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GDS.O - Q1 2018 GDS Holdings Ltd Earnings Call

EVENT DATE/TIME: MAY 10, 2018 / 12:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for GSD (sic) [GDS] Holdings Limited First Quarter 2018 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 1Q 18 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 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 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 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 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 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 & CEO*

Thank you, Laura. Hello, everyone. This is William. Thank you for joining us on today's call. 2018 has got off to a flying start. In the first quarter, we grew revenue and EBITDA by double digits and, again, raised our EBITDA margin. This shows that we are delivering financial results. Growth starts with sales, and in this respect, we had another outstanding quarter. In 1Q '18, we added over 20,000 square meters or 40 megawatts to our total area committed, a record level of new booking in a single quarter. 20,000 square meters is almost 50% of what we did in the whole of last year.

This is the second consecutive quarter in which our new bookings reached this level. Furthermore, as we look forward, our sales momentum is continuing, and we target to achieve a similar level of new bookings in the second quarter. How are we achieving this? To begin with, we are fortunate to operate in a market where the digital economy is booming. Demand for high-performance data center capacity is accelerating, and it's challenging to generate new supply. It's obvious now that Cloud adoption in China is taking off. AliCloud, the market leader, just reported another quarter of triple-digit growth. The upside is huge. The Cloud market in China is still only 10% of the U.S. China is at the forefront of AI technology. It's a major focus area for our largest customers and it's already being deployed across their platforms. China will be at the forefront of 5G deployment next year. Our customers are gearing up in anticipation. All of this is driving demand for high-performance data centers located in Tier 1 markets, at the edge of the network.

As we always say, we serve the right customers. Today, we have an 80-20 split between Cloud and the large Internet and FSI and the large enterprises. We believe that our Cloud and the large Internet customers account for a very large part of market demand. That's why, 80%, 90% of our new business is coming from existing customers. We are getting follow-on orders from them quarter-after-quarter. In 1Q '18, we got new business from 3 of our top customers, which comprise 2 Internet giants in China plus a leading global Cloud service provider. We believe that it's highly strategic to have these customers. They drive volume, scale economies, fill rate and technology. And ultimately, they drive where the enterprises will go as well. We target to add more of these strategic accounts during this year and new wins are coming soon.

On the enterprise side, we are also getting frequent follow-on business and continued to make progress in adding new logos. In 1Q '18, we won expansion orders from China's largest logistics company and from one of the largest global auto companies. And at the same time, we increased customer count by 27% year-on-year. In the long run, we believe that the Cloud POPs in our data centers will be the main attraction for enterprise customers. We are developing our CloudConnect hubs and will announce the product launch soon. Our customers remain firmly committed to data center outsourcing in Tier 1 markets. Historically, the hyperscale guys have outsourced almost all their requirement in these locations, and we are very confident this trend is going to continue.

Our largest customers have high visibility for their future requirements. They are asking us to show them how we can fulfill increasing demand. At the same time, it's becoming more and more difficult to source new projects in Tier 1 markets. It requires larger sites and it requires high-power capacities -- capacity, which is the biggest challenges of all. We've recognized several years ago that maintaining continuous supply in all Tier 1 markets would be the critical success factor. I am, therefore, particularly pleased to report our progress in securing more resource.

Let's turn to -- let's go to Slide 5. We started this year with 24,000 square meters under construction. In Q1 '18, we initiated an additional 18,000 square meters across 1 new project in Shanghai, 2 new built-to-suit data centers in Hebei, and the upsizing of a project in Shenzhen. Since the end of Q1 '18, we have initiated another 20,000 square meters, consisting of 2 new projects in Beijing, where the market is particularly tight, another project in Shanghai and the acquisition of a very large data center under construction in Guangzhou. As of today, we have over 60,000 square meters under construction.

Beyond this visible supply, we have over 100,000 square meters of net floor area secured for future development. This consists of some existing building shells, development agreements with the property partners and greenfield land, which we own. We also have a number of other high potential projects, which we are close to securing.

So how are we doing this? Our resource strategy is very clear. We self-develop and we acquire projects at the construction stage. We have large local teams in each market dedicated to finding qualified resource. This task cannot be centralized because you need to know where to look, who to go to, and how to navigate the local regulatory environment. Our local teams are highly knowledgeable. Supporting this local presence, we have centralized data center design, procurement and construction management teams. Over the years, they have accumulated a lot of experience evaluating multiple projects of many different kinds. They have the ability to quickly determine whether a site or building will make a good data center and to put together the financial evaluation. We gain a valuable edge from the inputs of our sales teams, reflecting back what customers require. Our process and decision-making are robust and efficient.

Finally, we are able to leverage our big-name customers to help deal with the challenges of obtaining power capacity. We also leverage industrial property owners to obtain power before we come in. Our approach is to secure options on attractive sites, while the landlord is pursuing the power. This approach paid off with 2 new projects in Beijing, which we have just announced.

As our business has scaled up rapidly, we have successfully maintained a balance between customer commitments and capacity. In fact, our commitment rates are now at the highest ever levels. If there is one thing that I would like you to take away from this discussion, it is that GDS has the ability to capture higher and higher levels of customer demand and to scale up our resource supply to fulfill it.

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

Daniel Newman - *GDS Holdings Limited - CFO*

Thank you. As William mentioned, in 1Q '18, we achieved double-digit growth in total revenue and adjusted EBITDA, which was a good start to the year financially.

Let's look more closely at this on Slide 11, where we strip out the contribution from equipment sales and the effect of FX changes. In 1Q '18, our service revenue grew by 11.7%, and our underlying adjusted EBITDA grew by 14.6% quarter-on-quarter.

Turning to Slide 12. The main driver of revenue growth in 1Q '18 was the 5,000 square meter increase in area utilized, which was in line with our expectations. Monthly service revenue, or MSR, per square meter in 1Q '18 was within the range which we have seen over multiple past quarters. On a per square meter basis, selling prices are stable and, as the backlog is delivered, we expect MSR per square meter to stay within the established range.

As shown on Slide 13, profit margins are on an upward trend. For now, it's mainly due to operating leverage on the corporate cost base. At the data center level, which is illustrated by NOI margins, there are 2 things going on. Data centers are filling up and reaching optimal profit levels, which typically means an NOI margin of around 55%. At the same time, as we are in rapid expansion mode, new data centers keep coming into service, causing a temporary growth drag.

Slide 14 illustrates the breakdown of area in service between data centers which are stabilized and data centers which are ramping up. During 1Q '18, 2 data centers moved across from the ramping up to the stabilized side: Shenzhen 5 Phase 1 went from 74% to 100% utilized, and Beijing 3 went from 22% to 82% utilized. On the ramping-up side, 3 new data centers were added in 4Q '17 and 1 more in 1Q '18. The 3 data centers, which you see with single-digit utilization rates, came into service just in the past few months. In 2Q '18, there will be 3 more data centers coming into service, which means that the drag on NOI margins will continue for a while. Once again, this was fully factored into our guidance at the beginning of the year.

At the corporate level, on Slide 15, we continued to realize operating leverage on our SG&A. In 1Q '18, this was sufficient to offset the growth drag and raise the underlying adjusted EBITDA margin by nearly 1 percentage point. If we factor in full delivery of the backlog, the current level of SG&A represents around 6% to 7% of service revenue.

Turning to our CapEx on Slide 16. Our run rate in 1Q '18 of around CNY 800 million, or $130 million, would take us to the top end of our CapEx guidance for the full year. At the end of 1Q '18, the cost to complete all the projects initiated up until that date was around CNY 1.5 billion, or $245 million. On a square meter basis, unit development costs are stable at around $10,000 per square meter. But as we are gradually increasing the power density of new resource, the unit cost per kilowatt comes down. This gives us the ability to share some cost efficiencies with our largest customers, while protecting our rates of return. We target to continuously lower development costs through design innovation and supply chain management. We have got valuable input from our partner, CyrusOne, and we are looking at how we can create more synergies in these areas.

Now I'd like to update you briefly on the progress of our project development. Shanghai 5 Phase 1 no longer appears in the table on this page because it entered service in 1Q '18. It is 100% committed. Shenzhen 5 Phase 2 was upsized by around 2,850 square meters after we were able to secure higher power capacity. There is a chance of further upsizing of this data center. The anchor customer for Shenzhen 5 Phase 1 is likely to take the whole of Phase 2. We're developing 3 built-to-suit data centers in Hebei province for one of our largest customers. They are all 100% pre-committed. We don't currently have any other commitments outside of our Tier 1 markets. However, we will consider further opportunities like this, if we can make the economics work. Shanghai 8 is a new project, which we announced on our last earnings call. It's now almost 50%

committed. The Guangzhou 3 acquisition has just closed, and the 2 new projects in Beijing will add significant capacity in that market. We have a lot of demand for this new resource.

Turning to Slide 17. After completion of the follow-on equity offering in January, our cash position has risen to nearly CNY 3 billion, or $480 million. Around CNY 900 million is allocated for completing all projects initiated up to the end of 1Q '18. The balance of CNY 2.1 billion is available for allocation to new projects, including those initiated in the current quarter, and for working capital purposes. We continue to rely mainly on project finance to leverage our investment in individual data centers. Typically, we target leverage at the data center level of 60% of total project cost. Once data centers are stabilized, this translates into around 3x debt to data center EBITDA, before allocating any corporate costs. The projects are attractive to banks because of our track record, strong counterparties and long-term contracts. Our effective borrowing cost is now about 7%. At the consolidated level, our capital structure reflects the combination of all these project financings and the credit metrics are skewed by debt incurred for data centers, which are still ramping up or under construction.

Turning to Slide 18. At the end of 1Q '18, our backlog had increased significantly from 40,000 square meters to almost 56,000 square meters, which is equivalent to 84% of our area utilized in the same date. Overall, we are fully on track to achieve our revenue and adjusted EBITDA guidance for this year. Sales and resource development are running ahead of our business plan, but project time lines are still being finalized. We can be more specific about our CapEx expectations when we report 2Q '18 results.

With that, I will end the formal part of our presentation. We'd now like to open the call to questions. [Ajay]?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Colin McCallum from Crédit Suisse.

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

Great. Thanks for the opportunity and well done on the growth figures. Just two questions from me though. First of all, just confirm, Dan, that you are maintaining the guidance that you gave at the end of fourth quarter, so both on the revenue side and the EBITDA side, if you could just confirm that, that would be helpful? And then, second question just on the EBITDA margin. I realize that it was kind of flattered last year a little bit by the termination fee. But just wondering, is the margin a little bit light in first quarter? Is that just a timing issue? Or is there a real kind of increase in the rate and labor, which has affected the EBITDA margin on a more kind of structural level? If you can give us a bit of guidance on that would be helpful.

Daniel Newman - *GDS Holdings Limited - CFO*

Yes. Hi, Colin. First of all, yes, I confirm that we are fully on track to achieve the revenue and adjusted EBITDA guidance, which we gave on our last earnings call. And as regard to EBITDA margin, I think our guidance implies an overall adjusted EBITDA margin for this year around 36%. So I'd say we are once again fully on track to achieve that. So if you say a little bit light, but I can assure you it's fully in line with what we were expecting.

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

Got it. I mean, obviously, it's less than 36% in the first quarter. But my question is there a timing issue there, Dan? Or is it just the time of things coming on stream in terms of the mix between completed data centers and those under construction, is that what it is?

Daniel Newman - *GDS Holdings Limited - CFO*

Yes, that's why my discussion about the NOI margin significant growth drag in the first quarter - because it was the 3 data centers, which we brought into service in the fourth quarter '17, plus the one which we brought into service in the first quarter this year. And that will continue to a degree into the second quarter of this year. Because as you can see, there's another 3 data centers to come into service in the second quarter. After that, we will have a lot of resource in service and it will enable us to deliver backlog. So I think over the second half of the year, we should see a higher level of move-in, higher level of increase in area utilized and the operating leverage should begin to become greater.

Operator

The second question comes from the line of Gokul Hariharan from JP Morgan.

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

My first question. You did allude to increasing difficulties in sourcing capacity, especially in high power. Could you talk a little bit about what is it doing to your cost? I think Dan mentioned that it is still at $10K per square meter right now in terms of per new capacity. Could you talk about what that would look like maybe in the next 1 or 2 years as you start to source even bigger projects? Second is, I see that you guys finally ramping up a meaningful capacity in Beijing next year. Could you talk a little bit about what is the competitive dynamics in Beijing, given that it's been a market where GDS has not been the early player compared to, say, Shanghai or Southern China.

Daniel Newman - *GDS Holdings Limited - CFO*

Okay. Gokul, I'll take the first question. There's no significant inflation pressures in terms of materials or construction costs. We are seeing some increase in industrial property rental levels. The obtaining power is not a cost, per se. All we were discussing was the different approaches we've taken to solving that challenge. And net-net, it's probably a good thing because it creates a significant barrier to entry and barrier to increase supply for those who cannot overcome this challenge. On a per square meter basis, if we just talk about unit costs on a per square meter basis, I expect that it will remain around the level it is today, around USD 10,000. On a per kilowatt basis, it's been coming down because we build at higher power density, and we've been making gains in procurement and actually purchasing power and through design standardization. And we are still targeting to make significant further gains, very significant further gains, also through some design innovation. So on a per kilowatt basis, definitely our cost, which I guess today is around $5,000 per kilowatt, or $5 million per megawatt, on that basis, we expect it to come down significantly over the next couple of years. But as power density increases, you see the same unit development costs in square meter basis. William, the question about competitive dynamics in Beijing.

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

In Beijing, competitive dynamics. Yes, you are right. We talked about it a little bit a couple of times. We have paid attention to catch up the market share in Beijing. And currently, this year, we will deliver this promise. So I think in Beijing, most of the competitor in China, a lot of them are in Beijing market earlier than us. But for GDS, I think we leverage our -- from sourcing point of view, we have leveraged our GDS brand name. And we see there a lot of landlords, if they want the project to sell or rent to some right customer, GDS is their top -- in their top list. And they believe GDS. They trust GDS. They believe GDS has the credibility and ability to deliver what they commit. So currently in Beijing, I think sales is not our issue. We can compete with any competitor, if we have the resource. So in Beijing, the race is capacity. It's a fact. So we are catching up with that. In the recent couple of quarters, I think GDS has got a lot of deals to kill all our competitors.

Daniel Newman - *GDS Holdings Limited - CFO*

Gokul, the data center we call Beijing 4, that's quite centrally located, and our intention is to position that for enterprise and FSI customers. Frankly in the past when we've done that, we've been overtaken by demand and allocated it to Cloud and Internet, but -- that's how we intend to position that. So we won't to be pursuing pre-commitment unless that situation arises again. For the data center we call Beijing 5 Phase 1, as always, it's almost, or I will say it's 100% fully allocated to certain customers already. And we are in good position, frankly, to source some additional capacity in Beijing.

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

Okay. Just one question. Now that we are getting closer to the Hebei project entering into service, could you talk a little bit about how quick the ramp-up is likely to be, given your pre-commitment is already 100% for pretty much all 3 spaces? How quick is this ramp likely to be? Is it going to be significantly faster than the typical ramps that we've seen, given the customer demand is -- remains much higher in that particular data center?

Daniel Newman - *GDS Holdings Limited - CFO*

Yes, Gokul, these are built-to-suit for a particular customer. And the first one, we call Hebei 1, will come into service very soon in this quarter, and the next 2, Hebei 2 and 3, will come into service in the following quarter. Yes, the customer contract provides flexibility for the customer to move-in. So it's the normal arrangement, but that's something which is fully factored into our project evaluation and our return calculations. If they move-in faster, it's better, and if they move-in slower, it's in line with our base-case. So that's their prerogative, that's the flexibility, which they value and which we provide. So I can't commit them to a certain move-in rate.

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

Yes, I'll try to add in on this. In our forecast, we never expected customer move-in more fast. But if they move-in faster, it's upside. And on the other hand, what we can see is that Alicloud grows very, very fast. So we hope it will give more upside for us in future.

Daniel Newman - *GDS Holdings Limited - CFO*

Yes, I mean, sometimes it happens. Beijing 3 is one of the Internet giants. It went from 0 to 82% utilized in 6 months. And Shenzhen 5 Phase 1, which is another of the Internet giants, that went from 0 to 100% utilized in 9 months.

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

Yes, I can say the market trend, the Cloud players there, they grow very fast. But I cannot say particularly a target, what's the move-in schedule -- it will move fast or not.

Operator

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

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

So I was interested in a couple of things. One is the Guangzhou 3 acquisition, and any way to sort of quantify the contribution to revenues and EBITDA over time. Is that entirely going to be in 2019, or what are the impacts on 2018? And then, on a broader topic just, what is the opportunity set for further acquisitions of that type going forward?

Daniel Newman - *GDS Holdings Limited - CFO*

Hi, Jon. Guangzhou 3 was a fantastic acquisition. It's a very large data center, but there is a bit of history behind it. When we acquired Guangzhou 1 data center, there was a commitment to a large customer to provide expansion capacity, which we had to assign back to the vendor. The vendor then developed this subsequent data center we call Guangzhou 3, and it ended up being scaled at a much larger size than it had been anticipated by the contracts 2 to 3 years ago. The first phase is complete, and the customers will start to move-in before the end of this quarter. So it will make some revenue and EBITDA contribution. Of course, it has to reach a certain level of utilization before the data center EBITDA is positive. But that was factored into our guidance, because I did say when I gave the guidance, that there was 1 M&A deal, and this was it. The size of Guangzhou 3 significantly increases our presence in the Guangzhou market. So I think that it's very positive in terms of our ability to win more new business over this year and for the remaining phases. In terms of other acquisition opportunities, yes, there are quite a number. As I commented on the last earnings call, the data center market is attracting investment quite often from local entrepreneurs, people who have some knowledge or association of the data center industry through one degree of separation: construction or IT or equipment vendors. But, their objective is to realize a development profit. And we feel that we can justify paying them a small premium. The Guangzhou 3 acquisition, once again, was on a cap rate, implied by the pricing for the first phase customer contract of 13% to 14%.

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

Since the market is hot, so a lot of capital jumped in. What we can see in the last couple of years, a lot of the project players leveraged their advantage to develop 1 or 2 projects. They will never think they will be the real operator. So their purpose is to build a project and sell to the operator like us. So we can see there are a lot of projects coming right now. But we are very careful to manage it, which we want. We know what we want. Not every project we get, we like. Our acquisition is still our core strategy: to acquire some nice projects in a very, very good location. We also evaluate their design and the construction, everything. So I think, there is a lot of potential acquisition coming.

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

So 2 quick ones. On the cadence throughout the quarter for margin growth, you talked about some further expansion drag during 2Q and then more operating leverage in the second half of the year. Should we be thinking about second quarter EBITDA margins being essentially the same as what you just reported, or up slightly or down slightly? And then more of an operational question, switching topics here. You talked about higher power density for your -- demanded by your customers. Do you find that your competitors, including companies like China Telecom, are responding to the higher power density requirements or is that something more unique to GDS?

Daniel Newman - *GDS Holdings Limited - CFO*

Yes. On the first question, Jon, I think, the second quarter will be positive progress versus the first quarter. But I think the progress will be greater in the second half of the year. On the question about power density, whether, I guess maybe to put it a different way, are other people building the power densities that we're building? Are people building 2 to 2.5 kilowatts per square meter? That's, I think, what Jon was asking. I think Jon was asking are other competitors building 2 to 2.5 kilowatts per square meter power density -- the telecom carriers?

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

Yes, you're right. I mean, because GDS has our customer profile -- most of our customers currently are big customers and use high-power density. So it's not at every data center they are targeting those kind of strategic customers. A lot of the players in the market, they still build some low density. But we try to think about future -- high-power density is the trend.

Operator

The next question comes from the line of Robert Gutman from Guggenheim Partners.

Robert Ari Gutman - *Guggenheim Securities, LLC, Research Division - Senior Analyst*

So this was the largest quarter net increase in the area committed, but it's been accelerating consistently for the past -- since 4Q '16. I was just wondering if you could talk about your expectations looking forward for the pace of how this develops through the year?

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

Okay. I think as I just mentioned, we already in the first quarter delivered almost 50% of the last year whole year. So our original plan in the very beginning, Dan gave the forecast, the CapEx forecast is 45,000 square meter this year.

Daniel Newman - *GDS Holdings Limited - CFO*

About 40.

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

About 40, yes. So in the Q1, we completed almost 50% of the total year's target. So what we can see in the the market, it is accelerating. So we believe there is a high chance will accelerate this number compared with the guidance.

Daniel Newman - *GDS Holdings Limited - CFO*

Yes, Robert, if I can add, William in his prepared remarks said that we target to achieve something similar in the second quarter. So that would imply that by the middle of the year, we should be close to or around the level achieved in last year. I don't want to get ahead of ourselves. We roughly take this quarter-by-quarter. But certainly, the pipeline on the demand side is there. And as we've probably explained at quite great length, we've got the resource supply. I think if we step back and think about in terms of what's happening in technology, the AI and 5G in China, these are such great focus areas...

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

IoT.

Daniel Newman - *GDS Holdings Limited - CFO*

I think that the chance of this being sustained, or even higher, is there.

Operator

The next question comes from the line of Colby Syneseal from from Cowen & Company.

Colby Alexander Synesael - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Two questions, if I may. First off, CyrusOne on their earnings call noted that they're working on approximately 15 deals currently with GDS. I was wondering if you could just provide an update from your perspective on those deals, and what you're seeing and what the opportunity is? And then secondly, you mentioned in your prepared remarks that you're working on a CloudConnect hub product, which you'll announce soon. Just curious if you can just give us a little bit more color on how you are thinking about that? How would you go about monetizing that? And how big of an opportunity or focus strategically is that to the company as we go forward?

Daniel Newman - *GDS Holdings Limited - CFO*

Do you want to talk about CyrusOne? Colby asked to give more color about the deals that we're looking on the CyrusOne.

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

Yes, I think we began working after CyrusOne became our shareholder, to keep working on referral customer to each other. I think the sales leads still need some lead time -- but the sales leads are there. So as we always say, something big is cooking right now, on the both sides, not just that we pushed the big customers to CyrusOne. They've also pushed some meaningful customers to us or helped us to, let's say, strengthen our relationship with our existing customers. So the results are coming -- I think, coming soon. I think maybe in the next earnings call, maybe we'll see some early results. So this is from the, let's say, customer side, shared customer side. We are also working on some programs to try to manage our vendors together and to try to leverage our incremental scale, data center construction scale, to reduce our costs. But a first step is to understand the architecture and standardize both sides, some components. So this is in progress. So when this step moves on, then we will go to the next step to reduce our procurement costs. So that's our target, and we have a very aggressive plan to work together right now.

Daniel Newman - *GDS Holdings Limited - CFO*

Question on CloudConnect.

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

Yes, on CloudConnect, actually we already soft launched the product and tested the product since last year. And we will officially announce the product in the next few months. We are preparing -- almost completed pre-testing the market. So I think the good news will coming.

Daniel Newman - *GDS Holdings Limited - CFO*

Yes, Colby, I guess, it's too early for us to talk about how to monetize in terms of identifiable revenue. But I would say that strategically, this is very important to us. In the long-term, we expect the enterprise part of our business to be a higher percentage, a higher proportion than it is today. I mean, don't forget we came from 100% enterprise and we've gone to 20%. We believe the presence of all these Cloud POPs, we call them on ramps, in our data centers is a unique value proposition, which we can capture through the hubs. And if it enables us to drive a higher proportion of enterprise business, even without charging for it, that will raise our returns and raise our margins and so on. So the benefit could be -- there could be a significant benefit simply through the customer mix without there being any separately identifiable, separately built revenue stream.

Operator

And the next question comes from the line of Frank Louthan from Raymond James.

Frank Garrett Louthan - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

I apologize, if this already got covered. But give us some color on how many new logos you added in the quarter? How is the growth there? And then talk to us a little bit about costs per building. Are you seeing any material pressure on pricing for the construction of data centers, either from labor or raw materials relative to the last 12 months?

Daniel Newman - *GDS Holdings Limited - CFO*

Yes, Frank, it's Dan here. I mean, we're adding something like 25, 30 new customers, first-time customers per quarter, and that's been the rate, actually, pretty steady for 1 or 2 years now, 4 or 8 quarters. So the enterprise customer account number is going up. And our strategy is to attract and establish relationships with customers, who we think are valuable or matter. So we're putting a lot more emphasis on customer account number than we are on the revenue or the proportion that comes from that business. I mean, it starts with the relationship.

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

I think, in general, we still target to grow our customer account, at least a 25% increase every year. So I think Q1 is on track.

Daniel Newman - *GDS Holdings Limited - CFO*

On the development costs, I know what you're referring to as I listened to our U.S. peers' calls. We're not experiencing the inflation that they referred to, either in material costs or construction or labor. The only thing, which I actually referred to earlier is that there is industrial property prices in China are going up. But as I think somebody once said, real estate is never expensive for a data center company because it's not such a large proportion of our cost structure. At the same time, our new projects are a little further out on the whole than the projects we've done before. So in those areas, industrial land prices may be a little bit lower. So it's not a significant impact on us so far.

Operator

As there are no further questions, I would like to turn the call back to the company for closing remarks.

Laura Chen

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

Operator

Ladies and gentlemen, this does conclude the conference for today. You may now disconnect your lines. Thank you.