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VNET - Q4 2015 21Vianet Group Inc Earnings Call

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CORPORATE PARTICIPANTS

Terry Wang *21Vianet Group Inc - CFO*

PRESENTATION

Operator

Good morning ladies and gentlemen. Thank you everyone and welcome to 21Vianet Group's fourth-quarter 2015 earnings conference call. (Operator Instructions). I would also like to mention that due to the pending going private transaction there will be no Q&A session at the end of the call. Before we begin I will read the Safe Harbor statement.

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.

With us today is Mr. Terry Wang, 21Vianet's Chief Financial Officer. At this time, I would now like to turn the conference call over to Mr. Terry Wang.

Terry Wang - *21Vianet Group Inc - CFO*

Thank you. Good day everyone and thank you for joining us today. We are pleased with our overall results in the fourth quarter of 2015. We grow our total revenues by 15% year over year to RMB983m driven by the growth momentum across our various businesses.

Our IDC business experienced solid growth, characterized by expansion of our data center portfolio and the robust sales across three regions. We continue to make strides in our cloud enabler services owing to a strong demand from and our solid relationships with domestic and international customers and partners. Our CDN business saw a healthy pick up as well, with robust growth in both a sequential and a year-over-year basis. However, revenue growth was partially offset by ongoing softness in MNS, primarily driven by the industry-wide decline in bandwidth pricing and loss of certain customers.

In the fourth quarter our EBITDA came in within our guidance range and despite experienced increase in telecommunication costs and low margin equipment sales to our broadband retail customers. We were also negatively impacted by some restructuring charges associated with our ongoing business restructuring in the fourth quarter as well as a one-time charge related to accounts receivable provision of approximately RMB22m.

Looking at the state of our business and our overall market, we recognize that we are facing several challenges. To address these challenges we will continue to focus on restructuring our business, a process which we initiated last quarter to better serve the evolving and increasingly specialized data service market.

In the short term this resulted in increasing incremental costs, as mentioned previously. However, as we fine-tune our cost structure, enhance operational efficiency and invest in core growth opportunities, we believe that in the long term we will be able to reignite growth both financially and operationally. As we continue to expand our core business and leverage our robust partnerships with both global and the domestic paired companies, we will further strengthen our position as a leading Internet infrastructure services provider in China.

Now let's go over each of the core businesses in more detail. In our core IDC business, we expanded cabinet capacity by adding over 700 new cabinets to our portfolio and expect to further accelerate deployment in the fourth [half] of 2016. Meanwhile, we maintain our healthy utilization rate of 71.7% from last quarter, reflecting our success in growing billable cabinets and management in tandem with total cabinets. Our hosting churn further improved to 0.14% in the fourth quarter from an already low level of 0.26%, in the prior period. Looking at our customer pipeline, sales of newly added cabinets continues to climb, and the demand from Beijing, Shanghai and Guangzhou remains strong.

The cloud businesses showed continuous strength in terms of revenue and profitability in the fourth quarter driven by increased customer adoption of Office 365 and Windows Azure as well as progress in our other partnerships with leading international companies. The Bluemix China landing project that we signed with IBM last quarter has entered the exclusion stage and will be deployed in our Beijing Dashiguan data center.

We have built a comprehensive portfolio of services and established a well-recognized brand as one of the most trusted providers of cloud computing and data center services for multinational companies operating in China and we will build upon this foundation in future few periods in order to further expand our customer base and the product offerings.

For our CDN business we are glad to see that 21Vianet is solidifying its competitive position in the market supported by solid execution of growth strategies and the refinement of our marketing initiatives aimed at capturing development opportunities in this sector. We have established a portfolio of security products, witnessed strong adoption rates and received positive feedback from our customers. Additionally, we renew our partnership with CCTV and provided support for its Spring Festival Gala broadcast, which is one of the world's most viewed TV programs.

Our VPN business continued to grow steadily in the fourth quarter driven by increasing demand from both domestic and international customers. Going forward we will continue to leverage cross-selling opportunities to strengthen DYXnet's position as a leading enterprise VPN service provider in the Greater China region.

Moving on to our MNS business, net revenues from managed network services came in soft primarily due to the continual industry-wide decline of bandwidth prices and intensifying market competition. As discussed in the previous quarter, while IPU group continues to perform well, organic MNS business remains one of the most challenging parts of the overall business. To that end, we will continue our network grooming process and are restructuring our business to suit the changing market dynamics.

In the meantime, after reviewing our accounts receivables and conducting necessary credit checks, we decided to make accounts receivable provision of about RMB22m, which we believe are less likely to be able to collect.

Now I want discuss our fourth-quarter financial results. Before I begin I'd like to state that we will present our 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 earlier release. Also note that all the financial numbers we are presenting today are in RMB amounts and the percentage change is year over year unless otherwise noted.

Our net revenues for the fourth quarter of 2015 increased by 15% to RMB983m. Net revenues from hosting and related services increased by 27% to RMB755m from RMB596m in the comparative period of 2014 primarily due to a year-over-year increase in total number of billable cabinets and the continuous growth in demand for Company's cloud and CDN services. MRR per cabinet was RMB10,030 in the fourth quarter of 2015 compared with RMB9,900 in the third quarter of 2015. Net revenues from managed network services were RMB229m in the fourth quarter of 2015 as compared to RMB258m in the comparative period in 2014. The decrease was primarily due to the continued industry wide decline in the bandwidth pricing.

Adjusted gross profit was RMB264m compared with RMB291m in the comparative period in 2014. Adjusted gross margin was 26.9% compared with 34% in the comparative period in 2014 and 26% in the third quarter of 2015. The decrease in gross margin was primarily due to higher spending on telecommunications services, lower selling bandwidth prices and some lower margin equipment sales to IPU customers.

Adjusted operating expenses increased to RMB276m from RBM234m in the comparative period in 2014. As a percentage of net revenue, adjusted operating expenses were 28.1% compared with 27.5% in prior-year period and 25% in the third quarter of 2015.

More specifically, sales and marketing expenses increased by 2% to RMB102m from RMB100m in the comparative period in 2014, primarily due to higher services fees, which were more than offset by lower labor costs as we outsourced some functions to more cost-effective service providers. General and administrative expenses increased by 4% to RMB166m from RMB160m in the comparative period in 2014 primarily due to a one-time charge related to accounts receivable provision of approximately RMB22m, which offset by decrease of share-based compensation costs. Research and development expenses increased by 4% to RMB42m from RMB40m in comparative period in 2014.

Change in fair value of contingent purchase consideration payable was a loss of RMB5m in the fourth quarter of 2015 compared with RMB45m in the comparative period in 2014.

From a profitability perspective, our adjusted EBITDA for fourth quarter of 2015 was RMB102m compared with RMB160m in comparative period in 2014. Adjusted EBITDA margin for the quarter was 10.4% compared with 18.8% in the comparative period in 2014 and 13.2% in the third quarter of 2015.

Adjusted net loss for the fourth quarter was RMB29m, compared with adjusted net profit of RMB7m in the comparative period in 2014. Adjusted net margin was negative 3% compared with 0.8% in comparative period in 2014 and 1.7% in the third quarter of 2015.

Adjusted diluted loss per share for the fourth quarter of 2015 was RMB0.08, which represents the equivalent of RMB0.48 per ADS.

As of December 31, 2015, our cash and cash equivalent and short-term investments were RMB1.79b, equivalent to $276m.

This concludes our prepared remarks. Thank you for join our call today and we now would like to conclude the call. Thank you.

Operator

Thank you, ladies and gentlemen. That does conclude our conference call for today. Thank you for your attendance. You may all disconnect.
