

# VNET Group, Inc.

## Investor Presentation

May 2022



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# 1Q 2022 Highlights



## Financials (in RMB)

Revenue: **1,645 million** (+18.6% YoY)

Adjusted EBITDA: **506 million** (+21.9 % YoY)



## Recent Financing Activity

**US\$250 million**

Convertible notes investment from Blackstone



## Retail & Wholesale Updates

**RMB 9,236**

Retail IDC MRR<sup>(1)</sup> per cabinet

**~252 MW**

Wholesale capacity in service & under MoU  
(+16MW in 1Q)



## Capacity

**78,964 R** total capacity

**43,032 R** utilized cabinets

**54.5%**<sup>(2)</sup> for overall utilization rate

Source: Company data as of Mar 31, 2022, except that the convertible notes investment from Blackstone occurred in Jan 2022.

Notes:

1. Retail IDC MRR refers to Monthly Recurring Revenues for the retail IDC business.
2. The overall utilization rate is calculated by dividing the number of customer-utilized cabinets by the total cabinets under management at the end of the period. The compound utilization rate, a metrics that the Company used in the past, is calculated based on the weighted average number of customer-utilized cabinets over the reported period.

# Largest Customer Order Wins in 1Q22

Region	IDC Code	Capacity Contracted / Under MoU (MW)	Project Type
Greater Beijing Area	BJ06	2	Wholesale
	N-HB03	11	Wholesale
Yangtze River Delta	E-JS01	1	Wholesale
Chengdu-Chongqing Economic Circle	W-OR03	2	Wholesale





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# A Pioneer and Leader in China's Fast Growing IDC Market

## Pioneer and Leader

- ✓ A **leading carrier-neutral and cloud-neutral data center services provider in China** with 26 years of experience
- ✓ **~11%<sup>(1)</sup> market share** of China's carrier-neutral data center services market
- ✓ **195** approved and pending **patents** and **263 copyright registrations<sup>(2)</sup>**

## Market Potential

- ✓ China's carrier-neutral data center services market is **fast growing**
- ✓ **Favorable government policies** for the IDC industry — we deploying our data centers in 5 out of 8 National Computing Hubs to embrace the Eastern Data, Western Computing initiatives
- ✓ The pandemic **accelerates enterprises' digital transformation** — either scaling the transformative efforts or rapidly pivoting to innovate, catch up and, maintain operations

## Future Upside

- ✓ **Dual-core strategy** addressing both wholesale and retail IDC market opportunities.
- ✓ **Accelerate capacity roll-out** and enrich value-added services
- ✓ Investment in **technology**

Sources:

1. Frost & Sullivan 2020 report issued in Sept 2021.

2. Company data as of Dec 31, 2021.

# Dual-Core Growth Strategy

## Retail

### Retail Colocation



### Full-stack Services

Focusing on **high-growth verticals** which require colocation space, connectivity, bare-metal, and other value-added services



Financial  
Services



IT  
Services



Enterprises  
Digitalization



Mobility



Big Data



Manufacturing  
Industry

### Our Strengths:

- ✓ Scalable IDCs located in Tier-1 metros, surrounding areas, and satellite cities, providing premium colocation and interconnection offerings
- ✓ Full-stack managed services for enterprise customers, addressing various digital transformation needs
- ✓ All-round industry ecosystem, providing additional add-on solutions

## Wholesale

### Hyperscale IDC



### Interconnection Services

Targeting **hyperscalers** which require huge amount of space and power to support massive scaling needs



### Our Strengths:

- ✓ Dedicated team with 26 years of experience and reputation in datacenter design, construction, and operations
- ✓ Providing tailor-made solutions suitable for clients' needs
- ✓ Established supply chain as well as comprehensive planning and service capabilities



## ESG Initiatives – Commitment to Sustainability



Commitment to achieve both targets of **carbon neutrality** and **100% renewable energy usage** by 2030



The **average PUE** of our stabilized data centers\* was **1.37** in 2021, notably lower than the industry average



Became a signatory of **UN Global Compact** (UNGC) in Nov 2021 and committed to support the **Task Force on Climate-Related Financial Disclosures** (TCFD)



The **first data center services provider** in China to disclose the **third-party verification** of our **carbon inventory results**.



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# Differentiated Business Model with Comprehensive Offerings



## Services

- Co-location
- Inter-connectivity
- Hybrid IT Services
- Other Value-added Services
- Customized, High-power Density Solutions



- Multi-protocol Label Switching (MPLS) & Software-defined Wide Area Network (SD-WAN)
- Internet Access & Network Security Solutions
- Cloud & SaaS Solutions



## Strengths

- ✓ Multi-carrier & multi-cloud connectivity
- ✓ High-performing facility & network
- ✓ Turn-key solutions tailored for customer needs
- ✓ Long track record of outstanding operation performance

- ✓ Long-term strategic partnership with Microsoft in China for public and hybrid cloud services
- ✓ IaaS, PaaS, and SaaS to enterprise and individual end customers

- ✓ Best-in-class, enterprise-grade network services
- ✓ 183 POPs² across Asia
- ✓ Customized VPN solutions for enterprise customers across various industry verticals

**Broad-based and high quality solution suite to meet customers' mission critical needs**

Source: Company information.

1. VPN refers to virtual private network.

2. POP refers to point of presence.

## Resource Pipeline to Support IDC Growth

Region	IDC Code	Tenure	Status	Cabinet Delivery Plan
Greater Beijing Area	BJ18	Leased	Under Construction	2,300
	N-HB03	Leased	Under Construction	1,200
	N-HB Campus 02	Owned	Under Construction	1,000
Yangtze River Delta	SH08	Owned	Under Construction	3,300
	E-JS Campus 02	Owned	Under Construction	1,100
Other Regions	N-OR04	Leased	Under Construction	1,400
	N-OR05	Leased	Under Construction	2,800
	N-OR03	Owned	Under Construction	1,300
	Others	Owned	Under Construction	3,000
Secured Resources				17,400
Expansion Target				14,400 – 17,400

# Wholesale Projects In-Service

Region	IDC Code	Capacity Contracted / Under MoU (MW)
Greater Beijing Area	BJ12	9
	BJ15	7
	N-HB02	47
Yangtze River Delta	E-JS Campus 01	42
	E-JS01	4
	E-JS02	64
	SH04	2
	SH05	7
	SH06	11
Other Region	N-OR02	29
<b>Total</b>		<b>222</b>

Source: Company data as of Mar 31, 2022.  
 Note: IT capacity numbers measured by megawatt are rounded.

# Wholesale Projects Under Construction

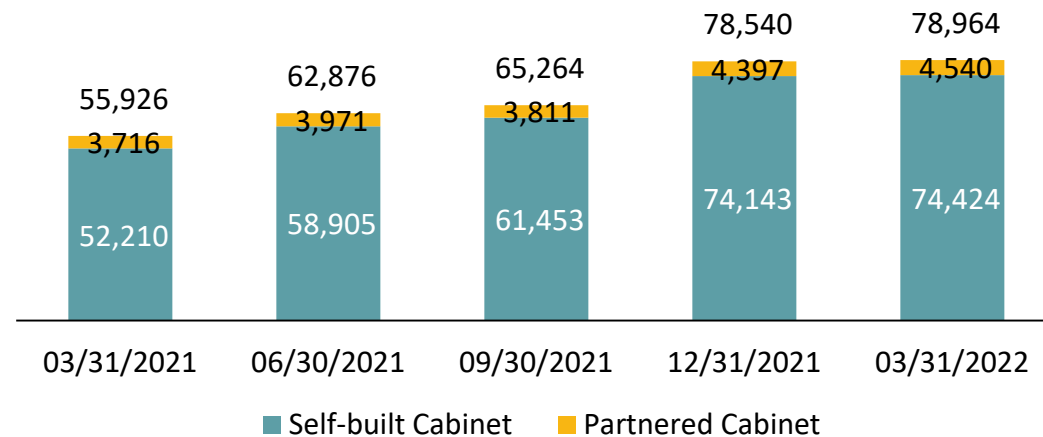
Region	IDC Code	Capacity Contracted / Under MoU (MW)
Greater Beijing Area	BJ06	2
	N-HB03	11
<hr/>		
Yangtze River Delta	E-JS01	1
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Chengdu-Chongqing Economic Circle	W-OR03	2
<hr/>		
Other Region	N-OR04	14
<hr/>		
<b>Total</b>		<b>30</b>
<hr/>		

Note: IT capacity numbers measured by megawatt are rounded.

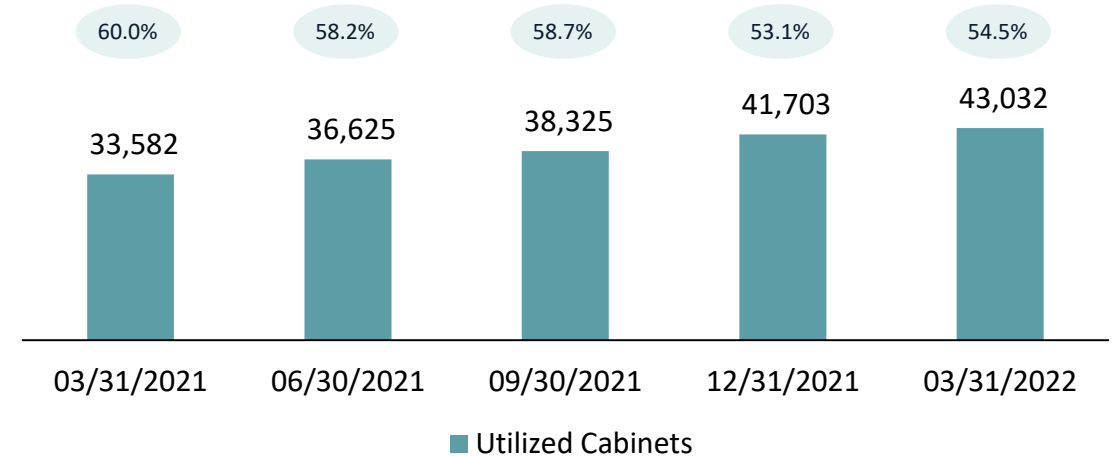


# Strategically Located Network of Premium Data Centers

Total Capacity <sup>(1)</sup>



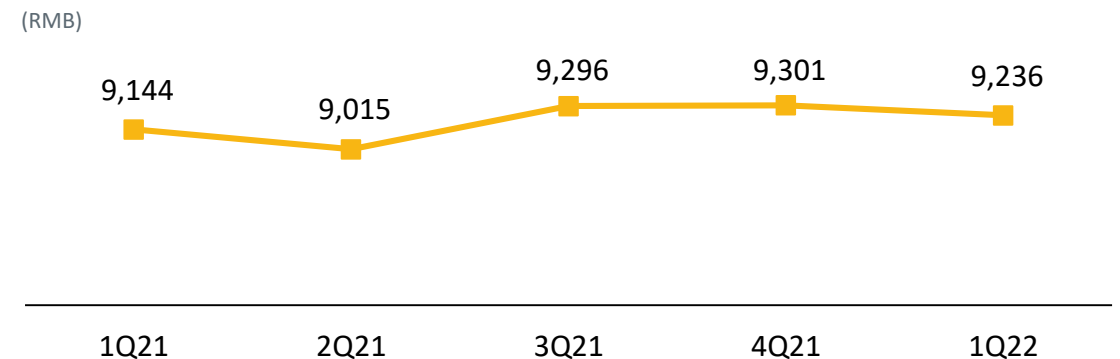
Utilized Capacity & Overall Utilization Rate <sup>(2)</sup>



Capacity by Region <sup>(3)</sup>

	# of Self-built Cabinets	% Contribution
Greater Beijing Area	37,200	49.9%
Yangtze River Delta	21,600	29.1%
Greater Bay Area	9,300	12.5%
Others	6,300	8.5%
<b>Total</b>	<b>74,400</b>	<b>100%</b>

Retail IDC MRR per Cabinet <sup>(4)</sup>



Source: Company data as of Mar 31, 2022.

1. Cabinet numbers are measured by the actual numbers at the end of each quarter.

2. The overall utilization rate is calculated by dividing the number of customer-utilized cabinets by the total cabinets under management at the end of the period.

3. Regional cabinet numbers including blank space are rounded.

4. MRR refers to Monthly Recurring Revenues, and is based on the Company's retail IDC business.

# Large and Diversified Customer Base with Strong Loyalty

- >6,500 enterprise customers, of which >1,400 customers have enjoyed our colocation, connectivity, bare metal, hybrid cloud and maintenance services, etc.
- Around 90% of net revenues have been recurring revenues since IPO
- Low average quarterly hosting churn rate for core IDC business, consistently below 1% demonstrating our high customer retention
- Maintain low concentration of risk with top 20 customers contributing 38.4% of total revenues in 1Q22
- Since 2020, the Company begins to generate revenue from wholesale customers; ~252MW in service and under MoU\*



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# 1Q22 Financial Highlights

RMB'MM	1Q21	4Q21	1Q22	YoY	QoQ
<b>Net revenues</b>	<b>1,386,923</b>	<b>1,745,440</b>	<b>1,645,486</b>	<b>18.6%</b>	<b>-5.7%</b>
Gross profit	323,312	379,968	355,521	10.0%	-6.4%
Adjusted cash gross profit <sup>(1)</sup>	605,289	713,829	684,774	13.1%	-4.1%
<i>Adjusted cash gross margin</i>	<i>43.6%</i>	<i>40.9%</i>	<i>41.6%</i>	<i>-2.0pps</i>	<i>0.7 pps</i>
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>415,092</b>	<b>462,962</b>	<b>506,172</b>	<b>21.9%</b>	<b>9.3%</b>
<i>Adjusted EBITDA margin</i>	<i>29.9%</i>	<i>26.5%</i>	<i>30.8%</i>	<i>0.9 pps</i>	<i>4.3 pps</i>

Source: Company data as of Mar 31, 2022.

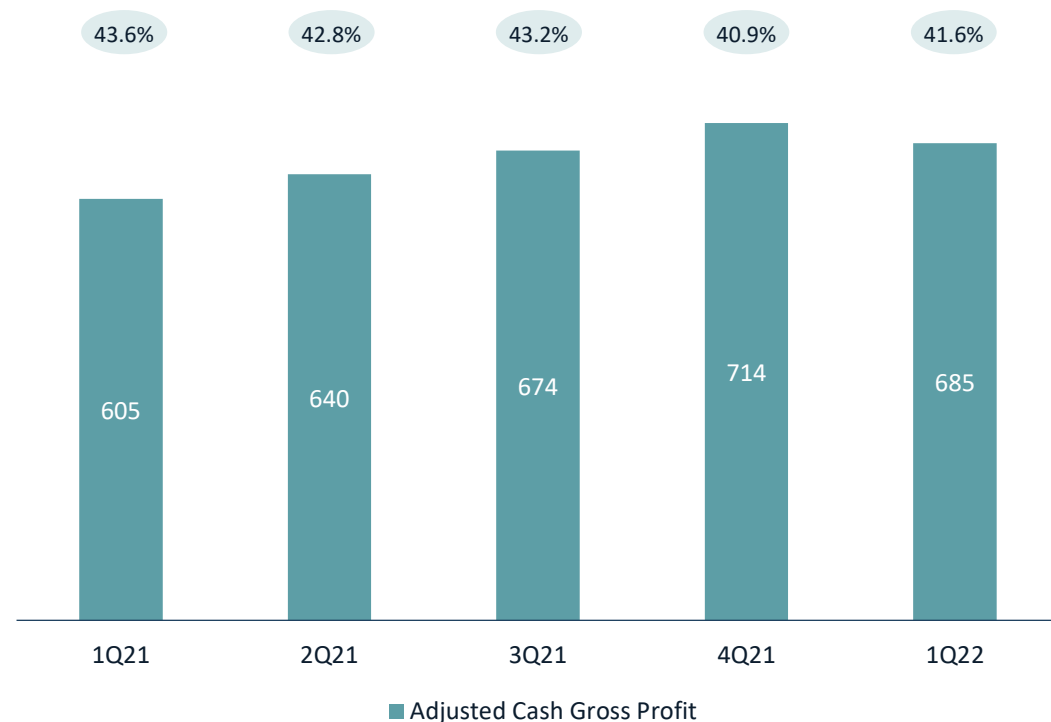
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

2. Adjusted EBITDA defined as EBITDA excluding share-based compensation expenses, impairment of receivables from equity investees, and impairment of long-lived assets.

# Margin Improvements Through Efficiency Enhancement

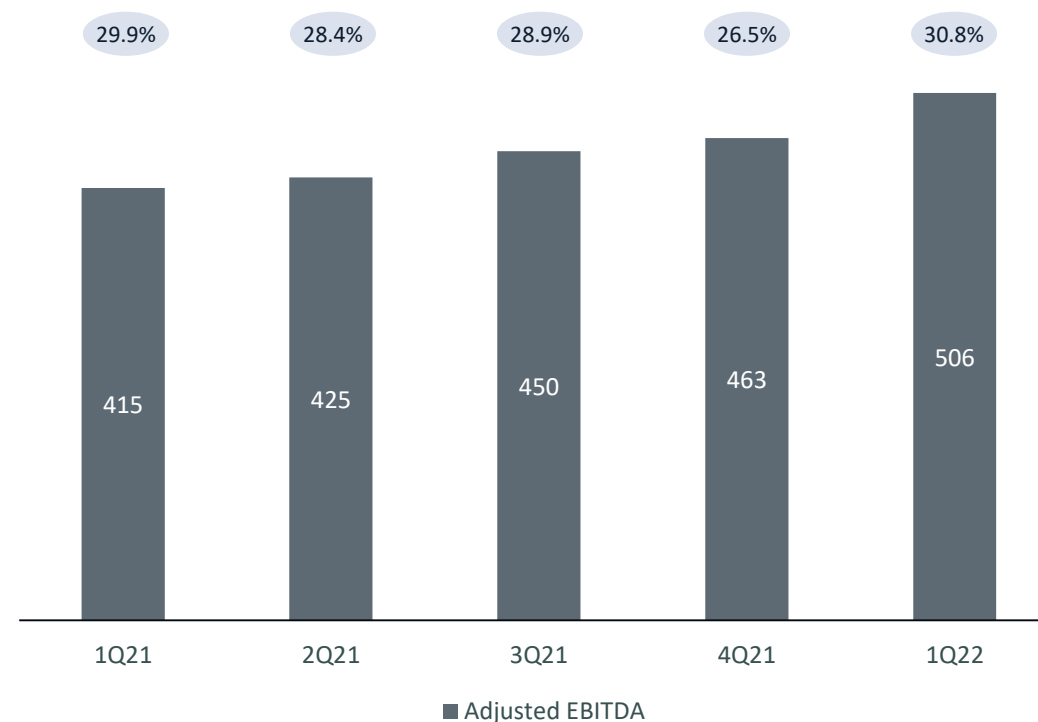
## Adjusted Cash Gross Profit & Margin <sup>(1)</sup>

(RMB mm)



## Adjusted EBITDA & Margin <sup>(2)</sup>

(RMB mm)



**Long-term upward trend supported by utilization improvement and operating leverage**

Source: Company data as of Mar 31, 2022.

1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

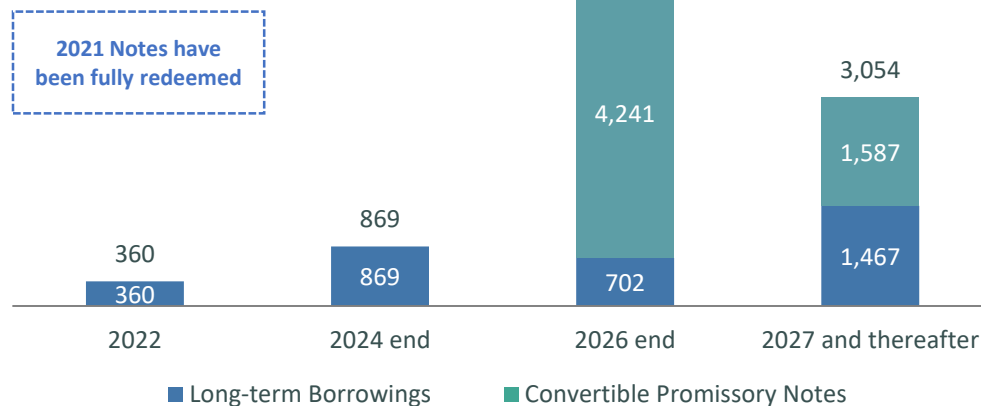
2. Adjusted EBITDA defined as EBITDA excluding share-based compensation expenses, impairment of receivables from equity investees, and impairment of long-lived assets.



# Well Laddered Debt Profile and Strong Liquidity Position

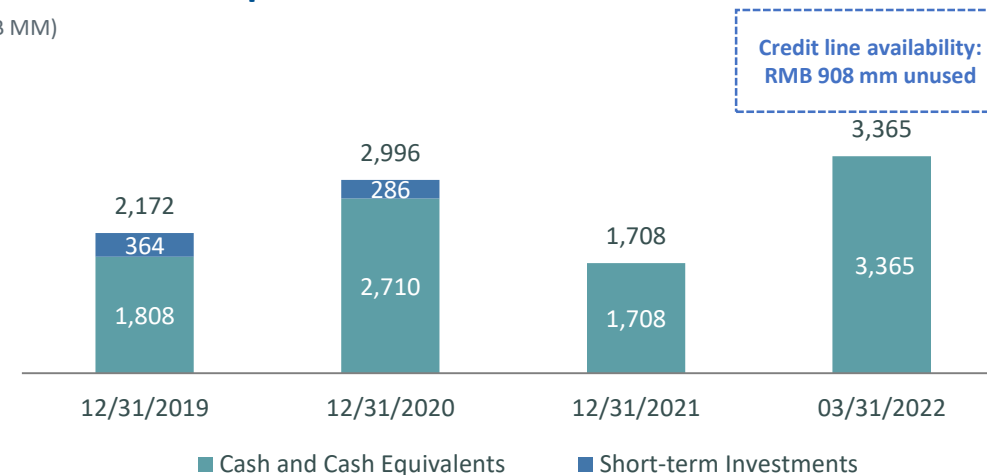
## Debt Breakdown by Maturity

(RMB MM)



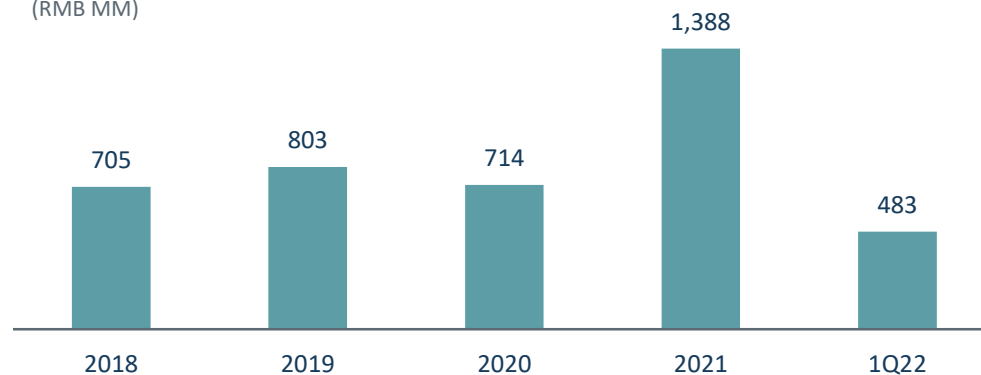
## Cash and Cash Equivalents and Short-term Investments

(RMB MM)



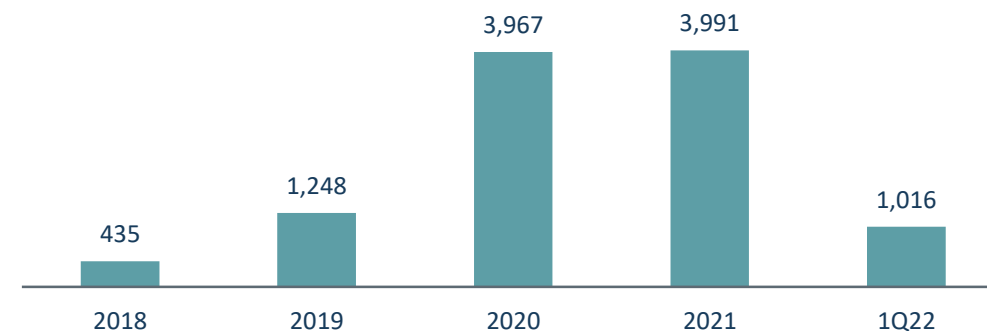
## Operating Cash Flow

(RMB MM)



## Capital Expenditure

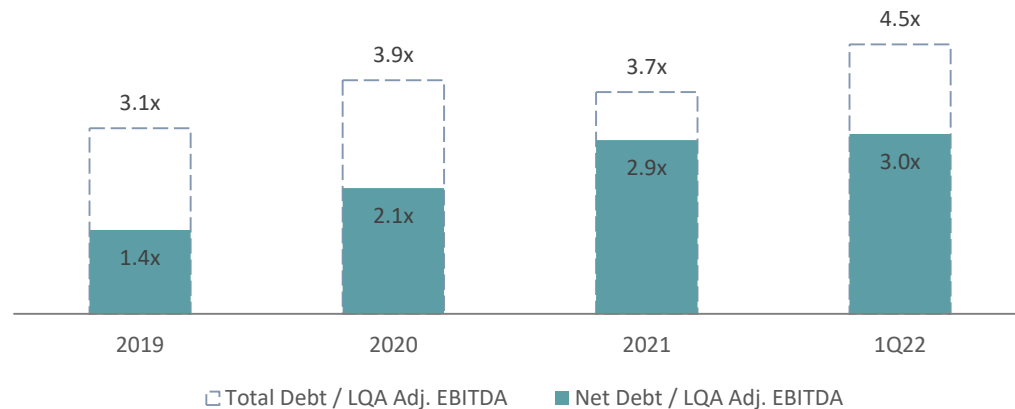
(RMB MM)



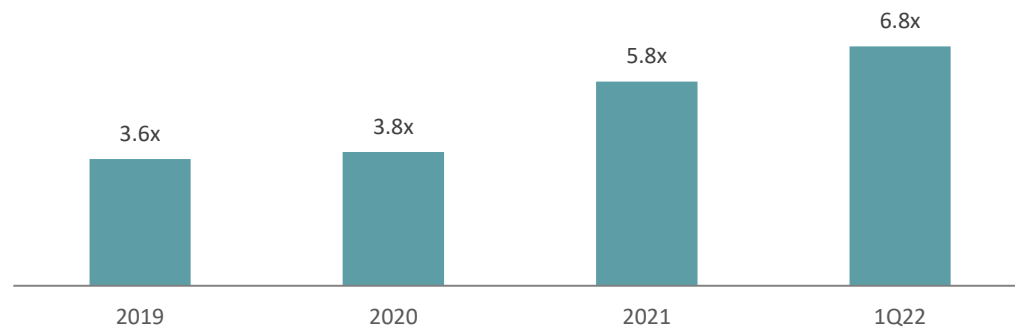
Source: Company data as of Mar 31, 2022.

# Healthy Capital Structure

## Total Debt & Net Debt / LQA Adjusted EBITDA<sup>1</sup>



## LTM Adjusted EBITDA Interest Coverage<sup>2</sup>



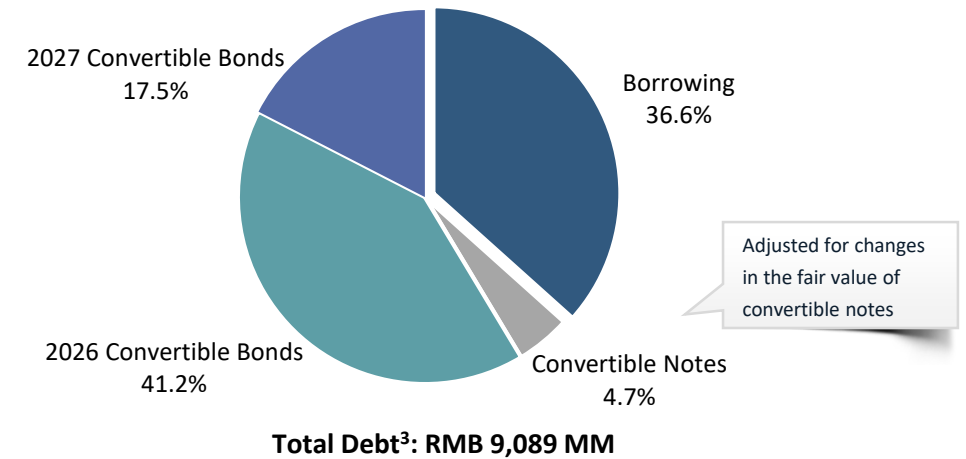
Source: Company data as of Mar 31, 2022.

1. Total Debt = Short-term and long-term bank borrowings + Bond Payables + Convertible Notes; Net Debt = Total Debt – Cash and Cash Equivalent; LQA Adj. EBITDA represents the current quarter Adj. EBITDA\*4 or Last Quarter Annualized; Adjusted EBITDA is defined as operating profit plus depreciation and amortization, share based compensation expenses, changes in the fair value of contingent purchase consideration payables, impairment of long-lived assets, impairment of loan receivable to potential investee, and impairment of receivables from equity investees.

2. Adjusted EBITDA Interest Coverage = Adjusted EBITDA / Net Interest Expense (interest expense - interest income).

3. Adjusted for changes in the fair value of convertible notes.

## Debt Structure as of Mar 31, 2022



## Prudent Financial Policies and Various Financing Channels

- Stable financial policies prudently utilizing debt financing based on business needs
- Diversified financing channels with current debt structure of a balanced mix of bank borrowings, bond payables and convertible notes
- Received Blackstone's investment of US\$150 million in the form of preferred shares in June 2020
- Raised ~US\$400 million from equity follow-on offering in August 2020
- Raised ~US\$600 million from convertible note offering in January 2021
- Signed a master joint venture investment agreement with a sovereign wealth fund in Dec 2021
- Received Blackstone's investment of US\$250 million in the form of convertible note in Jan 2022

# Guidance

## FY2022 Annual Guidance Remains Unchanged

RMB MM	2021 Actual	2022 Guidance	Implied YoY
Revenues	6,190	7,450 - 7,750	20.4% - 25.2%
Adjusted EBITDA	1,754	1,975 - 2,125	12.6% - 21.2%

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# Key P&L Items

Amount in thousands	Three months ended			
	March 31, 2021	December 31, 2021	March 31, 2022	
	RMB	RMB	RMB	US\$
Net revenues	1,386,923	1,745,440	1,645,486	259,569
Cost of revenues	(1,063,611)	(1,365,472)	(1,289,965)	(203,487)
Gross profit	323,312	379,968	355,521	56,082
Sales and marketing	(73,976)	(85,474)	(74,941)	(11,822)
Research and development	(33,565)	(63,037)	(72,615)	(11,455)
General and administrative	(135,246)	(390,935)	(154,237)	(24,330)
Operating profit (loss)	80,132	(269,764)	96,058	15,152
Net Interest expense	(78,770)	(66,426)	(48,570)	(7,661)
Other, Net	(1,250)	18,639	5,039	794
Changes in the fair value of convertible promissory notes	(8,641)	227,843	60,278	9,509
Foreign exchange (loss) gain	(33,846)	82,444	24,749	3,904
(Loss) gain before income taxes and (loss) gain from equity method investments	(42,375)	(7,264)	137,554	21,698
Income tax expenses	(37,299)	(15,549)	(46,700)	(7,367)
(Loss) gain from equity method investments	(1,305)	(1,729)	2,047	323
Net (loss) profit	(80,979)	(24,542)	92,901	14,654



# GAAP to Non-GAAP Reconciliations

Amount in thousands	Three months ended			
	March 31, 2021	December 31, 2021	March 31, 2022	
	RMB	RMB	RMB	US\$
Gross profit	323,312	379,968	355,521	56,082
Plus: depreciation and amortization	277,851	329,929	327,393	51,645
Plus: share-based compensation expenses	4,126	3,932	1,860	293
Adjusted cash gross profit	605,289	713,829	684,774	108,020
Adjusted cash gross margin	43.6%	40.9%	41.6%	41.6%
Operating profit (loss)	80,132	(269,764)	96,058	15,152
Plus: depreciation and amortization	300,105	352,784	349,609	55,149
Plus: share-based compensation expenses	34,855	253,040	43,245	6,822
Plus: compensation for postcombination employment in an acquisition	-	17,644	17,260	2,723
Plus: impairment of loan receivable to potential investee	-	(9)	-	-
Plus: impairment of long-lived assets	-	109,267	-	-
Adjusted EBITDA	415,092	462,962	506,172	79,846
Adjusted EBITDA margin	29.9%	26.5%	30.8%	30.8%

## Key Balance Sheet Items

Amount in thousands, As of	December 31, 2020	December 31, 2021	
	RMB	RMB	US\$
Cash, cash equivalents, Restricted cash and Short-term investments	1,708,473	3,364,890	530,798
Accounts and notes receivable, net	1,405,997	1,606,591	253,434
Property and equipment, net	10,092,419	10,443,243	1,647,381
Land use rights, net	337,235	335,212	52,878
Operating lease right-of-use assets, net	2,869,338	2,801,611	441,943
Goodwill	1,339,657	1,339,657	211,326
<b>Total assets</b>	<b>23,095,039</b>	<b>25,515,209</b>	<b>4,024,926</b>
Accounts and notes payable	493,506	618,965	97,639
Borrowings	2,599,173	3,329,789	525,261
Finance lease liabilities	1,363,783	1,385,758	218,598
Operating lease liabilities	2,892,052	2,858,621	450,937
Convertible promissory notes	4,266,951	5,778,691	911,566
<b>Total liabilities</b>	<b>15,494,038</b>	<b>17,817,780</b>	<b>2,810,687</b>
<b>Total VNET Group, Inc. shareholders' equity</b>	<b>7,242,229</b>	<b>7,336,462</b>	<b>1,157,298</b>
Noncontrolling interest	358,772	360,967	56,941
<b>Total shareholders' equity</b>	<b>7,601,001</b>	<b>7,697,429</b>	<b>1,214,239</b>
<b>Total liabilities and shareholders' equity</b>	<b>23,095,039</b>	<b>25,515,209</b>	<b>4,024,926</b>

# Key Cash Flow Items

Amount in thousands	Three months ended			
	March 31, 2021	December 31, 2021	March 31, 2022	
	RMB	RMB	RMB	US\$
Net cash generated from operating activities	274,453	663,991	482,599	76,127
Net cash used in investing activities	(620,815)	(1,136,844)	(1,032,758)	(162,913)
Net cash generated from (used in) financing activities	4,341,859	(1,742,907)	2,213,904	349,235
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	65,770	(7,255)	(7,328)	(1,156)
Net increase (decrease) in cash, cash equivalents and restricted cash	4,061,267	(2,223,015)	1,656,417	261,293
Cash, cash equivalents and restricted cash at beginning of period	3,116,437	3,931,488	1,708,473	269,505
Cash, cash equivalents and restricted cash at end of period	7,177,704	1,708,473	3,364,890	530,798

# Definitions

Term	Definition
Capacity In Service	Data centers which are ready for service
Capacity Under Construction	Data centers which are actively under construction and have not yet reached the stage of being ready for service
Utilized Capacity	Capacity in service that is committed to customers and revenue generating pursuant to the terms of customer agreements remaining in effect
Overall Utilization Rate	The number of customer-utilized cabinets divided by the total cabinets under management at the end of the period
MW	Megawatt
PUE	Power usage effectiveness, a ratio of the total power usage of a data center to the power usage of the IT equipment inside a data center
VPN Services	Virtual private network, preliminary through Dermot Holdings Limited and its subsidiaries, or Dermot Entities
Cloud Services	The Microsoft's cloud services, including Azure, Office 365, Dynamics 365 and Power Platform, to customers in mainland China by entering into service agreements with the end customers.

# THANKS!

<http://ir.vnet.com>

Email: [ir@vnet.com](mailto:ir@vnet.com)

IR Contact: Xinyuan Liu