

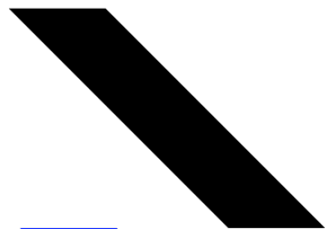


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# EDITED TRANSCRIPT

Q2 2024 GDS HOLDINGS LTD EARNINGS CALL

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## CORPORATE PARTICIPANTS

- **Laura Chen** *GDS Holdings Ltd - Investor Relations*
- **William Huang** *GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer*
- **Dan Newman** *GDS Holdings Ltd - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Yang Liu** *Morgan Stanley - Analyst*
- **Frank Louthan** *Raymond James - Analyst*
- **Sara Wang** *UBS - Analyst*
- **Daley Li** *Bank of America Securities - Analyst*
- **Edison Lee** *Jefferies - Analyst*
- **Louis Tsang** *Citi - Analyst*
- **Jonathan Atkin** *RBC Capital Markets - Analyst*

## PRESENTATION

### Operator

Hello, ladies and gentlemen, thank you for standing by for GDS Holdings Limited second quarter 2024 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.

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### Laura Chen *GDS Holdings Ltd - Investor Relations*

Thank you. Hello, everyone, and welcome to the second quarter 2024 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'll refer to during this conference call, can be viewed and downloaded from our IR website at [investors.gds-services.com](https://investors.gds-services.com).

Leading today's call is Mr. William Huang, GDS's Founder, Chairman, and CEO, who will provide an overview of our business strategy and performance; Mr. Dan Newman, GDS's CFO, will then review the financial and operating results; Ms. Jamie Khoo, COO of GDS International, 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 statements except as required under applicable law.

Please also note that GDS's earnings press release at this conference call includes discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. GDS's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

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

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## **William Huang *GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer***

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

In 2Q '24, we achieved a revenue growth of 18% and adjusted EBITDA growth of 15%. This growth rate is quite remarkable in current market conditions. It reflects the progress which we have made in stabilizing our China business and an uplift from the highly successful execution of our international strategy. For our China business, we have two key financial objectives. Number one is to grow EBITDA at a steady rate and the number two is to generate a positive cash flow before financing. We believe that this combination can create significant equity value and help drive our share price recovery.

In order to achieve these objectives, we prioritise delivering the backlog. At the same time, we take a highly selective approach to new business targeting orders, which fits our inventory and have fixed move-in scheduled. This will allowed us to grow while minimizing the need for incremental CapEx. We have been following this strategy for a while and it's starting to produce noticeable results.

Over the past couple of quarters, the gross move-in rate has clearly stepped up. In 2Q '24, it was over 20,000 square meters, the highest level for the past three years. The main reason for this improvement is the contract which we signed with faster-move-in schedule. These are mainly larger Internet customers whose business continues to grow strongly. However, we are also beginning to see improvements from orders which have been in the backlog for longer. We expect this trend to continue as our customers implemented their AI plan.

In order to support higher move-in, we need to complete some projects which have been in progress for a while. In the first half of 2024, we brought 45,000 square meters into service. At June 30, this was already over 20% utilized.

In the second half of 2024, we expect to complete another 32,000 square meters. The good news is that this does not require a lot of new CapEx as we only incur the cost to complete. The first indications of improved demand is customers absorbing capacity for which they already made commitments. This is underway. After that, we will start to see more new business opportunities. We are well positioned to support AI demand as we are holding enough land and power quota. In the meantime, we will stick with our strategy of being very selective about what new business we take on.

In our international business, we are already seeing very strong demand. We had a phenomenal second quarter with 206 megawatts of new orders spread across our two campuses in Johor. More recently, we signed a master sales agreement with the global technology company for capacity at our new campus in Batam. This is a major breakthrough which will lead to further large orders. Singapore, Johor, Batam is fast emerging as one of the very largest data center markets in the world and we have a great market position.

Where is this demand coming from? Part of it is regional expansion. And part of it is spillover from the US which is mostly AI related. A critical success factor is that we were first mover into Johor and helped to create the market. We anticipated where demand will flow and secured resources, which give us time to market advantage. We have shown that we can execute delivering data centers in record time with the state-of-the-art design and technology solutions. We have also shown that we can operate working with the local institutions to sourcing -- to source and train talent.

From the perspective of our customers, these are really meaningful differentiators. As of today, we have 388 megawatts of total customer commitments, out of which, 101 megawatts is already utilized and 287 megawatts is backlog. The delivery schedule for most of the backlog is very short and the customers undertake to move in quickly. As a result, based on the terms of the existing contracts, we expect to have over 350 megawatts of utilized capacity within 24 months.

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

## Dan Newman GDS Holdings Ltd - Chief Financial Officer

Thank you, William.

Following the completion of the first external equity capital raising for our International business, we have started formal disclosures of segment financials.

As shown on slide 17, DigitalLand Holdings Limited and its subsidiaries comprises all of our business and assets outside of mainland China, except for some minor third-party data centers in Hong Kong. We refer to this segment as GDSI or International. GDS Holdings Limited and all of its subsidiaries excluding GDSI comprises our ultimate holding company and all of our business and assets in mainland China. We refer to this segment as GDSH or China.

Starting with the China segment on slide 18. In 2Q '24, GDSH revenue increased by 8.9% and adjusted EBITDA increased by 4.3% year on year. In order to show the underlying growth rate, we excluded previously disclosed one-time items from 2Q '23. GDSH revenue growth was mainly driven by an increase in total area utilized of 10.2% year over year. As shown on slide 21, MSR per square meter comparing 2Q '24 with 2Q '23 was flat. However, EBITDA margin for 2Q '24 versus 2Q '23 was down by 2.1-percentage points. The main reason for this is the increase in power tariffs which occurred during the second half of last year.

Turning to the International segment on slide 19. In 2Q '24, GDSI revenue increased by 24% and adjusted EBITDA by 80% quarter on quarter. As shown on slide 21, during 2Q '24, there was a 28-megawatt increase in IT power utilized. The MSR per kilowatt per month was \$135 including power income.

As William mentioned, the ramp-up over the next 24 months will be extraordinary. The rate of progress quarter by quarter depends on the timing of capacity completions and contractual revenue commitments. The increase in the next couple of quarters is quite small, but thereafter it will take off.

Turning to CapEx on slide 23. In 1H '24, our China CapEx totaled RMB1.8 billion. We expect lower CapEx in the second half of the year, including the proceeds of the B-O-T data center transfer and still maintain our RMB2.5 billion guidance for the full year. In 1H '24, our International CapEx was also around RMB1.8 billion. In the second half of the year, we expect CapEx to increase significantly and it is likely that we will exceed our CapEx guidance for International of RMB4 billion. Fortunately, the lead time from incurring CapEx to generating revenue in the International business is very short.

Turning to cash flow on slide 24. Following the closing of the Series A new issue for International, GDSH received over RMB1.5 billion from GDSI on repayment of a shareholder loan. This is included in investment cash flow for the GDSH segment and financing cash flow for GDSI. Including this repayment, cash flow before financing for GDSH will be clearly positive this year in-line with our financial objectives. GDSI cash flow for 2Q '24 included \$448 million or RMB3.2 billion of proceeds from Series A. The remaining \$224 million from Series A was received by GDSI in July.

As shown on slide 25, at the end of 2Q '24, the cash balance of GDSH increased to RMB8.4 billion and the net debt to last quarter annualized adjusted EBITDA multiple decreased to 7.2 times. In order to accelerate our financial transformation, we are working on a number of asset monetization initiatives. Our key strategic goal is to set up a REIT listed in China holding data center assets. There is strong policy support for new infrastructure REITs and we've selected a stabilized project to move forward and are working through the regulatory approval process. This will be a first-of-a-kind transaction for data centers in China, and we're strongly committed to making it happen.

Turning to International on slide 27. At the end of 2Q '24, GDSI had a cash balance of RMB3.1 billion, pro forma for the second tranche of Series A proceeds. Given the existing level of customer commitments and the strong sales pipeline, we plan to raise further equity for GDSI in a Series B round. The process is already underway. There is strong interest from global investors, and we are confident this round will set a higher benchmark for the value of our equity investment in International.

Finishing on slide 29, we're maintaining our formal guidance for FY '24 consolidated revenue, adjusted EBITDA and CapEx. However, it is likely that we will raise our CapEx guidance at the time for 3Q '24 results when we have a firmer view on the timing and amount of CapEx for International.

I'd now like to open the call to questions. So operator, please.

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## QUESTIONS AND ANSWERS

## Operator

(Operator Instructions)

Yang Liu, Morgan Stanley.

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## Yang Liu Morgan Stanley - Analyst

Thanks for the opportunity to ask questions. I would like to congratulate you first on the very strong set of results.

I would like to ask about the China part, the REITs plan. Could management elaborate more in term of the timing of this infrastructure REITs and also what could be the potential valuation when you inject the asset to the REITs? And who could be the -- or what type of investor could be the buyer? And what is the current, whatever hurdle or key debate between the buyer and the company, and also between the regulator and the company?

Yeah, thank you.

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## Dan Newman GDS Holdings Ltd - Chief Financial Officer

Thank you, Yang Liu. It's Dan here. I'll answer that question.

In order to pursue this strategy, we've selected a single site with two data centers as the seed asset for the REIT. Typical REIT offerings in China historically have been around RMB2 billion per transaction, and that seems to be a size, which the market is comfortable with. And we select an assets to fit with that. Under the REIT regulations, the asset must be stabilized. We must own the real estate, so the asset also qualifies on that basis.

There's a series of regulatory approvals that we need to obtain, and we've already been working on this for over one year. And we are getting to the level where the regulatory approvals would be sought at central government level. And if that is successful, we will receive approval for -- to be able to proceed with the offering, which is then valid for one year. We hope to reach that milestone next year.

It is not normal to do testing waters or pre-marketing exercise in China, but we do have an active dialogue with major financial institutions in China because we've also been looking at pre-packaging some assets which are not yet stabilized as a way of creating a pipeline for the REIT, and we received very positive feedback. There is a significant appetite amongst financial institutions in China to get exposure to new infrastructure, including data centers, data centers which are green, which have very high-quality Internet company or cloud customers.

We think that a substantial percentage of the offering to the public will be taken up by strategic or anchor-type investors. Under the regulations, we will be required to retain a 20%. Now there is a quite a significant public-listed REIT sector in China. Those REITs, which are real estate based, trade on dividend yields which fall within a fairly well defined range.

If we take that range, look at it very conservatively based on the amount of income which we think we will be able to distribute, it implies an EBITDA multiple, which I think will be clearly accretive compared with where we are trading. If you look at our current public market value on a sum of the parts basis to strip-out of International, the last Series A price benchmark. Our China business is being valued at somewhere between 9 to 10 times current EBITDA. The China REIT sector is trading at implied EBITDA, which is a quantum higher than that. So hopefully, we will be able to capture that.

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## Operator

Frank Louthan, Raymond James.

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## Frank Louthan Raymond James - Analyst

Great, thank you.

Can you characterize how much of the business in Mainland China is AI driven? And can you give us an idea of the current impact of the Chinese economy to the demand on that base of the business?

Thanks.

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**William Huang GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer**

Okay. Frank, this is William. The first question is the -- I think the current demand, the new demand in China currently, I think the 70% was driven by the AI-type requirement, including the training and also influence. So the remaining 30% is driven by the Internet company and also the traditional cloud business. Yeah, this is the -- what's the second question?

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**Dan Newman GDS Holdings Ltd - Chief Financial Officer**

How is the economy impacting demand?

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**William Huang GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer**

I think, so far, I think for the training and cloud business, I think this is not direct impact from current China macro environment. It's totally opposite. And I think this is based on a lot of the, let's say, giant. They are continuing to invest the CapEx to change their own model and also try to -- in China, there is a lot of the -- a lot of -- there's a lot of startup company is -- was invested by the venture capital to do the more application type, vertical type of the AI stuff. So this looks like the -- it's created a very -- it's created its own let's say, environment, right? So this is what happening in China right now.

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**Operator**

Sara Wang, UBS.

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**Sara Wang UBS - Analyst**

Thank you for the opportunity to ask the question and congratulations on the solid results.

I have one question about International business. As Dan just mentioned, there's quite some CapEx needed for International business. May I ask what's the future financing plan, especially in the near term as well as in the mid term, for example the potential spin-off or IPO?

Thank you.

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**William Huang GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer**

I think it will be -- before I answer this question, its -- I think, it is a -- yeah, all the financing requirement is based on our forecast for the next two or three years. So our target is to double the current order number within next three years so this is our base. So in terms of the financing plan, I think I would like to let Dan introduce -- explain a little bit more here.

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**Dan Newman GDS Holdings Ltd - Chief Financial Officer**

Yeah. I mentioned that we started the process for a Series B round. This will be raising capital once again from external investors, global investors using a similar -- will be a similar instruments type of security, convertible preferred shares. Our base case assumption is that the new issue size will be similar to Series A, say \$600 million to \$800 million. It is possible that we could increase the size. The appetite is there.

After completing that offering, which we aim to do before the end of this year, I think that the next financing that we will undertake at our International holding company level maybe mezzanine debt. Certainly intend to explore that as a way of optimizing the overall cost of capital for International. At the same time, we're putting in place senior debt at the project level, usually in local currencies. And we are currently undertaking a large syndicated term loan for our Malaysian business that covers the range of different financing initiatives in International.

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## Operator

Daley Li, Bank of America Securities.

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## Daley Li Bank of America Securities - Analyst

Hi management. Thanks for taking my question.

I have one question about the International business. It seems that the area in service is in a good momentum in 2Q, up like 50% in the quarter on quarter. And how do we see the trend in Q3 and Q4 for the area in service for the International business in absolute value or like quarter on quarter gross?

Thank you.

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## William Huang GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer

We gave some guidance in the earnings presentation and the prepared remarks about the timeframe for delivery of a very substantial part of the overall backlog. I mean, we currently have about 280 megawatts of capacity which is committed but not yet delivered and utilized.

And we said that -- that will be most of that. In fact, 260 megawatts out of 280 megawatts will be delivered and utilized and revenue generating within 24 months, which is a very rapid ramp-up. It implies that our revenue generating capacity will increase by 3.5 times over the next 24 months.

We did not give a quarter-by-quarter breakdown, but as an indication, over the next two quarters the second half of this year, the increase in capacity and service and the delivery and utilization will increase by a relatively small amount. But over the course of next year, 2025, the increase will be very substantial.

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## Operator

Edison Lee, Jefferies.

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## Edison Lee Jefferies - Analyst

Thank you for taking my question. Congratulations again. I have two questions.

Number one is that for your power capacity or power secured in Southeast Asia, I think that amount increased from 711 megawatt from your first quarter presentation to 797 megawatt. So may I know where that incremental is coming from? Which location it is coming from?

And number two is you said that you won a big International technology customer at Batam. And can you discuss your customers in Malaysia? Is this still a single company right now? And what do you expect that to change -- or situation to change or happen over the next couple of quarters?

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## Dan Newman GDS Holdings Ltd - Chief Financial Officer

The first question about the increase in secured resource developable capacity, that is in both of our sites in Johor where we completed land purchases for additional plots contiguous with our existing sites and where there is power infrastructure in place, and we were able to upsize the amount of power that we will be able to obtain through that infrastructure.

The second question, Edison, asking about the customer mix in Southeast Asia?

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**William Huang GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer**

I think the -- currently we already have, let's say five customers from the -- both from China and International, right or like the industry technology leader. So I think, we are very, very focused on to try to diversify the customer. This is always our target, right? So the current mix is a -- let's say, around 70% from China. It is not a single customer, it's three of them. And another is also International customer. But based on our current forecast, I think in the next 12 months, the International customer will increase the percentage as well. Ultimately, I think it will be 50, 50, yeah, in this region.

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**Edison Lee Jefferies - Analyst**

Thanks. Can I follow-up with one quick question.

So you said that there are five customers, including China and International, and then you said that you won a big International customer in Indonesia. So can I assume that you have one International customer in Indonesia or one -- just one customer in Indonesia and that's International? And you have four customers in Malaysia, and that's China and International. Is my understanding correct?

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**William Huang GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer**

Yes. Indonesia is the International. Yeah. And four in Johor is Chinese and International. Yeah, you're right.

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**Operator**

Louis Tsang, Citi.

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**Louis Tsang Citi - Analyst**

Thank you management for taking my questions. Congratulation on a strong result set with like solid International growth [assigning] and then the domestic recovery. I actually got a two quick question.

The first one is for the domestic one. I think that like the net move-in for this quarter is very encouraging and the MSR is trending up. Like how shall we think about the pace of the move-in and MSR recovery ahead. And more importantly, the sustainability of the demand?

And then second question is for the International. I think some regional or global peers also have their plan in Johor. And for seeing like increasing DC supply, what is your strategy in SEA and what are the -- like your advantage over the regional or the global peers? And then also one more thing like the supporting infrastructures like electricity grid, like will those stuff limit the near-term supply growth?

Thank you.

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**Dan Newman GDS Holdings Ltd - Chief Financial Officer**

Louis, I'll begin with your questions about China. The move-in -- yes, there is a very clear step-up in 1Q '23 compared with the level of move-in over the past twelve quarters. And that was continued, in fact it was even higher in the second quarter. And this is partly a result of the contracts we signed in the last 12 or 18 months, which have faster moving schedules than those that we signed



previously.

And also the beginning of the pick-up in the move-in by customers whose commitments have been in the backlog for longer. So based on the contractual terms, but also what we currently know about our customers intentions, we expect the current level of move-in to continue through next year as far as we have visibility, which I think is very encouraging.

For the MSR, we look at MSR on a quarterly basis and compare the rate of change with the same quarter of the prior year. And so over the past few quarters, on average, the MSR has decreased by a little over 2%. And as we go into next year, there will be further decrease, probably less than the decrease during '24 as compared with '23. So it's also encouraging to see that the MSR is bottoming out.

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### **William Huang GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer**

Okay. The second question is, I think the -- about our strategy in this region, right, in Johor. I think, the -- number one, I think the -- we are the -- everybody know we are the first-mover in this region. And we still in the next three years, I think that we still enjoy the first-mover advantage because the time to market and the demand profile still will continue maintain a very strong level. So even after three years, I think still the market size will increase -- still continue to increase.

So I don't think in short term, in the next five years, it will not a issue for all the players in this region. So I think this is based on our understanding of the market, yeah. So of course, if we talk about after five years what will happen, I think the -- our strategy is, number one, I think we are looking at not only this region market, we are also start -- we already start to get back to that region -- other market in this region. Everybody knows GDS is a market creator. So we don't follow (laughter). So I think the -- we will give you another surprise in the next three years.

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### **Operator**

(Operator Instructions)

Yang Liu, Morgan Stanley.

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

Thanks for the opportunity to ask another question.

One more thing from my side is regarding the REITs plan in China. Could you please talk about so whether the REITs will be a public traded REIT or it's a private REIT or actually you are targeting both? And another thing is what could be the estimated debt reduction if you can deliver one REIT project to the -- inject one asset to the REITs?

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### **Dan Newman GDS Holdings Ltd - Chief Financial Officer**

Yeah, Yang. It's Dan here. For the -- the REIT is listed -- will be listed on one of the stock exchanges in China, and it will be offered publicly. The typical REIT offering size, I mentioned earlier, is about RMB2 billion. As a guideline, I'd say, that transaction of that size, we would expect to deconsolidate around RMB1 billion of debt. And if we sell 80% of the equity, then we will receive equity -- cash proceeds for the disposal of the 80% at the valuation of the offering.

So the combined effect should be that it helps to increase our liquidity and decrease net debt and also accretive on -- to EBITDA multiple basis. That's a single transaction. Of course, once the REIT is established, the possibility is there for us to drop further assets into it, and that's what we would hope to do over the longer term. But for now, our focus is just on the achieving the first step, which is to set up this vehicle.

And you asked about privately placed, right? I mentioned earlier that we are working on pre-packaging some assets that will be privately placed. And its takes the form of asset-backed security. Technically, it is listed on stock exchange, but it is easier to think of it as a privately placed security. It is a stepping stone in terms of packaging the assets, so that it is ready to be injected into a REIT when the assets are stabilized.

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

Thank you.

And one more question regarding the International business. It's very encouraging to see the big new order. Could you please update us what is the IRR trend for the big new orders? Is it stable or rising a little bit or declining a little bit? What's the trend compared with the previous order?

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### **Dan Newman GDS Holdings Ltd - Chief Financial Officer**

I'd say, it's very consistent, maybe easier to talk about a -- like a development yield rather than IRR. The development yield is in the low-teens which is quite acceptable to us in terms of a return on our invested capital and these are very high quality customer contracts. They are, I'd say, US standard. And 10 to 15 years, some of them are priced in US dollars and some of them have escalators. And so it's very high quality business.

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### **Operator**

Jonathan Atkin, RBC Capital Markets.

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

Thanks. So just got you a two-parter, one about China and then one about International.

So in China, I was just interested in any comments you would have about the contract renewals and churn outlook for the remainder of this year. It looks like you've got a fairly sizable amount coming up for renewal in second half of this year, 12.1% of total area committed.

And then Internationally, I would agree with William's comments about Johor. And I think you have somewhat of an incumbency early mover advantageous, but is something that I was interested in because you were one of the winners of the CFA process. And is there any visibility in terms of timeline as to when you might get that project underway and when that might be ready for service or is it too soon to have you on that?

Thank you.

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### **Dan Newman GDS Holdings Ltd - Chief Financial Officer**

So Jonathan, it's Dan. The first part of your question about churn in China, you are right, we have a large amount of contract renewals in the second half of the year. We look at the quantum of churn. We measure it in terms of area utilized, the churn as a percentage of our total area utilized. And over the past six quarters, it's been running at an annualized rate of about 5%, which I believe is relatively low by International standards. In absolute terms, it's averaged about 5,000 square meters per quarter.

In the second half of this year, it will continue at about that rate. But if we look into next year, I think the 3% to 5% of annual churn rate would be normal for us. And we don't currently actually have any visibility on any churn, which is exceptional. Those numbers represent really quite a small percentage of the total amount of capacity which is coming up for contract renewal as you pointed out.

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### **William Huang GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer**

Yeah. Jon, I think the Singapore project -- yeah. In Singapore, so I think it's very difficult. One -- number one is the -- get the CFA. It's very difficult, right? The second -- now we got -- we win the CFA, but the second question is to -- issue is -- to get at a very, very good location of the land is more difficult, right? So fortunately, we are in the process to acquire land right now. I think we believe it is in the process and should be down in the next couple of months completing the process, and we aim to deliver with -- in a -- before the end of 2026 to launch the service to the market. That's a pretty firm schedule.

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**Operator**

Thank you for the questions. In the interest of time, that concludes the Q&A session. I would now like to turn the call back over to the company for closing remarks.

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**William Huang *GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer***

Thank you.

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**Laura Chen *GDS Holdings Ltd - Investor Relations***

Thank you once again for joining us today, and we'll see you next time. Bye.

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**William Huang *GDS Holdings Ltd - Founder, Chairman and Chief Executive Officer***

Bye.

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**Operator**

This concludes today's conference call. You may now disconnect your lines. Thank you.

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