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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for GDS Holdings Limited Second Quarter 2017 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, and welcome to the 2Q '17 earnings conference call of GDS Holdings Limited. The company's results were issued via newswire services earlier today and are posted online. A summary presentation, which we will refer to during this conference call, can be viewed and downloaded from our IR website at investors.gds-services.com. Leading today's call is Mr. William Huang, GDS Founder, Chairman and CEO, who will provide an overview of the business. 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 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 Securities and Exchange Commission. 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 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 the call over to GDS' Founder, Chairman and CEO, William Huang. Please go ahead, William.

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

Okay. Thank you, Laura. Hello, everyone. Welcome. Thank you for joining today's call.

In 2Q '17, we continued to make significant progress across all aspects of our business, and further strengthened our market leadership position. As you can see on Slide 3, on the financial side, we grew total revenue by over 40% and adjusted EBITDA by over 110% year-on-year. We invested about USD 60 million of CapEx to develop the capacity required by our customers. We obtained over USD 100 million of new debt facilities to ensure that our projects are fully funded.

Turning to the operations. As shown on Slide 4, we had another great quarter for sales, signing up customers for over 8,000 square meters net of new commitment. At midyear, our total area committed grew to over 76,000 square meters, 72% higher than 1 year ago. Our bookings in 2Q '17 are worth about USD 40 million in terms of annual recurring revenue. Over the first half of this year, we have done over USD 75 million of bookings following off from our achievement of USD 120 million signed up over the whole of last year. We believe that this level of new commitment puts us at the top of the global league table and can clearly demonstrate our sales strategy is on track.

While our sales volumes are reaching new heights, I'm pleased to report that the average selling price for new contracts has remained quite stable. We are also successfully renewing contracts each quarter with industry-high retention rates. Churn was 0.3% in 2Q '17. This reflects our high operating standards and a high degree of customer satisfaction. Pricing our renewals is generally at similar levels to previous contracts. We continued to convert the backlog to revenue-generating space, increasing our utilization -- area utilized to over 42,000 square meters, 32% higher than 1 year ago.

Now moving to the Slide 5. Before giving more color on our sales wins and resource development, I want to update you on what is happening in the market. Cloud adoption continued to take off in China. Currently, it is around a USD 2 billion market in terms of annual revenue, representing around 1% of the total IT spend. But we share the view of the leading industry player that it is rapidly heading towards USD 20 billion to USD 30 billion market. This transformation is happening at a faster pace in China than in the U.S. Alibaba and the Tencent are reporting consistent triple-digital growth rates for their cloud business.

In our view, cloud service providers, together with some of the large Internet companies, account for more than 70% of new demand for data center capacity in China. From what we see, they are outsourcing substantially all of their requirements for high-performance data centers in Tier 1 markets. The major cloud service providers in China are mainly Chinese. However, we also see some of the largest global service providers increasing their presence in China.

We recognized several years ago the strategic importance of capturing demand from the hyperscale cloud service providers. First, because they represent a large part of the market opportunity, and by serving these customers, we gain scale and advantages. Second, because access to cloud infrastructure is key to attracting further customers, such as the SaaS providers and the larger enterprises to co-locate. And third, because cloud is the platform to support the next wave of the new technology around the big data, AI and IoT, which will require a lot of additional capacity.

We continue to have great success in capturing this demand as shown on Slide 6. Cloud has grown from almost nothing 3 years ago to over 50% of our total area committed today. Our cloud customers include both the largest of Chinese and the global service providers. We target customers who we believe are strategically important to the future of the digital economy. We are already a major service provider to many of the customers who matter and continue to make progress in adding new accounts and in deepening our existing relationships. In the last quarter, we won a major new deal from a first-time customer, which is China's largest travel company and one of the world's largest online travel agents. As previously announced, this deal will anchor our new campus in Shanghai. The customer immediately becomes one of our top 5 in terms of total area committed. With this addition, cloud plus larger Internet now accounts for over 75% of our total area committed, made up entirely of strategic high-potential customers.

We realize that cloud is enabling the next generation of technology advancement, and we are well aligned to capture growth. When people talk about home of the cloud, we believe that this process is unique in China and offers significant operational benefits to all participants in the cloud ecosystem. Serving the right customers is key to growth because once the relationship is established, they keep coming back for more.

As illustrated by the chart on the right side of Slide 6, we have been winning incremental business from our top 2 customers nearly every quarter. Just in the prior quarter, we obtained a precommitment from one of them for 100% of the capacity of our new Beijing 3 data center. Our relationship with these customers keeps getting stronger.

We recently announced strategic partnerships with Alibaba and Tencent, where we were recognized as preferred vendor for both of them. What this means is, practice is that Alibaba and Tencent are utilizing, prioritizing procurements from GDS. We, in turn, are aligning our resource development to fulfill their data center growth requirements, as a matter of priority, in all Tier 1 markets on a continuous basis.

Besides the cloud and the large Internet customer, in the last quarter, we added over 20 new financials to FSI and large enterprise customers, increasing our total customer count by 5% and further diversifying our customer base. I would like to highlight first-time deals for one of the largest commercial and retail banks in China, which has its headquarters in Shanghai, and for one of the leading and best-known multinational brands in digital payment solutions. In order to enhance the value propositions of having this ecosystem of cloud, FSI and enterprise customers, we recently applied for a new category of telecom license, which will allow us to provide a cross-connect service over our own network. I'm pleased to report that we have passed several key steps in the license application program -- process, and we are optimistic to obtain the license in the near future.

The key to maintain our sales growth momentum is resource supply. We put significant focus on our project sourcing, design and construction management efforts and continue to deliver impressive results. As shown on Slide 7, in 2Q '17, we brought 3 new projects in to service totaling over 10,000 square meters of capacity. Our total area of service remains almost fully sold out with 92% commitment rate. We also started 3 new projects totaling over 13,000 square meters of additional capacity. Our area under construction at midyear was over 38,000 square meters with a precommitment rate of 28%. In addition, we have soft allocated to key customers a large part of the remaining pipeline capacity.

To give more color on the 3 new projects, in Shanghai, we added Shanghai 5, which is primarily targeted at FSI customers. It is located close to our main Shanghai campus in an area where there is a cluster of FSI data centers. We already have over 100 FSI customers at our nearby campus in Waigaoqiao Free Trade Zone. It was important for us to have another facility well suited to serve incremental demand from this vertical.

In Shanghai, we also added Shanghai 6, the first data center on our new campus in Waigaoqiao. Shanghai 6 will enable us to carry over the sales momentum from our Shanghai 1, Shanghai 2 and Shanghai 3 data centers, which are almost fully committed. We plan the construction of the second data center on the same campus as Shanghai 6 near -- next year.

In Beijing, we added the Beijing 3, which is next to our Beijing 1 data center. Both Beijing 1 and our new Beijing 3 data center are now fully committed.

In order to support sales into 2018 and beyond, we are still looking for more supplies in all of our Tier 1 markets. We have promising targets, which we will add when the time is right. From time to time, we also see opportunities to work with our strategic customers on hub data center projects outside of the Tier 1 market. We will consider these opportunities if the economics and deal structure satisfy our requirements.

The combination of our established relationship with the customers who matter and our high-performance data center portfolio in all Tier 1 markets puts GDS in a very strong competitive position. Our seasoned and mature teams added to this and provide a platform, which offers our customers truly unique value. It is getting more and more difficult to replicate what we already have. Hence, we believe that we are building a sustainable competitive advantage to strengthen our market leadership position in China.

In closing, this is our fourth earning call since become a U.S.-listed company. We are proud to be reporting these results today because they demonstrate we are executing our plan, delivering what we promised and the confidence moving forward.

With that, I will now hand the call over to Dan for the financial review.

Daniel Newman - *GDS Holdings Limited - CFO*

Thank you, William. Slide 11 shows our P&L analysis for 2Q '17. But in order to better highlight the underlying trends, I'll start with the version shown on Slide 12. Please note that all quarter-on-quarter comparison is based on pro forma numbers for 1Q '17, which excludes the onetime termination fee of RMB 44.1 million booked in that quarter.

For the GAAP basis, service revenue grew by 10.6% quarter-on-quarter to RMB 331.5 million in 2Q '17. On a non-GAAP basis, underlying adjusted NOI grew by 16.1% quarter-on-quarter to RMB 155.5 million, and underlying adjusted EBITDA grew by 23.7% quarter-on-quarter to RMB 100.4 million. The underlying adjusted EBITDA margin was 3.2 percentage points higher at 30.3% in 2Q '17 compared with 27.1% in 1Q '17.

Turning to Slide 13. In 2Q '17, there was an increase in area utilized for 4,572 square meters, which drove revenue growth. The increase in area utilized is a significant step-up from the rate of increase in prior quarters. What we are seeing now is conversion from sales backlog to revenue generating area, particularly from some of the larger contracts which we signed with cloud service providers over the past year. The average monthly service revenue, or MSR, per square meter was RMB 2,750 in 2Q '17 compared with RMB 2,708 in 1Q '17.

On Slides 14 and 15, we show growth in net operating income and EBITDA and operating leverage. In 2Q '17, we achieved an underlying adjusted NOI margin of 46.9%, which was 2.2 percentage points higher than for 1Q '17. This mainly reflects operating leverage on fixed costs of data centers, which are at the ramp-up stage. The NOI margin can fluctuate due to growth drag. We are confident that the underlying trend is upwards.

To give you a better idea of the long-term potential for margin improvement, we can point to our stabilized data centers, which for this purpose, we define as data centers with the utilization rate of over 80%. At the end of 2Q '17, we had 27,406 square meters of area in service in self-developed data centers, which were stabilized. The underlying adjusted NOI margin for these data centers was 61.1% in aggregate. At the same time, we had 32,673 square meters of area in service in self-developed data centers, which were still ramping up. These data centers were 91.5% committed, now it was almost sold out. But utilization rate was 32.5% in aggregate as they are earlier in the move-in cycle. Based on the contract terms per area committed, we can anticipate that these data centers will attain similar NOI margin levels to the stabilized part of our portfolio once the backlog contracts are delivered.

Moving on to the corporate level. Our SG&A, excluding D&A and stock-based compensation came out at 16.9% of service revenue compared to the 17.9% in 1Q '17. Although the volume of our sales and resource development is increasing rapidly, we do expect to achieve significant further operating leverage on our SG&A costs going forward.

Turning to our investment activities. As shown on Slide 16, we paid CapEx of RMB 405.7 million in 2Q '17, which was a step-up from the run rate over the previous 4 quarters. CapEx in 2Q '17 included RMB 43.6 million payment related to acquisitions. Replacement CapEx accounted for 3.8% of total quarterly CapEx compared with 3.3% in 1Q '17. Our total area under construction is 38,028 square meters across 7 sites, out of which 51.7% will enter service this year.

Now I'd like to update you on the progress of each project, which are under construction at midyear. Starting with Beijing 2, this data center actually entered service in July. A major global cloud service provider is moving in, and the data center is already revenue-generating. We have demand in hand from cloud customers for additional capacity in this data center.

Shenzhen 4 Phase 1 construction is almost complete. We're awaiting activation of the primary power supply, and we expect to bring the data center into service in the next couple of months. We have customer commitments for this data center, which are far along in the contracting process.

Shanghai 4 is the fourth data center on our main Shanghai campus. We're entering Shanghai 4 into service by the end of 2017. The other 3 data centers on the campus, Shanghai 1, 2 and 3, are now 93.2% committed in aggregate. All of our major cloud customers are present on this campus as well as over 100 FSI and large enterprise customers. Shanghai 4 is substantially preallocated on a soft basis.

Beijing 3 is a new project which we announced in May. It is now 100% precommitted to a major cloud service provider. We aim to bring it into service as soon as possible in 2018.

Shenzhen 5 is a project, which we acquired while under construction in March. Phase 1, which is 100% committed, entered service in late June, a full quarter ahead of schedule. One of the major cloud service providers is moving in, and the data center is already revenue-generating. Phase 2 of Shenzhen 5 is in effect a separate data center within the same building. We commenced construction of Phase 2, which is substantially preallocated on a soft basis.

Shanghai 5 is a new project, which we announced in July. We have commenced construction of Phase 1. We positioned -- positioning this data center to serve the FSI vertical, and we'll secure commitments as we get closer to the completion date.

Shanghai 6 is the first of 2 data centers on our new campus in the Waigaoqiao Free Trade Zone. It's a greenfield project where our property development partner has agreed to build-to-suit and lease to us the shell and core of 2 data center buildings. This is another case where we have worked with a partner for build-to-suit lease. It's a great approach for us because it means that we end up with purpose-built data centers, which are highly marketable and rare in Tier 1 markets, but without the added capital intensity of having to own the land and basic building structure ourselves. As compared with outright ownership, it reduces our unit development costs by roughly 20%, depending on the location. While we show this project as under construction, we will not incur any material CapEx until the first shell and core is handed over to us next year.

With regard to financing as shown on Slide 17, during 2Q '17, we drew down RMB 432.5 million of net additional borrowings. We also booked additional debt (that's borrowings and capital leases) from the acquisition of Shenzhen 5. Our blended financing cost was 6.9% in 2Q '17 compared with 7.1% in 1Q '17. Excluding the convertible bond, the cost was 6.1% in 2Q '17 versus 6.2% for the prior quarter. Almost all of our loans are floating rate linked to the PBOC rate. At the end of the quarter, our gross debt was RMB 5.5 billion and our net debt was RMB 4 billion. The ratio of net debt to last quarter annualized pro forma adjusted EBITDA was 10x. Fully diluted for conversion of the CB, the multiple was 7.5x.

Because we are in a heavy investment phase, consolidated net debt-to-EBITDA ratios may not give an accurate indication of our leverage. We incur debt before we generate EBITDA. Hence, if we exclude the financial obligations related to data centers under construction, the consolidated net debt-to-EBITDA multiple falls from 10x to 6.3x. To take this one stage further, the data centers in service, the cost complete is only RMB 340.3 million. The commitment rate for data centers in service was 92.2%, and the utilization rate was 59.3% at midyear. The difference between commitment rates and utilization rate is just a matter of timing. And since the backlog is delivered, the consolidated net debt-to-EBITDA multiple for the in-service part of our portfolio will come down from 6.3x to levels in line with industry norms. As things stand, all of our data centers in service and under construction, with the exception of the recently announced Shanghai 5 and Shanghai 6 projects, are fully funded. We are currently in discussions with banks for Shanghai 5 and Shanghai 6.

The fact that we have very strong customers, high levels of precommitment and many long-term contracts definitely helps us to access the debt finance which we need. As we sign up more contracts with cloud service providers, our contract length gets longer as they typically commit to 6- to 10-year contracts, often with no rights of early termination without cause. These contracts further enhance our finance ability.

To conclude on financing, we are strongly positioned to capture the opportunity in the China market and are growing in terms of sales at a higher rate than we foresaw previously. As an asset-based business, we are constantly looking for capital from different sources in order to supplement our capital base and to optimize our cost of capital. We're currently in discussions regarding a range of financing options at both project and holding company level. Whatever options we take, we are very conscious of the need to enhance returns for our existing equity holders, while maintaining a stable and sustainable capital structure going forward. We will let you know about any new financing plans in due course.

Turning to Slide 18. With the strong sales progress, our backlog has grown again to over 34,000 square meters. The average selling price for the contracts in the backlog is in line with our current MSR. Accordingly, the backlog is worth around USD 163 million in terms of annual recurring revenue. This provides visibility for 84% growth from a base of USD 195 million for the last quarter annualized service revenue in 2Q '17. Delivery of the backlog depends on the timing of project completions and customer move-in schedules.

Over the second half of '17, we expect the net addition in area utilized to be significantly higher than it was in 1H '17. This will be a key driver of revenue and EBITDA growth. Based on the significant move-in, which has already taken place in the current quarter-to-date, and the program of delivery schedules over the remainder of the year, we are on track to achieve FY '17 revenue and EBITDA within the range, which we guided at the beginning of the year, and we reaffirm the existing guidance.

With that, I will end the formal part of my presentation. We'd now like to open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Colin McCallum from Credit Suisse.

Colin McCallum - *Credit Suisse AG, Research Division - MD*

My question is really just related to the competitive environment. We saw obviously the relationship that you built with BABA. Are you seeing them continuing to use partnership approach? Or are you seeing them building a lot more of their own data centers? That's the first question. And then secondly amongst other kind of independent data center providers, are you -- who are you seeing as the main competitors when you are pitching for new contracts from the customers?

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

Okay, Colin. This is William. I'll answer your question first. In my view, I mean, second -- as we answered this question in the last quarter, I think, in the second quarter, there is a competitive landscape no any change in my view. This is number one. But I want to say, in Q2, we have already strengthened our customer. I mean, our customer -- to keep our customer satisfied -- satisfactory, and keep our operating track record is very, very important. And this capability is not easy to replicate, is number one. Number two, as we show up in our -- during our presentation, we keep deliver and supplies in all the key markets of the resource. So this is not easy. This is not a one night's job. So our each -- any our competitors, when they are coming, it will still take more -- a long time. So I think the -- this is my view of what happened in the market. This is number one. Number two is, Alibaba -- what's your question about Alibaba?

Colin McCallum - *Credit Suisse AG, Research Division - MD*

Is Alibaba partnering or out for building themselves?

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

I think Alibaba -- Alibaba, they are in Tier 1 city. They still keep outsourcing. They're 100% outsourcing their requirement. So this is what we see so far. And we also see in the next couple of years, they still will keep this strategy like before. So we didn't see any Alibaba self build data center will impact the cooperation between GDS and Alibaba.

Operator

Our next question comes from the line of Gokul Hariharan from JPMorgan.

Gokul Hariharan - *JP Morgan Chase & Co, Research Division - Head of Taiwan Equity Research and Senior Tech Analyst*

The first question I have is, looks like we are seeing a nice step-up in terms of area utilized after remaining relatively stagnant for the last few quarters. And I think Dan did mention that this is probably the early sign of some of the larger contracts that you signed starting to come on board. Could you give little bit more color, Dan or William, in terms of how that is going to progress over the next couple of quarters? That is my first question. Second would be could you talk a little bit about for your cloud customers, what is the kind of market share that you're seeing carrier-neutral occupy? And within that, where would you rank GDS with the other carrier-neutral vendors as well? You mentioned that your cloud-related revenue -- or cloud-related customers account for slightly higher than 50% of the area committed as of end of Q2.

Daniel Newman - *GDS Holdings Limited - CFO*

Gokul, Dan here. So on your first question, actually there was a step-up in area utilized in the second -- in the first quarter, and it stepped up again in the second quarter. And I mentioned that there's been a lot of activity in the current quarter to date, which is very positive. So we are expecting to see a quantum increase in the area utilized in the third quarter and the fourth quarter of this year. And it ties back to, if you look at our sales passing over the last 4 to 6 quarters, and you look at the curve, there was a significant amount of new business in the third quarter of last year. And a lot of that was precommitment for data centers, which were under construction and so on. So this is something, which we've anticipated several quarters ago and which we tried to communicate when we talked about the quarterly cadence. So it's happening as we expected and gives us comfort about our guidance. Your question about market share, I think we discussed before that there is a kind of natural 50-50 divide between carrier and carrier-neutral, because 2 availability zones, one goes to the incumbent carrier, one goes to nonincumbent. So carrier-neutral target market share might be 50% in total. I would say that we are getting at least 3/4, if not more, of that because most of it is tied to either top 3 or 4, 5 Chinese players. And as you know, they are all our major customers. So we'll follow that -- we would be having that kind of market share on the carrier-neutral side.

Gokul Hariharan - *JP Morgan Chase & Co, Research Division - Head of Taiwan Equity Research and Senior Tech Analyst*

Okay. If I could follow up on one other question. We have discussed the progression of potential metered power kind of arrangements with some of the larger customers. How is it progressing? And when does that form a part of the overall revenue stream? Is that something that we should be really concerned about from how the revenues progress as metered power on price become a bigger portion of the overall mix?

Daniel Newman - *GDS Holdings Limited - CFO*

I think it is not a source of concern, because metered power simply means that the income we obtain from customers is linked to their actual power usage. So economically, we are close to indifference about that. But I think you're asking in terms of our contract base maybe talk to the proportion, which is on a metered unbundled basis as opposed to bundled. The metered unbundled part has been growing and is now a substantial minority part of our contract portfolio. A significant part of the backlog contracts are structured like that. But the pricing structures vary a lot from case to case even with the same customer. I mean, we can have metered unbundled power, but that can be quite often the minimum power usage commitments. So it's not a simple matter, but I think really this is just -- you should just think about this as customer preference and not having any economic impacts on us.

Operator

Our next question comes from the line of Arthur Lai from Citigroup.

Arthur Lai - *Citigroup Inc, Research Division - VP and Analyst*

I have 2 questions. So you just mentioned that in terms of the area utilized, you're doing a good size. So how is the 2017 tracking compared to your previous expectation? And if that's hedged, what's the driver of for example from which clients or from which end market? That's my first question.

Daniel Newman - *GDS Holdings Limited - CFO*

Thank you, Arthur. One thing you know with high degree of certainty is what our backlog is worth. Because we said it on the call and you could always estimate it yourself. So that's what the revenue will be when the backlog is fully delivered. Then it's just a question of the timing of delivery over the next 1, 2, 3 quarters. Revenue growth will come entirely from delivery of the backlog. Contracts have fixed delivery schedules. But say in majority of cases, our customers are moving in ahead of those schedules, which means that from a forecasting point of view, we can't forecast just based on contractual commitments. We have to forecast based on what the customers have already done and the program of move-in, which we've agreed with them, which we're implementing going forward. And what's happening right now is, I'll say very much in line with our expectations and it's something I communicated 1 or 2 quarters ago, as I said in terms of the cadence this year. And it's encouraging it's actually happened. There's a significant amount of move-in that's happened already this quarter.

Arthur Lai - *Citigroup Inc, Research Division - VP and Analyst*

Okay. And for the 2018, how much CapEx do you plan to add? Would it be similar to the area you add in '17?

Daniel Newman - *GDS Holdings Limited - CFO*

Arthur, it's a slightly complicated question because the capacity that we add, if you talk about new projects that we initiate, that is driving -- that's providing resource to fuel the sales efforts. So last year when we were on the road for the IPO, I think at the time of the IPO, we've done about $100 million in terms of new bookings. We ended up $120 million for the full year, which was a lot higher than the year before and would have been very high by U.S. standards. And I think a lot of investors asked us, is that sustainable? And we said, yes. But as you can see, we're on track this year to achieve more than that. And I'd say the sales pipeline is looking very strong and very significant deals in the pipeline. So we have to add resource to enable us to fulfill our customer requirements and maintain that sales momentum. And that is a challenge, and I believe it's something that we're doing quite well and probably doing better than anybody else in the market. So what we've added -- what we've announced, you can calculate in terms of square meters, 38,000 square meter under construction. I think that 10,000 square meters is precommitted. So 28,000 square meters is in -- based on disclosure, 28,000 square meter is still available to commitment. Well, that's available -- that's equivalent to slightly more than we added over the whole of last year -- that's equivalent -- last year, we added about 25,000 square meters in new bookings. So now we've got 28,000 square meters in the pipeline available for commitment to customers. So you could infer that would be maybe equal to 3 or 4 quarters of new sales.

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

Yes, I would actually, I mean -- I would say there for year 2018's revenue accounting of procurement, this funding all fully funded. So what we are -- we plan to invest in next year is most of the resources for year 2019 and year 2020.

Arthur Lai - *Citigroup Inc, Research Division - VP and Analyst*

Okay. Last question probably for William. I think you -- first time you talked about the growth committed, some reason you mentioned that you are getting the license to doing that. Can you reiterate more if this is more like some service that we can differentiate from the other carrier-neutral provider? Or this is actually a service that we can increase our ASP? Because if we look at the other data center provider in overseas, they actually charge this growth committed service.

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

Okay, I think the -- this is very early stage topic. I mean, as we mentioned in the last quarter, we are in the process to get the final approval of the license, which I mentioned that we got a significant progress, passed most of the key steps. So this is number one. Based on this, we are of course, we already start to planning integrate some technology, especially some SDN technology in this offering. And we are not in the short term, we are not tempt to charge our customer, frankly speaking. And we try to use these tools to strengthen our cloud value proposition. Because we understand in future because GDS has the very unique position because we are -- our strategist led the genius data center platform as home of the cloud. And we know in the future, there is a very large -- huge potential to connect across Asia and cloud connect across customer connect to customer. Customer connect to multi cloud. It's very, very strong demand -- potential demand. But we don't want to capitalize immediately. We want to use this application as new service line, which we will -- is well prepared right now strengthen our current position right now. That's my answer.

Operator

Our next question comes from the line of Jonathan Atkin from RBC Capital.

Jonathan Atkin - *RBC Capital Markets, LLC, Research Division - MD and Senior Analyst*

Yes. So I think you answered some of this in the last question, but maybe just to be a little more clear. The development pipeline that you look at on Page 7 and in looking out for the next 4 to 6 to 8 quarters, do you -- is there enough land? What are you looking at in terms of land, buildings and perhaps possible acquisitions for redevelopment and so forth, do you think you can sustain the development pipeline that you currently have? Or could that protect -- potentially contract or expand compared to what you're seeing right now.

Daniel Newman - *GDS Holdings Limited - CFO*

Jon, I think the -- I mean, the simple answer is, yes. But if we -- we look at it in 3 parts. I mean, the first thing is you have to have the sales capability, and I think people taking that for granted. But that is something which is immensely valuable from the customer relationships we have, the repeat business we're getting in a sense that customers are relying on us. And we have -- we adopted a strategy of maintaining continuous supply in all Tier 1 markets long ahead, years ahead of anyone else. And I think we're still years ahead of anyone else. We have a certain amount of capacity, which we categorize as held for future development. We don't disclose that every quarter, but there is certainly a substantial amount of resource, which when the demand is there in the right place at the right time, we can activate. But that apart, I can tell you that there is a strong pipeline of new projects in all the markets. And we've included in this presentation material for the first time some maps showing the location of our projects. And what we wanted to highlight there was that we have campuses and we have clusters. And this matters to our customers. They want to be able to expand in the same place. They want to see visible expansion capacity. And we have that in all markets. I think this is a point of competitive differentiation, which is probably often underappreciated.

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

Yes, Jonathan, I'd say I want to add a little bit of a point. I mean, I think this delivery capability, including the sourcing capability, design capability and project management capability and also procurement capability and financing capability, I think that GDS, based on our last 4 quarters, our track record, GDS has more experienced team and experience to well manage the future sourcing delivered better. So I think we have more -- now we are more confident than before. And we are more confident to compare with other new players jumped in the market. We have a very, very comprehensive, I mean, capability. It's not easy to replicate that by the new player.

Jonathan Atkin - *RBC Capital Markets, LLC, Research Division - MD and Senior Analyst*

And then on the guidance, I was interested. So the -- was Shenzhen 5 included in your earlier guidance, which you've reaffirmed? And then I noticed that Shenzhen 4 Phase 1 is expected for delivery in second half. I think in the prior call, you might have expected that in the first half, so just interested a little bit in that dynamic.

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

Okay. First of all, Shenzhen 4, we are on, as Dan mentioned, we are on track to complete the construction of Phase 1. But I would say it's a special case, because in total -- national-wide, our delivery track record or Shenzhen delivery track record. I mean, it is a special case, because the district of the Shenzhen government is -- Shenzhen 1 that what we call the Pingshan District, they have some special policy. And they ask for more long process to review our -- all the projects in Pingshan. So this process is more than -- more longer than we initially expect. But so far, it's on track. It's still under -- in a process. We are -- our team is working hard -- it's working on that and have tried -- and we believe we will get the approved zone.

Daniel Newman - *GDS Holdings Limited - CFO*

Yes, Jonathan, when you're asking about one project being ahead, one project being behind, I mean we have an enormous amount of development activity. We have enormous amount of resource delivery to our customers. We're operating in a very dynamic market. So it's inevitable that within this very mosaic, there's going to be some things which are ahead and some things which are behind. I think the important thing from -- is that when we look at it in aggregate, we are on comfortably on track for the guidance that we gave sometime ago.

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

Yes, that's what I try to emphasize. I mean, even the parting Shenzen 4, the process is more longer than what we expect. Given this is a fact I think -- but the good things for the -- for our management team, we never bet on one project to deliver our financial results. So it will not impact our year 2017 financial result.

Operator

Our next question comes from the line of Michael Hart from Guggenheim Securities.

Michael E. Hart - *Guggenheim Securities, LLC, Research Division - Analyst*

I guess just first to follow up on that, the topic of Shenzhen 5, which you were able to open so far ahead of schedule. As you look to the rest of construction pipeline, are there any other potential opportunities where you might be able to pull forward deliveries of space that you've precommittted to your customers?

Daniel Newman - *GDS Holdings Limited - CFO*

Michael, pull forward means relative to our internal plan. I think we have a track record of completing projects within budget and on time as being very near perfect. And our construction time period has been shortening. And we're gaining efficiencies in terms of procurements and also in terms of standardization. So there are a lot of improvements going on. It's a multiquarter, I mean, it's a multiyear process. We expect to continue to improve in several years yet to come. But if you're asking, is there something extraordinary that's going to happen that I haven't told you about that's going to lead to significantly higher financial numbers? I think, well frankly, we were giving guidance at the beginning of the year for revenue and EBITDA growth year in effect that's going to come in 50% to 75% range. So I hope that's enough to keep the results.

Michael E. Hart - *Guggenheim Securities, LLC, Research Division - Analyst*

Yes, definitely. I appreciate that. And I want to follow up off-line to better understand some of those efficiencies. And I guess, the other thing I wanted to ask about was around cloud adoption. I was wondering if you could offer some additional color on what types of enterprises that are leading the way in cloud adoption? And also when you talked about the cloud revenue run rate now versus where you think it could go, I think that kind of suggests that enterprises are less than 10% of the way through the process of switching to cloud infrastructure. I was just wondering -- I wanted to get your thoughts on that. And then I was wondering if you could maybe offer some additional color on, which enterprise verticals are the most important drivers, and whether that could be a source of additional demand for you long term?

Daniel Newman - *GDS Holdings Limited - CFO*

Michael, I'd like to answer you, but I don't think I should position myself as a kind of cloud guru. Actually, Alibaba had an investor day about a month ago, and they gave a presentation on their cloud business. And they gave quite a few examples of customer case studies or reference customer cases. And they are portraying that there is a good penetration beginning to happen into larger enterprises and so on, some of the bigger -- the biggest spenders in IT dollar terms. So I think we're talking about our customer's customers, so perhaps I shouldn't really say anything more specific than that.

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

I think based on my observation, I think the (inaudible) industry, they adapted to cloud very fast. Based on our first of all the new type of the, I mean, financial service provider, like payment, online trading, they use the cloud very heavily. I don't give a specific name which is our close -- one of our big colo customers, they adopt to the Ali cloud in the last 2 years very, very heavily. Another vertical what I think is that definitely a lot of the mobile company, mobile Internet based company and video stream, they use the cloud very naturally. So I think this type of industry, based on my observation, they use and grows very, very fast.

Michael E. Hart - *Guggenheim Securities, LLC, Research Division - Analyst*

Okay. Are you seeing bookings from these types of customers looking to locate their deployment adjacent to your cloud customers?

Daniel Newman - *GDS Holdings Limited - CFO*

Yes, Michael. I mean, that's the driver of the growth in our enterprise and FSI customer base. 20 new accounts, so 5% growth in terms of that -- on a quarterly basis, it's a 5% growth in terms of the number of customers. And when we look at the identity of those customers, they are pretty substantial instance. And a lot of them are cloud-related business. It could be a financial cloud customer, for example, who is operating online and leveraging the cloud infrastructure that we have -- that our other customers have in our data centers.

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

Yes, we do see some very significant chain. I mean, a lot of the -- our colo customer, they are being used the cloud of not only Ali, also the other cloud engineers very, very actively, is number one. Number two is, we see some customer, they used to not -- used to be not GDS target customers. Because that they want to sit close to the Ali Cloud, they moved to -- moved some -- a lot of their production server to our data center. They have become another -- our new vertical customers.

Operator

Thank you. As there are no further questions, I would like to turn the call over today's company for closing remarks.

Laura Chen

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