EDITED TRANSCRIPT

CCIH - Q4 2015 ChinaCache International Holdings Ltd Earnings Call

EVENT DATE/TIME: MARCH 22, 2016 / 12:00AM GMT

CORPORATE PARTICIPANTS

Wang Song *ChinaCache International Holdings, Ltd. - Founder, CEO*

An Jing *ChinaCache International Holdings, Ltd. - CFO*

CONFERENCE CALL PARTICIPANTS

Jun Zhang *Rosenblatt - Analyst*

Liping Zhao *CICC - Analyst*

Dennis Wu *UBS Securities - Analyst*

PRESENTATION

Operator

Welcome to the ChinaCache Fourth Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode.

(Operator Instructions)

I must advise you that this conference is being recorded today, Tuesday, March 22, 2016.

And now I like to turn the call over to the management of ChinaCache. Thank you, please go ahead.

Unidentified Company Representative

Hello, everyone. Welcome to ChinaCache's Fourth Quarter and Full-Year 2015 Earnings Conference Call. We distributed our earnings release earlier today. If you haven't received a copy, you can find it in the Investor Relations section of our website.

Today, you will hear from Mr. Wang Song, ChinaCache's Founder, Chairman and CEO, and Ms. An Jing, Chief Financial Officer. There will be a question-and-answer session following management's prepared remarks.

Before we proceed, please note that today's discussion will contain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the SEC. ChinaCache does not undertake any obligation to update any forward-looking statements except as required under relevant law.

Our earnings press release and this call include discussions of certain unaudited non-GAAP financial measures. Our press release contains a reconciliation of the unaudited non-GAAP measures to the most directly comparable unaudited GAAP measures and is available on the website.

As a reminder, this conference call will be recorded. In addition, a live and archived webcast of the conference call will be available on our website.

I will now turn the call over to our CEO, Mr. Wang, who will make his remarks in Chinese and then I will provide a translation. Thank you.

Wang Song - *ChinaCache International Holdings, Ltd. - Founder, CEO*

(Interpreted) Good morning, everyone, and welcome to our fourth quarter and full-year 2015 earnings call.

THOMSON REUTERS

2015 was a challenging year for ChinaCache. While our focus remained on improving our core CDN business, we also accomplished key strategic milestones in the developments of our Data Center Network and Internet Exchange business.

In our CDN business, enterprise customers remained our primary focus in 2015. Our strategy is to provide total solutions to non-Internet companies, with a focus on vertical markets such as banking, Internet finance, automotive and healthcare. As we maintained our leadership position in these verticals, we also expanded into new areas such as logistics, by adding S.F. Express, China's largest logistics company, to our growing list of enterprise customers. The partnership with S.F. Express enabled us to establish an industry benchmark in terms of product quality and differentiation. In addition, we extended our strong business relationships with Lenovo, Huawei and Hunan Satellite TV during 2015.

During the Singles Day Shopping Festival in 2015, ChinaCache successfully provided CDN network acceleration services to many well-known e-commerce platforms such as JD.com, Dangdang, Vipshop, xiu.com, yihaodian.com and Amazon. With our self-provisioned mobile Internet solutions, MPlus, we enhanced stability for these e-commerce platforms on the mobile front while increasing operating efficiency, improving cross-carrier connection and providing timely and accurate data analysis and predictive capability.

As to video acceleration and live broadcasting services, Zhejiang Satellite TV and Hebei TV are our latest media clients. They worked closely with us to successfully launch live streaming capabilities as an addition to their existing Video-on-Demand services.

During the National People's Congress and the Chinese People's Political Consultative Conference in 2015, we ensured the smooth live streaming of the event with zero technical errors for People.cn, China Radio International and Beijing Radio & Television Network.

During the September 3 military parade in Beijing, ChinaCache provided full-course acceleration services for China's Ministry of Foreign Affairs, Xinhua News Agency, People.cn, News.cn, China Internet News Center, China SO, and other major domestic and overseas news agencies and video websites. Our total solutions included live streaming acceleration, static page acceleration and acceleration for overseas market. We also provided a clear, smooth and stable online live broadcasting experience for viewers in China and around the world.

Turning to the HPCC platform, I'd like to share the challenges we've seen and the progress we've recently made.

With the development of cloud computing and cloud storage technologies, our previous platform, which had provided industry-leading service for many years, could not efficiently accommodate the growing customer demand due to its limitation on resource utilization, response to latency, and high operating and maintenance cost. In order to sustain our competitive advantages, our management team decided to proactively drive the development and migration of our services to the HPCC platform with advanced and innovative technologies.

Relative to the previous platform, the HPCC platform is designed with a delicate multilayer structure, which involves cloud storage and multilevel caching technologies, with more complicated processing logic. However, looking back, we underestimated the time requirement to complete the product development and testing, resulting in room for further improvement when the HPCC platform was first launched.

We have since then simplified layers and optimized the logic process with a goal to fundamentally resolve all legacy issues and significantly improve the overall system performance in the long-term.

We have received positive customer feedback on our three critical service offerings, including webpage, downloading and video services for the improved performance, expanded bandwidth capacity and reduced CapEx on servers and racks.

The capacity and stability of our HPCC platform has been improved by approximately 80%, enabling additional bandwidth capacity of at least 2 terabytes for the entire network traffic under the current network scale. Based on the current infrastructure and under the same bandwidth capacity, the improved platform is estimated to save server and rack related cost by 30% to 40% for any subsequent nodes construction.

As a result, our downloading and video services have become significantly more stable. As we have received positive feedback from existing customers and recorded increases in traffic volumes, we believe our services are more competitive, particularly for new customer acquisition.

3

THOMSON REUTERS

Building up on the HPCC performance improvement and positive feedback in 2015 we have launched another round of optimization in early March of 2016 with a focus on webpage services and advanced operating metrics. We are currently on track in terms of optimization progress and expect to complete the current round by early May this year. We expect to be able to handle normal traffic volume and maintain the quality and stability of our services beginning from the second-half of 2016.

Now, let me provide you with some updates on our Cloud Data Center and Internet Exchange business. In 2015, we made significant progress in the development of our Atecsys Cloud Data Center and CHN-IX Internet exchange business.

Atecsys Cloud Data Center is expected to become the largest single campus T3+ Data Center in Beijing in terms of total rack capacity with one building designed for the Internet exchange, CHN-IX. We will be rolling out the first 3000 racks throughout 2016.

CHN-IX is designed with advanced international standards and capabilities, creating an Internet ecosystem for the Data Center Network or DCN by connecting data centers in different locations with Internet exchanges and our vast content delivery network, through a self-owned Private Backbone Line or PBL. This will enable us to offer total solutions to Internet companies including cloud storage, cloud computing and cloud distribution while reducing costs and providing more efficient cross-connections operating environment for both data creators and users.

On November 25, 2015 we announced a strategic partnership with AMS-IX, the Amsterdam Internet Exchange, to develop the Internet exchange in China CHN-IX, a platform that was officially launched and began serving customers at the end of last November. The successful launch of our Cloud Data Center and Internet exchange business in 2015 has laid a solid foundation for our business and growth in 2016.

In 2016, we plan to continue our execution efforts toward establishing the next generation cloud data center and CDN network.

As mentioned in our previous conference call, China data center market size was growing at a CAGR of more than 40% over the past few years. But the total available area of data centers in China is only 50% to 60% compared with the available area in Japan and only 15% to 20% compared with the US, the record growth of China's internet industry is generating enormous demand for increased data storage and Internet exchange infrastructure.

As an Internet exchange plays an essential role as a nurture hub to provide high-quality IP interconnection, cloud exchanging and network security services to content providers and carriers, by connecting to an Internet exchange each content provider or carrier can be easily interconnected to the corresponding ICP and ISP, thereby significantly improving peering traffic efficiency, lowering cost and increasing Internet speed and quality.

In 2016, our CHN-IX will also strengthen its strategic cooperation with AMS-IX by leveraging the successful and internationally recognized business model and experience from AMS-IX. We will be able to connect local or small ISPs with content providers through our PBL and the CHN-IX located in Beijing.

In addition, we plan to build a second CHN-IX in eastern China. We will update the market as additional details become available.

In January 2016, ChinaCache entered into definitive agreements to form a joint venture with Henan Zhongfu Industrial Corporation under the name of Henan Zhongfu ChinaCache Technology Co., Ltd. The JV will be formed to take advantage of the low-cost land and electric resources in Gongyi city, Henan Province in China, to develop Internet data centers and capture the fast growing demand for IDC services in that particular region.

In February 2016, we entered into a Strategic Cooperation Framework agreement with CITIC Telecom International CPC Limited and CITIC Networks Co. CITIC Telecom CPC is a leading provider of a full range of Information and Communications Technology solutions across Asia Pacific, meanwhile CITIC Networks owns China Express Network, which is the only core network with the Type 2 Domestic Telecommunications License in China, apart from three local incumbents.

By combining their technology expertise, global presence and quality clients with our profound industry experience and resources, we look forward to providing interconnection and peering services with reduced costs, satisfying the future traffic demand of the data centers across China and handling the data transmission across our backbone network.

THOMSON REUTERS

To summarize our strategic plan for 2016, we will further enhance our CDN business by completing the HPCC platform optimization during the first-half of the year. In addition, we plan to continue the advanced developments of our Cloud Data Center and CHN-IX business in key areas including Beijing, Shanghai, Guangzhou, Tianjin and Henan province.

These two major initiatives, the HPCC platform and the Cloud Data Center, shall solidify ChinaCache's leadership position in better capturing the explosive growth of China's Internet traffic and online services.

That concludes my prepared remarks. Now, I would turn the call over to our CFO, Ms. An Jing.

An Jing - *ChinaCache International Holdings, Ltd. - CFO*

Thank you, Mr. Wang. Good morning and thank you for your participation. Today, my presentation will start with a review of the [fourth] (corrected by company after the call) quarter and full-year of 2015 results, followed by our guidance for the full-year of 2016.

Please note that, the denominating currency is RMB unless otherwise specified. I will start with a brief review of the fourth quarter results. In the fourth quarter, ChinaCache recorded net revenue of RMB311.4 million, that's a 4.2% decrease for quarter-over-quarter. The decrease was mainly due to the continued platform optimization.

The fourth quarter gross margin was 14.2%, compared with 19.6% in the previous quarter. Excluding the share-based compensation, the fourth quarter's gross margin was 14.5%, compared with 19.8% in the previous quarter. The decline was mainly due to the reduced bandwidth efficiency as a result of the decrease in the net revenue as well as increased depreciation expenses compared with the previous quarter.

Looking at operating expenses, our total operating expenses were RMB108.2 million or 34.7% of the net revenue, in the fourth of quarter of 2015. Excluding the share-based compensation, the non-GAAP operating expenses were RMB90.9 million or 29.2% of the net revenue, which decreased to 12.9% from the previous quarter and a decrease of 25.9% from the fourth quarter of 2014.

Non-GAAP operating expenses were 32.1% of the net revenues in the previous quarter and 36.2% of the net revenue in the year-ago period. Given the soft top-line performance, we were still able to maintain the same level of operating efficiency during the fourth quarter. As a result of the forgoing [ph], the non-GAAP operating loss in the fourth quarter, which excludes share-based compensation expenses was RMB45.9 million compared with a non-GAAP operating loss of RMB40.1 million in the previous quarter.

Non-GAAP adjusted net loss was RMB21.2 million in the fourth quarter compared with a non-GAAP adjusted net loss of RMB44.4 million in the previous quarter. Excluding the transaction tax, we had an adjusted EBITDA of RMB3.9 million in the fourth quarter with an adjusted EBITDA margin of 1.3%.

Now, I would like to discuss our performance for the full year of 2015. In light of the challenges we discussed previously, our 2015 revenue decreased by 2.2% to the RMB1.4 billion from 2014. Our gross margin decreased to 23.1% from 30.2% in 2014, mainly due to 65.9% year-over-year increase in depreciation expenses, as well as the decline in the net revenues.

In 2014, our CapEx spending was above the normal level as we implemented our super nodes upgrade project, which resulted in the high depreciation expenses for 2015. However, on an absolute basis the bandwidth cost for the full year of 2015 remained relatively flat compared with 2014.

For the full year of 2015, adjusted EBITDA was RMB120.2 million with adjusted EBITDA margin of 8.9%, compared with adjusted EBITDA of RMB103 million and adjusted EBITDA margin of 7.4% in 2014. As a result of our disciplined cost control efforts throughout the year, non-GAAP operating expenses in 2015 were RMB386.2 million or 28.5% of the net revenues, a decline of 7.8% compared with RMB419.1 million in 2014.

Specifically, non-GAAP sales and marketing expenses for the full-year of 2015 were RMB112.7 million or 8.3% of the net revenue, representing a year-over-year decrease of 10.3%.

THOMSON REUTERS

Non-GAAP G&A expenses for the full-year 2015 were RMB159.8 million or 11.8% of the net revenue, representing a year-over-year decrease of 11.4%. The non-GAAP R&D expenses for the full-year 2015 were RMB99.9 million or 7.4% of the net revenue, representing a year-over-year decrease of 11.7%.

Our balance sheet remained healthy in 2015, as we had RMB606.8 million in cash and cash equivalents as of the December 31, 2015, compared with RMB375.9 million as of December 31, 2014. Our capital expenditure for the full-year of 2015 was RMB127.2 million, representing 9.4% of total revenue, compared with RMB259.3 million in 2014.

In summary, although our revenue growth was affected by the HPCC platform optimization in 2015, we have been very focused on the cost control in order to maintain a relatively healthy operating efficiency level. We believe that the challenges we faced are temporary. With a goal to complete the HPCC optimization in the first-half of 2016, our second-half target are to normalize our traffic growth and to enhance both revenue and profitability by leveraging the economy of scale and the improved operating efficiency.

On December 28, 2015, our Board of Directors approved a new share buyback plan for $5 million over the next 12 months. This new program is in addition to the previous two share buyback plans for total of $16 million.

As of March 2016, the company has completed all share buyback plan for 2.8 million ADS on the open market for the consideration of $20.9 million. Let me now address our full year of 2016 outlook.

We currently expect to generate total revenue in the range of RMB1.45 billion to RMB 1.55 billion for the full year of 2016, which represents a year-over-year growth of 7.1% to 14.5%. Due to the continued HPCC platform optimization, we expect the revenue performance to be relatively soft in the first-half of 2016. With revenue growth to ramp up in the second-half of this year, we will continue to update the market as we achieve the further progress of HPCC optimization program.

This concludes my remarks. Now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Jun Zhang from Rosenblatt.

Jun Zhang - *Rosenblatt - Analyst*

Thanks for taking my questions. So my first question is could you give us a little bit detailS on HPCC optimization process?

Wang Song - *ChinaCache International Holdings, Ltd. - Founder, CEO*

(Interpreted) I will give you some details on our HPCC optimization. You know that since last year we have started the HPCC optimization of the platform. And since then, we have started our business from the webpage optimization. Of course, we're still doing our downloading and video business optimization itself, most of these businesses have been uploaded and ongoing already. But we know that compared to the former platforms such HPCC platform is a little bit backward in terms of the performance, because of different reasons. And so, we think that, since we have started the first phase of HPCC we are continually upgrading our business performance in different ways.

We are mostly doing our work and focus our attention on the video business and to the big files. We have basically realized our target and we have kept improving the performance of the HPCC platform. But we know that there is still room for us to improve our services and we remain confident about our future. Our platform is now on track. We believe if we go along this way our efficiency will continue to be improved. Thank you.

THOMSON REUTERS

Jun Zhang - *Rosenblatt - Analyst*

My second question is could you give us a little bit update on the Internet exchange data center and any progress on getting clients on that business?

Wang Song - *ChinaCache International Holdings, Ltd. - Founder, CEO*

(Interpreted) We are now basically moving forward according to our plans to the Internet exchange. We know that last year we have started the pilot operation of this Internet exchange. For the first step, we have already connected the clients of our data center and the CDN. We know that we have several types of the clients in terms of the Internet exchange. And in the early stage most of the clients used to be the telecom carriers.

In addition to the three biggest carriers, we also have the China Tietong Telecom, Beijing Gehua and many provincial radio and the television networks, for example, Hubei Radio & Television, which have already been connected to us.

We also have some newly joining customers mainly in the areas of the new bandwidth clients. In addition to the carriers I have mentioned, we also have the second biggest type of the content providers.

As to the content providers, we have some major representative BAT companies in China and we have some e-commerce companies and the video websites, as well as some companies providing the cloud computing services. I can give you two names, Jingdong and Baidu.

As to the carriers, in the next stage, we will have the China Education and Research Network, the China Science and Technology Network, the CITIC Networks, Pacnet, OCM and some provincial level television and video networks, and as well as China Mobile.

And last month, we have attended a big Internet exchange conference in the Asia Pacific region, during which we have gained attention from many big Internet companies and carriers. For these big international companies such as Amazon as long as we have an Internet exchange in China, they will not hesitate to join us.

Jun Zhang - *Rosenblatt - Analyst*

So my last question is that, the partnership with the CITIC Networks, could you give us more details about that partnership and what's the latest update on that partnership?

Wang Song - *ChinaCache International Holdings, Ltd. - Founder, CEO*

(Interpreted) As to the CITIC Networks, we have discussed the cooperation with CITIC Networks for quite a while. And they really agree with us as to the next-stage strategies of ChinaCache. We know that compared to the three big carriers in China in the past, we cannot compete with them.

Actually, the most important thing to our partnership is that the major DCN business and Internet exchange business of ChinaCache can be greatly aligned with the transmission network and enterprise customers of CITIC Networks. We can take advantage of their transmission lines and provide them low-cost and high-bandwidth transmission services.

Operator

Liping Zhao from CICC.

Liping Zhao - *CICC - Analyst*

I have one question about the CDN business. Is the company trying to extend its business in financial industry? And what's the influence on revenue and margin?

An Jing - *ChinaCache International Holdings, Ltd. - CFO*

First of all on the finance, the financial enterprise sector is one of our very important target sector. And we will remain in a - they will remain on our top list. We have - in February of 2016, actually in this quarter we have added Hua Xia Bank to our financial enterprise customer list. And enterprise sectors has overall higher margin than the rest of verticals. So to optimize the bottom line we definitely resolve our major target in 2016.

Operator

Dennis Wu from UBS Securities.

Dennis Wu - *UBS Securities - Analyst*

I have a very quick question. It's about the enterprise vertical. I just noticed that enterprise has contributed 14% of our revenue. Is there any target percentage for this business vertical?

Wang Song - *ChinaCache International Holdings, Ltd. - Founder, CEO*

(Interpreted) As to the enterprise customers, we know that this business is growing rapidly in China. Many traditional companies are now turning their sight to the Internet services. So they have a huge demand for the CDN services and cloud services. We know the market is huge in China and we are now deeply realizing the segment in this market, and for example, some hotel services.

We are now facing both the demand from China and abroad. For example, in Europe many big luxury companies are utilizing the Internet services to market their product in China.

Operator

Thank you. I would now like to hand the conference back to the management team for closing remarks.

An Jing - *ChinaCache International Holdings, Ltd. - CFO*

Thank you again for joining us today. If you have any further questions, please feel free to contact Investor Relations of ChinaCache or The Piacente Group. Have a good day.

Operator

Ladies and gentlemen, that does conclude our conference for today.

THOMSON REUTERS

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.