21Vianet Group, Inc.
1Q18 Earnings Conference Call Script

Operator:

Good morning and good evening, ladies and gentleman. Thank you and welcome to 21Vianet Group's first quarter 2018 earnings conference call.

At this time all participants are in listen-only mode. We will be hosting a question and answer session after management's prepared remarks.

With us today are Mr. Alvin Wang, Chief Executive Officer and President, Ms. Sharon Liu, Chief Financial Officer, and Ms. Rene Jiang, Investor Relations Director, of the Company. I will now turn the call to Ms. Rene Jiang, IRD of 21Vianet to read the safe harbor statement.

Rene Jiang, IRD:

Hello, everyone. Welcome to our first quarter 2018 earnings call. This call may contain forward-looking statements made pursuant to the safe harbor provisions for the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties, and other factors not under the company's control which may cause actual results, performance, or achievements of the company to be materially different from the results, performance, or expectations implied by these forward-looking statements. All forward-looking statements are expressly qualified in their entirety by the cautionary statements, risk factors, and details of the company's filings with the SEC. 21Vianet undertakes no duty to revise or update any forward-looking statements for selected events, or circumstances after the date of this conference call.

I will now turn this call over to Mr. Alvin Wang, CEO and President of 21Vianet.

Alvin Shiqi Wang, CEO:

Thank you, Rene. Good morning and good evening, everyone. Thank you for joining us for the earnings call today.

We started 2018 with outstanding financial and operating performance in the first quarter. Our net revenues for our hosting and related services carried through its strong momentum this quarter and achieved a 13.3% year-over-year growth. More importantly, since we completed the divestiture of our MNS business in 2017, our profitability has been improving steadily. During the quarter, we generated an operating income of RMB 56.4

million. Our adjusted EBITDA also increased by 95.5% year over year to RMB 196.0 million. This is a testament to how effective we are in executing our growth plans and improving our operational efficiency.

During the first quarter, we continued to experience growing demand for more cabinet spaces from our existing customers, including Xiaomi (小米), Momo（陌陌）, Chinabank Payment（网银在线）, and Vivo (Vivo). More importantly, utilizing our industry-leading service quality and our competitive advantages in carrier-neutrality, we have won new clients this quarter including Gan Zhou Bank （赣州银行）, Einwin（一应社区）, ReadingJoy (爱阅读), and ETCP（悦畅科技）.

As we previously announced in the fourth quarter of 2017, we have entered into an agreement with TUS Holdings for a land parcel in SongJiang, Shanghai, to construct two buildings for data center use. The construction is currently on track. This will significantly increase our hosting capacity. It will also allow us to better serve our ever-expanding customers base and their growing demand, especially in Tier-1 cities. In addition, the expansion of our data center network will lay a solid foundation for us to pursue future opportunities in the wholesale business.

On the cloud side, we continued to provide world-class public cloud services to Chinese customers. In March 2018, we extended our long-term partnership agreement with Microsoft for Azure and Office 365 cloud services in China. With our track record of providing those services in China in the past four years, we have established ourselves as the industry leading, uniquely qualified, and highly reliable public cloud service provider. Furthermore, working with Microsoft, we also launched a new partnership with Adobe in April 2018. Collaborating with both Microsoft and Adobe, we will deliver their world-class cloud solutions with localized and customized user experiences to our Chinese customers going forward.

As we extend and strengthen our partnerships with the worlds' most renowned technology leaders, we will continue to invest more resources into expanding our data center capacity, optimizing our daily operations, and providing high-quality cloud services to our customers in China.

To further strengthen our corporate governance, the board has appointed Dr. Yao Li as an independent director and a member of the Company's Compensation Committee. Dr. Yao Li will also act as the Chairman of the Company's Strategic Advisory Board. Dr. Yao Li has over 23 years' experience in finance and investment industry, and currently serves as the Chief Investment Officer of Asia for the International Finance Corporation (IFC) of the World Bank Group. Prior to that, he served as the Chief Executive Officer of China-ASEAN Capital Advisory Company. His rich experience and connections in global finance and Internet infrastructure industry will further strengthen our capabilities to address high-growth whole-sale segment of data center market.

Overall, we are pleased with the progress that we made in the first quarter Moreover, we are delighted to see the reacceleration in revenue growth and profitability improvement as a result of our restructuring in 2017. As we continue to expand our data center network, establish new global partnerships, and improve our operational efficiency, we are confident that we will further strengthen our position as the industry leading carrier- and cloud-neutral service provider in China.

Now I would like to turn the call to Sharon Liu, CFO of our Company, to give you more details of our financial results.

Sharon Xiao Liu, CFO:

Thank you, Alvin and hello, everyone. Before I begin, I would like to state that we will present non-GAAP measures today. Our non-GAAP results exclude certain non-cash expenses which are not a part of our core operations. The details of these expenses may be found in the reconciliation tables included in our press release. Please note that all the financial numbers we are presenting today are in Renminbi and that percentage changes are year-over-year, unless otherwise stated.

In addition, as we divested our loss-making MNS business by the end of the third quarter of 2017, all of our revenues and expenses are now entirely generated by our core hosting and related services. For the purpose of providing an apple-to-apple comparison, in the following remarks, we have excluded all revenues and expenses related to the MNS business from our first quarter of 2017 results. We believe this would offer better clarity and insight into the strong performance of our core business.

As Alvin mentioned in his remarks, we focused on improving our operational efficiency while maintaining our strong growth momentum in the first quarter of 2018. Net revenues for this quarter were 800.8 million, an increase of 13.3% compared to 706.7 million in the prior year period. The increase was mainly due to the increased demand for more cabinet capacity and hybrid IT services from the Company’s new and existing customers.

Hosting MRR per cabinet for the first quarter was 7,905 compared to 7,598 in the same period of last year and 7,766 in the fourth quarter of 2017.

Our adjusted cash gross profit, which excludes depreciation, amortization, and share-based compensation expenses, increased by 18.1% to 347.5 million from 294.3 million in the prior year period. Adjusted cash gross margin expanded to 43.4% from 41.6% in the prior year period. The expansion in adjusted cash gross margin was mainly due to the Company’s revenue expansion and successful execution of its efficiency improvements.

Adjusted operating expenses were 167.2 million, an increase of 8.5% from 154.1 million in the prior year period. As a percentage of net revenues, adjusted operating expenses were reduced to 20.9% from 21.8% in the prior year period. The decrease was mainly due to expense control measures that we implemented.

As a result of our improved operational efficiencies, Our Adjusted EBITDA increased by 28.3% to 196.0 million from 152.7 million in the prior year period. Adjusted EBITDA margin increased to 24.5%, compared to 21.6% in the prior year period.

Our net profit has increased to 34.7 million compared to a net loss of 116.8 million in the same period of 2017. Diluted profit per share was 5 cents in first quarter of 2018, which represents the equivalent of 30 cents per (“ADS”). Each ADS represents six ordinary shares.

Turning to our cash flow and balance sheet. We generated 95.9 million of positive cash flow from operating activities during the first quarter. In addition, our cash and cash equivalents and short-term investment were 2.38 billion at the end of March 2018. We are confident that our healthy cash position will support our accelerated organic growth and enable us to take new initiatives and seize market opportunities as they appear.

Now, let me provide you with our guidance.

For the second quarter of 2018, we expect net revenues to be in the range of 810 to 830 million. Adjusted EBITDA for our hosting and related services business is expected to be in the range of 200 to 220 million.

Finally, we reiterate our full year guidance. We are confident that we will be able to further improve our top-line performance and operational efficiency to meet the growing market demand in the quarters ahead.

This concludes our prepared remarks for today. Operator, we are now ready to take questions.