities, the ratio will come down to 5.7x.

On Slide 22, we have already used part of the proceeds of the offshore capital raise to repay working capital loan due in 2026.

As you can see, we now have three CBs outstanding.

As I mentioned, the 2022 CB is out of the money. Hence, we show the maturity based on the potential put in 2027. The liability is covered by cash, which we are holding on reserve.

The 2023 CB and the recently issued 2025 CB are both in the money. And hence, the maturity shown based on the final maturity dates in 2030 and 2032, respectively. Turning to Slide 23, when we gave guidance earlier this year, we already assumed that the ABS will be deconsolidated in 2Q '25.

However, the C-REIT transaction, which we completed during late July was not factored into our 2025 guidance at all. Nonetheless, we are maintaining FY '25 revenue and adjusted EBITDA guidance unchanged, notwithstanding the deconsolidation of the C-REIT assets, while we are making mathematical adjustment to CapEx guidance to deduct the C-REIT cash proceeds.

Finishing on Slide 24. DayOne power utilized jumped 143 megawatts at the end of the first quarter to 213 megawatts at the end of 2Q '25. This contributed to revenue growth of 244% and adjusted EBITDA growth of 265% year-over-year during the second quarter. Considering its fast expansion including the recently announced second campus in Finland, DayOne is currently working on a Series C equity raise.

We'd now like to open the call to the questions.

Operator?

QUESTIONS AND ANSWERS

Operator[^] (Operator Instructions) And now we're going to take our first question. And it comes from the line of Yang Liu from Morgan Stanley.

Yang Liu[^] Thanks for the opportunity, and congrats on the very solid results.

I would like to ask about the future strategy in terms of the asset monetization in China. After the successful series IPO, in terms of future injection, does management benchmark the previous set target of 5x net debt-to-EBITDA as a long-term operation targets for GDS leverage? Or you are more clean to go a little bit more aggressive towards the asset-light model to achieve better investment return via the 5-year development cycle, how to think about your future strategy here?

Daniel Newman[^] Thank you for the question. There are a number of different considerations in the asset monetization strategy.

One, of course, is the value at which we can monetize assets. And the benchmark, which has been established in the ABS transaction and then at a high level in the C-REIT transaction remains far above the level at which GDS shares are trading in the international capital markets. The implication of that is that every asset monetization is highly accretive to our shareholders.

And I think that alone would be a strong rationale to monetize assets.

Secondly, as we described in the prepared remarks, we feel like we are on the threshold of the start of another growth phase, multiyear growth phase in this industry, which should present some very good investment opportunities. The return on investment potentially is enhanced now that we know that we will be able to monetize assets at cap rates, which are certainly higher than what we used to assume in our internal underwriting case. The implication is that, if we can monetize assets and reinvest, then we can create more value for our shareholders.

You mentioned the consolidated net debt to EBITDA ratio, I did check back, I think, in 2023.

I mentioned that we would target it 5x within three years, which would give me about another one year, I think.

I think we're approaching that level already.

But we are now as I mentioned, at a stage where some attractive new investment opportunities could present themselves.

I don't think it's necessary for us to be too aggressive about deleveraging if those opportunities arise. If they don't arise, then we monetize on accretive terms, and deleveraging will naturally happen.

Yang Liu^ I have another question, if I may, regarding the development of DayOne. Given the company's belief that the previous 1 gigawatt target will be achieved far ahead of schedule, what is the current new target, for example, by the end of this year or next year in terms of the total area committed or a megawatt committed?

William Huang^ Yes.

I think based on current our footprint, and we built each growth engine in a different region right now.

So Finland is a very good, good example in Europe. And in Asia Pacific, we already build up very solid and sustainable growth resource, land bank and the power, right? So our growth will be very, very solid in the next few years.

So in general, we target every year, let's say, at least let's say, 500-megawatt, yes. This is some internal KPI, but we commit to the market at least 300, right? Internally, that's ours.

But now we have a very, very solid base to talk about this kind of number because we are not just grow in one country, one region.

We have the two regions.

And in the next couple of quarters, maybe we will enter some new regions as well.

So that will allow us, can talk about more big number, more high growth.

Operator^ Now we will take our next question and the question comes from the line of Sara Wang from UBS.

Sara Wang^ Thank you for the opportunity to ask a question. And again, congratulations on the solid results.

I have one question regarding the customer profile.

So given the second quarter, gross move-in or new orders signed are still quite solid despite all the uncertainties around U.S. GPU export.

So may I ask who are the key customers like separately for the move-ins and also for the new orders? And then what kind of workload do we expect for these new orders to carry? Is it mostly CPU or GPU? And then like if it , is it because the oversupply in the industry has been digested? Or if it's GPUs that mean the domestic substitution has achieved quite

meaningful progress so that the supply chain uncertainty going forward should be mitigated.

William Huang^ Yes. I think the first question about customer profile.

As I just mentioned, there's a traditional Internet company plus a cloud service provider. And also this is some new order, which we get this year, right? And in terms of workload, there's both, I think GPU type and traditional CPU cloud growth as well.

So I think this is quite a hybrid, right?

Sara Wang^ I see. Maybe a quick follow-up on the demand side. Do we see any signs of price increase or MSR increase in the industry. The reason I'm asking is because I saw in second quarter, the MSR decline continued to narrow year-on-year and even like increase quarter-on-quarter.

But if we assume the contract land is maybe five years on average, so meaning the contracts renewed this year were mostly signed five years ago.

That was when the industry -- MSR industry rental price was peaked in 2020 or '21.

But as we renew the contracts this year, we still maintain a stable MSR.

So what's the key reason behind?

Daniel Newman^ First of all, let's talk about the market price.

It's been stable since, say, the middle of last year, which is quite satisfactory.

I mentioned in my prepared remarks, if we evaluate new investment using a 5-year cycle from inception to exit. And even if we use exit cap rates, which are aiming quite a bit off from where our ABS and C-REIT transactions were done, we can generate a very acceptable return.

I think that's important because there's many industries in China, which are suffering a deflationary environment.

So the economics of our business remains very solid. The MSRs, I know Sara, you asked quite a few times in previous earnings calls. The MSR reduction is partly a reflection of the reduction in the market price you're talking about on a like-for-like basis, but it's also due to the change in mix. You go back five years, yes, at that point, most of our new business was coming from edge of town sites, Langfang, Beijing and Changshu and around Shanghai. And those were early years for that kind of large edge of town campus, and there was a significant price differential as there was a significant development cost differential as compared with our sort of downtown colocation data centers.

So the MSR is not purely an indication of the reduction in in market prices also reflect the change in the location mix.

Over the next couple of years, we'll continue to see our MSR decline, most of it is due to the price reset of contracts like that you said you gave an example five years ago. five years ago, 2020, 2021, the market price had already come down.

I think in 2021, '22 it came down further.

So we can calculate bottom up on our own contract portfolio, we know a pretty good idea of what the dilution is going to be from price reset over the next couple of years.

And then that will get reflected in our MSR.

So the MSR will continue to decline by a few percent if we take quarter compared with the same quarter the prior year, will continue to decline by low-single digits percent for the next couple of years.

Beyond that, I think we'll start to see much reduced drag. And growth rate will then reflect quite purely the volume growth in our business.

Operator^ Now we're going to take our next question. And the question comes from line of Frank Louthan from Raymond James & Associates.

Frank Louthan^ With the Series C round that you're looking at, are you still considering a broader public offering for DayOne in 2026 as I think you've talked about in the past? And then you break out some of the growth in DayOne between Southeast Asia and then Finland or any other EU sites that you're considering?

Daniel Newman^ Yes, Frank, I think the -- it's the shareholder plan to have an IPO of DayOne from a GDS perspective in particular, is because we would like to be able to have the opportunity to distribute the shares to our shareholders.

I think it remains the case that we target have an IPO within 18 months.

Series C, we didn't anticipate that there would be another equity round pre-IPO. The performance of day one has far exceeded our expectations.

It's been phenomenal.

And that's what's driving the Series C.

I mean I can't rule out, there'll be other capital raises before the IPO DayOne has a plan to do some mezzanine debt as well and that's still the case.

So these pre-IPO rounds are a function of the success of the business is having. Yes.

I second question.

I can answer that. You asked to break out Europe.

So far, our European presence is in Finland in the Helsinki area. And we have a first campus for which we obtained an anchor customer commitment. And it's -- I don't want to be too precise, but it's well over 100-megawatt commitment. And I expect that we will build on that quite quickly in terms of getting follow-on commitments.

The strategy of DayOne is to be a pioneer in creating new markets.

It's not easy to do that. DayOne has done it multiple times now working with different customers in close collaboration to derisk our market entry and then that gives us the opportunity to build on that base.

We think that Finland is a very attractive location for data center operations because of the access to renewable energy, the competitive power tariff, we support in more operating environment.

So what you see is just the foundations now and derisk market entry, secured resource expansion and the opportunity to add significantly to that.

Operator^ We're going to take our next question. And the question comes the line of Edison Lee from Jefferies.

Edison Lee^ My first question is on DayOne. You have roughly 780 megawatts committed power. Would you be able to give us some color as to the split between Chinese customers and U.S. customers of that 783 megawatt.

I think your longer-term objective previously mentioned was 50-50, right?

So I just want to know the progress on that.

William Huang^ I think, frankly speaking, the current thing is percentage-wise not significant improved, but it's because it's a very early stage, right? The last couple of quarters, we experienced this situation because every time we will write some key customers their demand and try to build our business. And sooner or later, we see here always our direction, right? And so I think this will change maybe in the next two or three years, right? We changed the whole profile.

I think currently, like percentage-wise, I think I don't remember that what exact number.

I mean it's 30-70, right, 30 from the international customer, 70 from, let's say Chinese customer, but their overseas business. Yes.

Edison Lee^ I see.

Okay. A quick follow-up here on your guidance. You haven't changed your revenue and EBITDA guidance this year. And the first half is very strong, right?

So I'm just wondering how we should think about the second half growth based on guidance not being phased?

Daniel Newman^ In the second half, we have the impact of deconsolidation of the C-REIT, but that wasn't factored into our guidance -- our original guidance at all. And we will be deconsolidating the revenue and EBITDA from late July.

So that will have a material impact in terms of the EBITDA for the five months post deconsolidation. Yes. I'm aware that the implied growth rate for the second half is lower than the implied -- than the actual growth rate for the first half, but we didn't feel it was -- we didn't feel that we should adjust our revenue and adjusted EBITDA guidance at this point in time.

Edison Lee^ Does it mean that it's going to be impacted more by moving in the second half and also maybe higher depreciation as our deliverable project the second half?

Daniel Newman^ Well I think let's see what the growth rates actually are as there's a lot of moving parts, right?

Operator^ Now we're going to take our last question for today, and it comes from the line of Gokul Hariharan from JPMorgan.

Gokul Hariharan^ First of all, it looks like you have a fairly back-end loaded delivery schedule this year. Dan, could you outline how that will influence growth probably into next year given most of this is likely not captured in this year or even early next year.

So should we expect that there should be a reacceleration in revenue and EBITDA growth sometime maybe Q2, Q3 next year, given you're delivering a lot of capacity in second half of this year? That's my first question.

Daniel Newman^ We are delivering a lot of capacity in the third and fourth quarter this year and the incremental revenue per square meter for that capacity is below our MSR.

It's edge of town capacity, these are a couple of large sites, which are being developed specifically for AI inferencing with a very high power density. And maybe the impact of that is not as great as it would be if this was more traditional cloud business.

I think we stick by our put it high-level direction that we're targeting high-single-digit EBITDA growth year-on-year.

We have a backlog that will drive some of that we also need to have new bookings to drive that.

And for now I think the new bookings are at a healthy level is higher than it was in the last few years. but is not reflecting mega orders like we saw in the first quarter of this year.

So until all that happens, I think our growth at rate won't really accelerate.

Gokul Hariharan^ Understood. And how are you -- how are the conversations going with customers regarding some of these AI orders given the supply situation, I think definitely seems a little bit more optimistic in Q3 compared to what it was in Q2. Are you seeing a lot more interest from customers? And the sticking point is still like your certainty of availability of chips or is there any other factors like the inferential debt demand is going to come a little bit later within this AI cycle compared to a lot of the more site training demand that has already happened in the last couple of years?

Daniel Newman^ We saw in the first quarter, if there's no chip supply issue, we would see much stronger bookings. And that gives us a lot of confidence about the future.

So it really is an issue around chip supply. And that's not an issue that gets resolved very quickly. They've been policy changes and I think right now there's -- I think customers are waiting for the new technology in terms of the next generation of NVIDIA chip.

So it may not just be all about H20, H20, H20.

It could be about the next pick -- and I think we have a clearer view on that in the next couple of months, then we can talk more precisely about the timing of when we'll start to see those large orders.

In the meantime all we can do is get prepared. And I think we're very well prepared.

We've had the powered land, we incurred some CapEx to that too, which shortens the lead time.

And you know from our previous experience in China and also from observing experience on DayOne that when the customers are deploying AI, they're usually hurry.

So I think we are very well prepared in terms of the development at -- and we're well prepared in terms of our access to capital, both the capital we've raised and our ability and confidence in being able to recycle more.

I don't think that any other data center companies in China, which are as well prepared in both those respects.

Operator^ Dear participants, thank you very much for your time. Due to time limit of today's call we will not be addressing any further questions. And at this moment, I would like to turn the call back over to the company for any closing remarks.

Laura Chen^ Thank you very much once again for joining us today. And see you next time.

William Huang^ Thank you.

Operator^ This concludes today's conference call. Thank you for participating.

You may now all disconnect.

Have a nice day.