

# VNET Group, Inc.

## Investor Presentation

November 2021



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# 01

## Company Overview

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Digital Economy  
Infrastructure Service Provider



## Financials

**25.3% YoY**  
Net revenue growth

**22.2% YoY**  
Adj. EBITDA growth



## Capacity

**2,388 R**  
Net adds

**65,264 R**  
Total capacity



## Operations

**75.5% UR**  
Mature Cabinets

**~230 MW**  
Wholesale in service  
and/or under MOU

**9,296 RMB**  
Retail MRR per  
Cabinet

## Pioneer and Leader



- ✓ A leading **carrier-neutral and cloud-neutral data center services provider in China** with 25 years of experience
- ✓ **~11%<sup>(1)</sup> market share**
- ✓ Provides **Managed Hosting Services, Cloud Services and VPN<sup>(3)</sup> Services**

## Market Potential<sup>(2)</sup>



- ✓ China's carrier-neutral data center services market is **fast growing**
- ✓ **Favorable government policies** accelerate the construction of integrated, large-scale data centers
- ✓ 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
- ✓ Invest in **technology**

Source:

1. China's carrier-neutral data center services market only, Frost & Sullivan 2020 report

2. Frost & Sullivan 2020 report

3. Virtual private network.

# Dual-Core Growth Strategy

## Retail

### Retail Colocation



### Full Stack Services

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



Financial Services



IT Companies



Enterprises Digitalization



Mobility Industry



Big Data Companies



Media & Gaming Industry



Manufacturing Industry

## Wholesale

### Hyperscale IDC



### Interconnection Services

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

Alibaba Cloud

Tencent Cloud



HUAWEI CLOUD

Kingsoft Cloud  
KSCLOUD

JDCloud



### Our Strength:

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

### Our Strength:

- ✓ Dedicated team with 25 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



# Resource Pipeline to Support IDC Growth

| IDC Pipeline Capacity <sup>(1)</sup> | Tenure | Status             | 9M21           | 4Q21           | FY2021         |
|--------------------------------------|--------|--------------------|----------------|----------------|----------------|
| BJ03/04                              | Leased | Extension          | ~400           |                | ~400           |
| BJ11                                 | Leased | In Service         | ~400           |                | ~400           |
| BJ13                                 | Leased | In Service         | ~1,200         |                | ~1,200         |
| BJ14                                 | Leased | In Service         | ~1,100         |                | ~1,100         |
| BJ16                                 | Leased | Under Construction |                | ~600           | ~600           |
| N-HB01                               | Leased | Under Construction |                | ~4,000         | ~4,000         |
| N-HB02                               | Leased | Under Construction | ~4,300         | ~2,200         | ~6,500         |
| E-JS Campus 01                       | Owned  | Under Construction | ~2,200         | ~2,900         | ~5,100         |
| E-JS02                               | Leased | In Service         | ~2,300         |                | ~2,300         |
| N-OR02                               | Leased | Under Construction |                | ~3,000         | ~3,000         |
| <b>Secured Resources</b>             |        |                    | <b>~11,900</b> | <b>~12,700</b> | <b>~25,000</b> |
| <b>Expansion Target</b>              |        |                    |                |                | <b>~25,000</b> |

1. Capacity: cabinet number includes blank space.

# In-Service & Under Development (Yangtze River Delta)

## E-JS Campus 01

|                     |           |
|---------------------|-----------|
| Total Capacity      | ~ 3,300 R |
| Pre-commitment Rate | >95%      |

## E-JS Campus 02

|                        |             |
|------------------------|-------------|
| Total Capacity         | >8,000 R    |
| Expected Delivery Date | 2022 - 2025 |

## E-JS01

|                |         |
|----------------|---------|
| Total Capacity | ~ 500 R |
| Committed Rate | >95%    |

## E-JS02

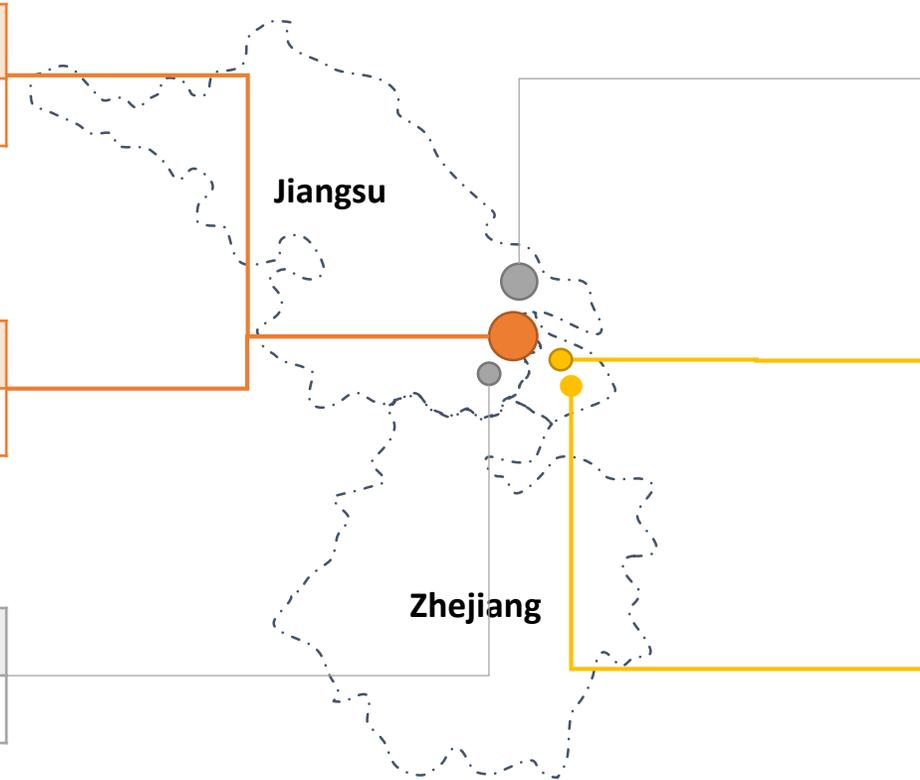
|                |           |
|----------------|-----------|
| Total Capacity | ~ 5,000 R |
| Committed Rate | >95%      |

## SH04 / SH05

|                |           |
|----------------|-----------|
| Total Capacity | ~ 1,300 R |
| Committed Rate | >95%      |

## SH06

|                |           |
|----------------|-----------|
| Total Capacity | ~ 2,400 R |
| Committed Rate | >95%      |



~ 230 MW in service and/or under MOU

# In-Service & Under Development (Greater Beijing Area)

## BJ15

|                |           |
|----------------|-----------|
| Total Capacity | ~ 2,000 R |
| Committed Rate | >95%      |

## BJ12

|                |           |
|----------------|-----------|
| Total Capacity | ~ 1,400 R |
| Committed Rate | >90%      |

## N-HB Campus 01

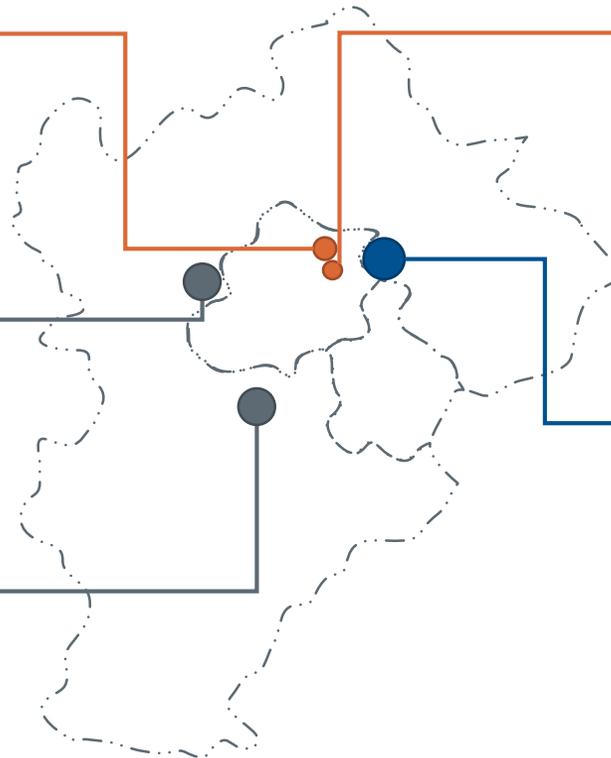
|                        |             |
|------------------------|-------------|
| Total Capacity         | ~ 7,000 R   |
| Expected Delivery Date | 2022 - 2023 |

## N-HB Campus 02

|                        |             |
|------------------------|-------------|
| Total Capacity         | ~ 8,000 R   |
| Expected Delivery Date | 2022 - 2024 |

## N-HB02

|                |           |
|----------------|-----------|
| Total Capacity | ~ 6,500 R |
| Committed Rate | >95%      |



~ 230 MW in service and/or under MOU

# Key Growth Pillars

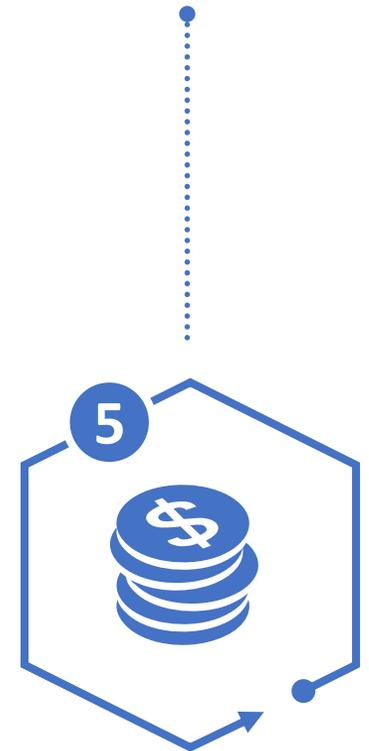
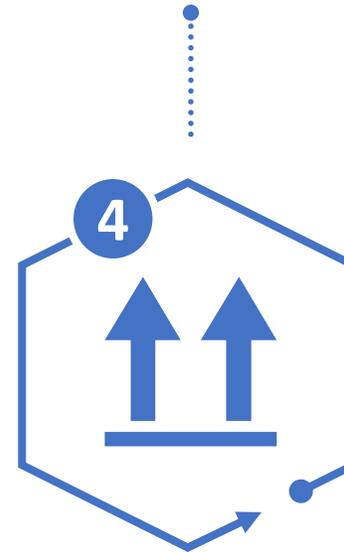
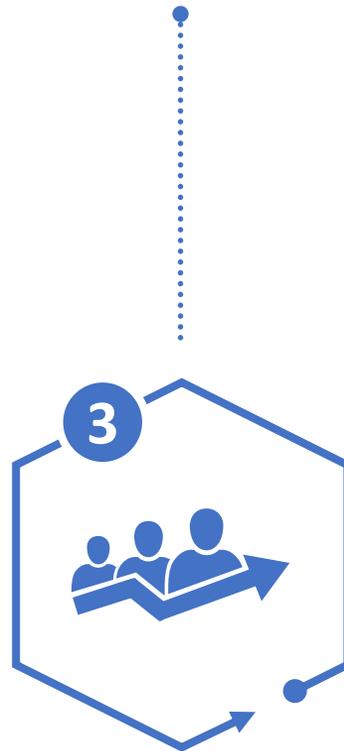
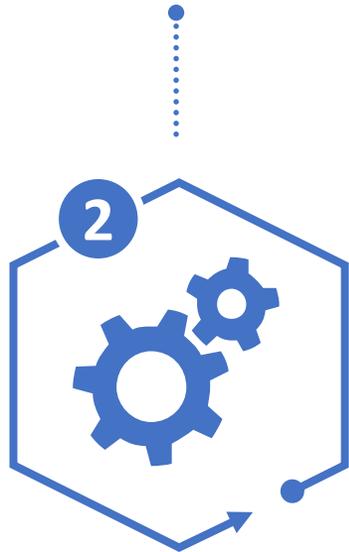
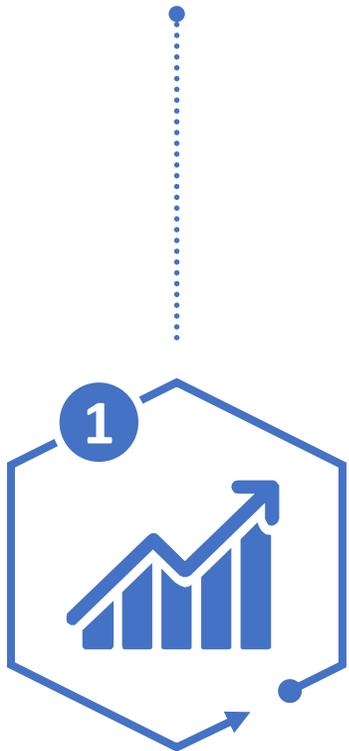
Accelerate  
Capacity  
Roll-out

All-in  
“Dual-core” Strategy  
and Full-Stack  
Services

Strengthen Customer  
Relationships and  
Attract New ones

Harness the  
Ecosystem to  
Solidify  
Platform Play

Continue to Invest in  
Technology



# Commitment to Sustainability and Corporate Social Responsibility

## ENVIRONMENT



Pursuing **net-zero-carbon** strategy, dedicated to reducing carbon footprint generated by data centers by **sourcing renewable energy**



Three of our data centers are named as **National Green Data Center** and are among the **first** few data centers in China to obtain such certification



Received **ISO14001** environmental management certification and **ISO50001** energy management system certification



Installed new 18W LED light in data centers which reduces electricity consumption by **~44% per day**

## SOCIAL



Committed to creating a **diversified, inclusive and open workplace**, out of 2,784<sup>1</sup> employees 4% are ethnic minorities, 26% are female



**Donated** anti-epidemic materials to frontline doctors and essential daily supplies to charities and education funds **during COVID 19**



**Donated** money and in-kind to **support charity development, poverty alleviation, and academic causes**



100% of suppliers have signed letter of **commitment to anti-commercial bribery**

## GOVERNANCE



6-member board with **extensive experience**, of which 5 are **independent directors**



Established **ESG working group** which will report progress of ESG-related functions to the Strategic Advisory Committee on a regular basis



Abide by the highest **ethical standards** and **compliance requirements** when interacting with stakeholders



Established **3 lines of defense** for risk management to clarify specific control procedures of various risks

# 02

## Investment Highlights

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Digital Economy  
Infrastructure Service Provider

# Investment Highlights



**A Pioneer and Leader in China's Carrier-Neutral IDC Market**



**Premium Data Centers Located in Major Internet Hubs**



**Differentiated Business Model with Comprehensive Offerings**



**Large and Diversified Customer Base, with Strong Loyalty**

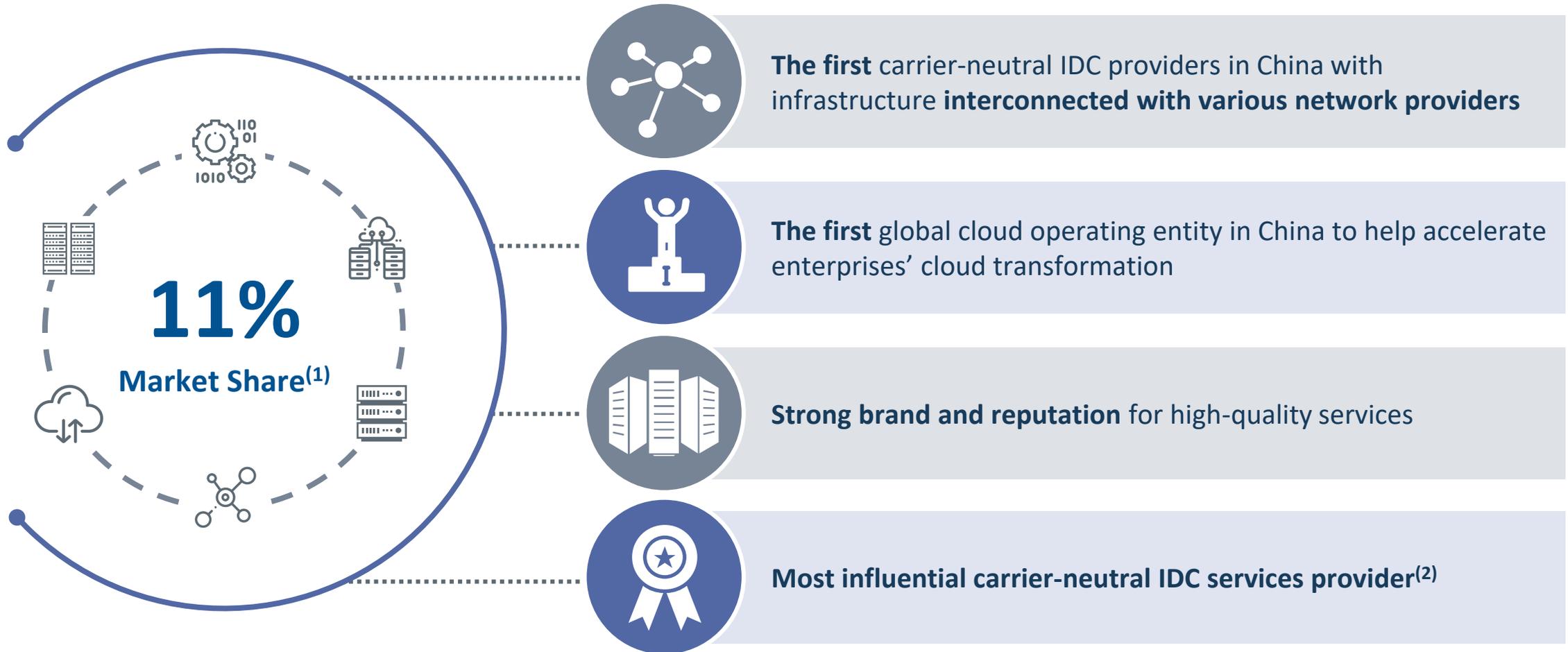


**In-depth Industry Expertise with Strong Engineering Capabilities**



**Visionary Leadership with Stellar Track Record of Execution**

# A Pioneer and Leader in China's Carrier-Neutral IDC Market



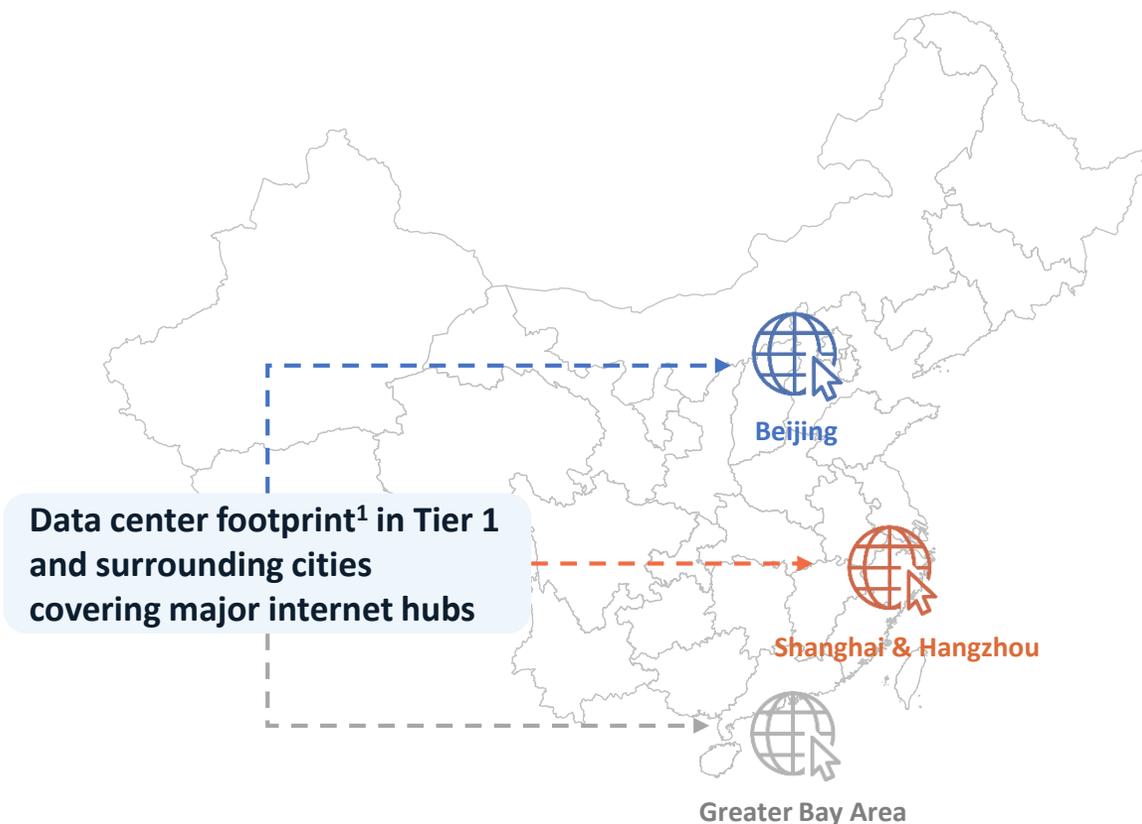
Leading carrier-neutral, cloud-neutral and tech agnostic IDC services provider in China with 20+ years of experience

Source:

1. Frost & Sullivan 2020 report

2. Award granted by ODCC Summit in 2020

# Strategically Located Network of Premium Data Centers



## Self-built Data Centers

- 38 self-built data centers with ~61,500 cabinets

|                     | # of Self-built Cabinets | % Contribution |
|---------------------|--------------------------|----------------|
| Beijing             | ~ 26,000                 | 42%            |
| Shanghai & Hangzhou | ~ 9,500                  | 16%            |
| Greater Bay Area    | ~ 9,300                  | 15%            |
| Surrounding Area    | ~ 13,200                 | 21%            |
| Others              | ~ 3,500                  | 6%             |
| <b>Total</b>        | <b>~61,500</b>           | <b>100%</b>    |



BJ01



BJ07



SZ02



E-JS01

## Partnered Data Centers

- We also operate partnered data centers with ~3,800 cabinets

✓ Favorable Supply-demand Dynamics

✓ Early-Mover Advantage Creates Barrier of Entry

✓ Superior and Scalable Interconnectivity

✓ Efficient and Cost Effective Connection

# 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
- ✓ 70 POPs<sup>2</sup> across Asia
- ✓ Among the first in Greater China to obtain several ISO international certifications

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

# Large and Diversified Customer Base, with Strong Loyalty

## Retail

- ~3,000 enterprise customers have enjoyed company's colocation, connectivity, bare metal, hybrid cloud and maintenance services

- Over 90% of net revenues have been recurring revenues since IPO

- Maintain low concentration of risk with top 20 customers contributing 37.3% of total revenues in 3Q21



## Wholesale

- Since 2020, Company begins to generate revenue from wholesale customers
- ~230MW in service and/or under MOU, ~160MW in service & ~70MW under MOU

# In-depth Industry Expertise with Strong Engineering Capabilities

## Innovative and Tailored Technologies

- ✓ Power Management 
- ✓ Smart Routing 
- ✓ Energy Recycling 
- ✓ Environment Controls 

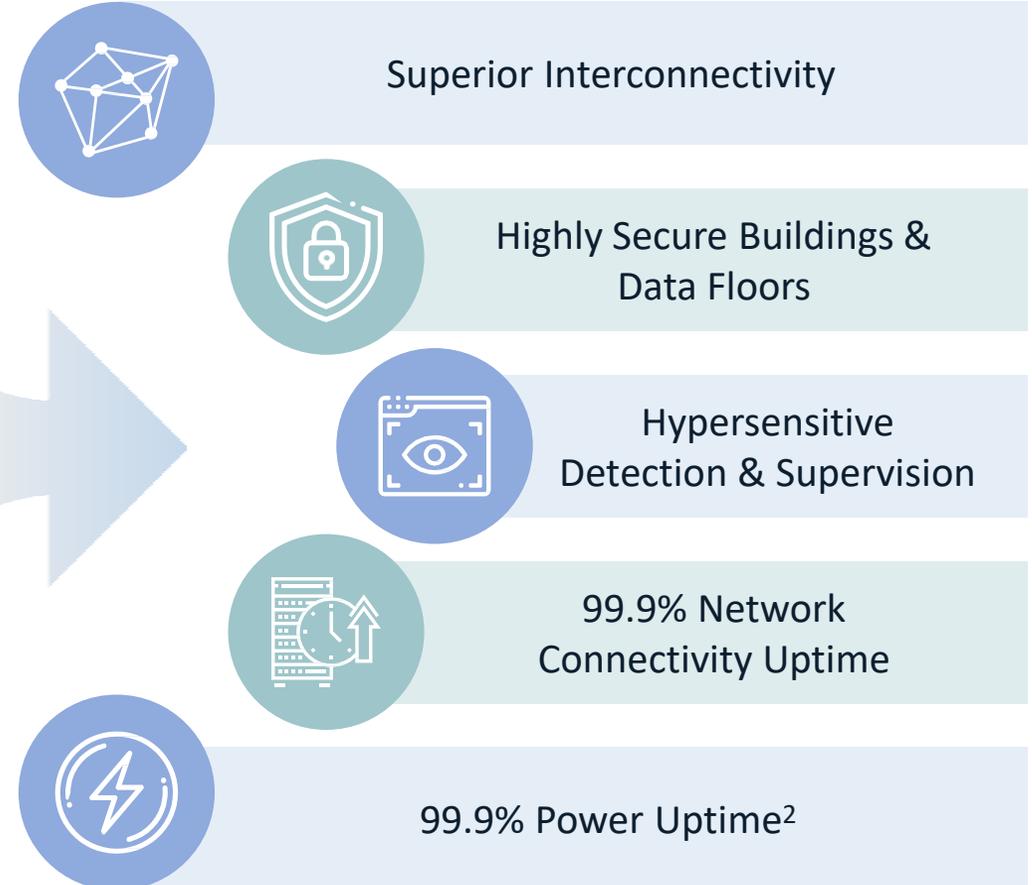


 **133** Dedicated Engineering Professionals<sup>1</sup>

 **160** Approved and Pending Patents<sup>1</sup>

 **228** Copyright Registrations<sup>1</sup>

## Secure and Reliable Data Centers



# Visionary Leadership with Stellar Track Record of Execution



**Josh Sheng CHEN**

Founder and Chairman

China Energy  
Internet Alliance



清华大学互联网产业研究院  
Institute of Internet Industry, Tsinghua University



**Samuel SHEN**

Chief Executive Officer,  
Executive Chairman of Retail IDC



JDCloud



Microsoft



**Tim CHEN**

Chief Financial Officer

Morgan Stanley J.P.Morgan



**Shiqi WANG**

Chief Executive Officer of Wholesale IDC



启迪数字集团  
Tus-Digital Group

ERICSSON



**Qihang LIU**

President, Cloud Business Unit

SONY



Microsoft



# 03

## Financial Overview

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Digital Economy  
Infrastructure Service Provider

# 3Q21 Financial Highlights

| RMB'000                                   | 3Q20             | 2Q21             | 3Q21             | YoY             | QoQ            |
|---|------------------|------------------|------------------|-----------------|----------------|
| <b>Net revenues</b>                       | <b>1,245,794</b> | <b>1,496,978</b> | <b>1,560,460</b> | <b>25.3%</b>    | <b>4.2%</b>    |
| Gross profit                              | 275,143          | 359,515          | 375,184          | 36.4%           | 4.4%           |
| Adjusted cash gross profit <sup>(1)</sup> | 526,230          | 640,247          | 674,492          | 28.2%           | 5.3%           |
| <i>Adjusted cash gross margin</i>         | <i>42.2%</i>     | <i>42.8%</i>     | <i>43.2%</i>     | <i>1.0 pps</i>  | <i>0.4 pps</i> |
| <b>Adjusted EBITDA<sup>(2)</sup></b>      | <b>368,456</b>   | <b>425,105</b>   | <b>450,420</b>   | <b>22.2%</b>    | <b>6.0%</b>    |
| <i>Adjusted EBITDA margin</i>             | <i>29.6%</i>     | <i>28.4%</i>     | <i>28.9%</i>     | <i>-0.7 pps</i> | <i>0.5 pps</i> |

| RMB'000   | 31 Dec 18 | 31 Dec 19 | 31 Dec 20 | 30 Sep 21 |
|---|-----------|-----------|-----------|-----------|
| Cash & cash equivalents, Restricted cash and Short-term investments | 2,906,035 | 2,721,033 | 3,402,309 | 3,944,459 |

Source: Company data as of Sep 30, 2021.

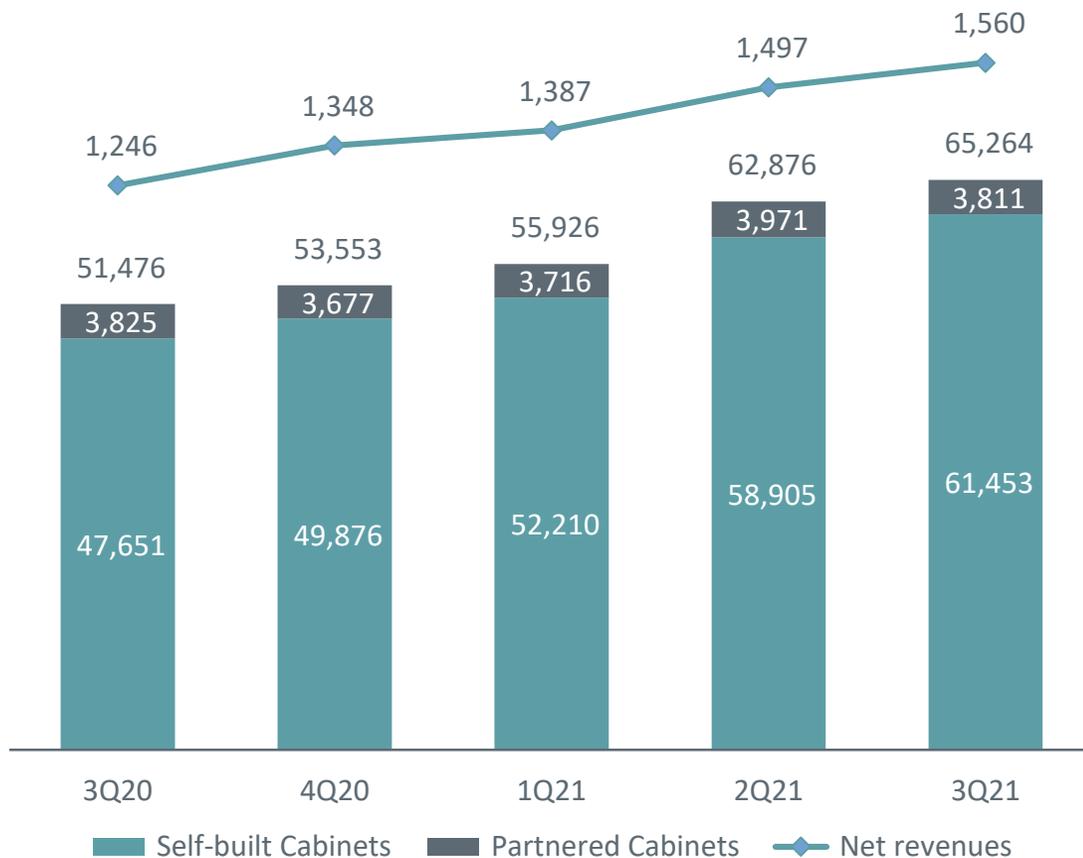
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

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

# Sustainable Growth Driven by New Capacity Expansion

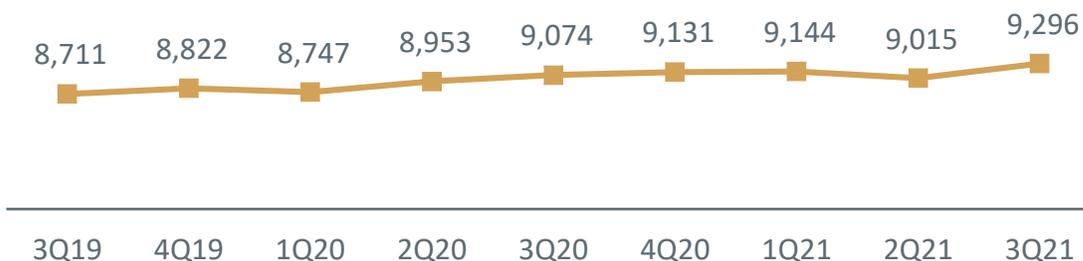
## Net Revenue & Cabinets (1)

(RMB mm)



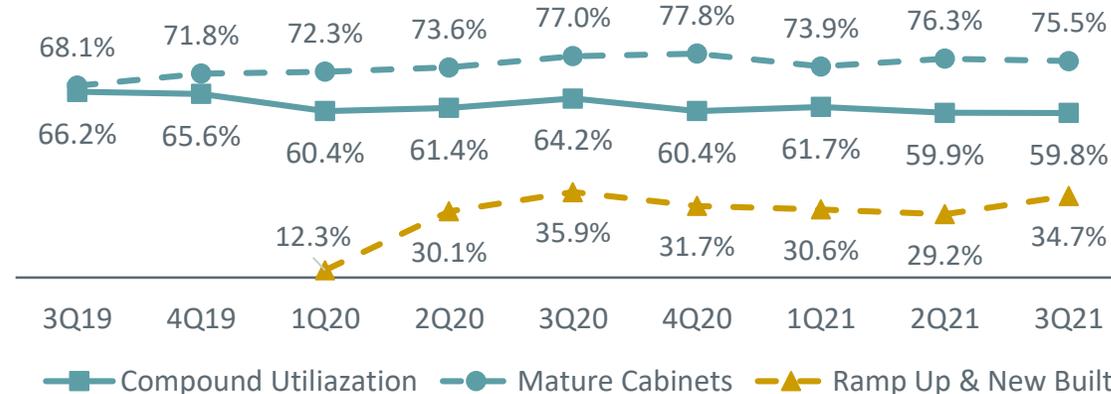
## Retail IDC MRR per Cabinet (2)

(RMB)



## Utilization Rate (3)

(%)



Source: Company data as of Sep 30, 2021

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

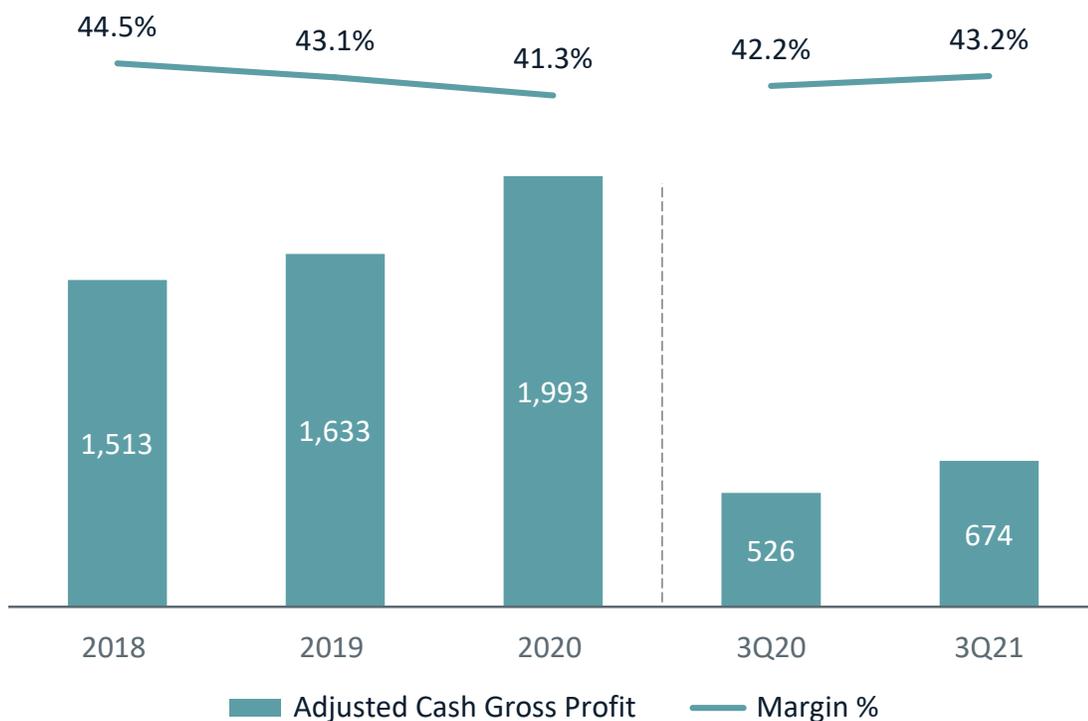
2. MRRs refers to Monthly Recurring Revenues, and are based on the Company's retail IDC business.

3. Utilization rates are based on quarterly average rates. The dotted line refers the utilization rate for cabinets delivered over 2years; The triangle refers the utilization rate for cabinets built less than 2 years.

# Margin Improvements Through Efficiency Enhancement

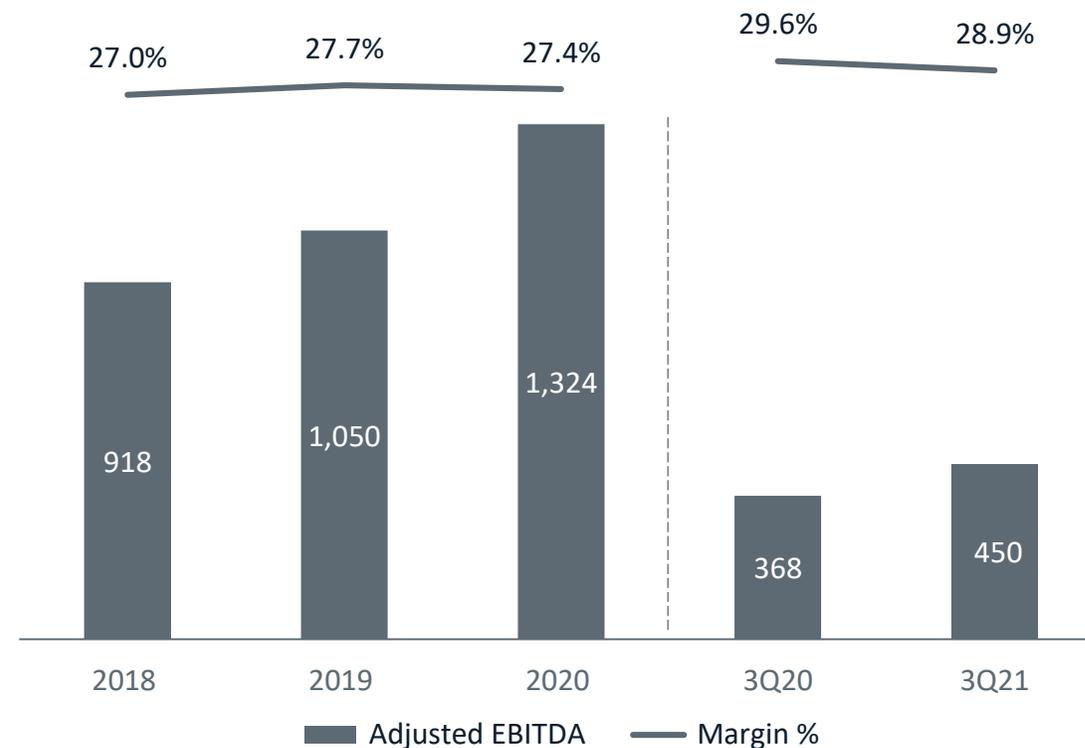
## Adjusted Cash Gross Profit & Margin <sup>(1)</sup>

(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 Sep 30, 2021

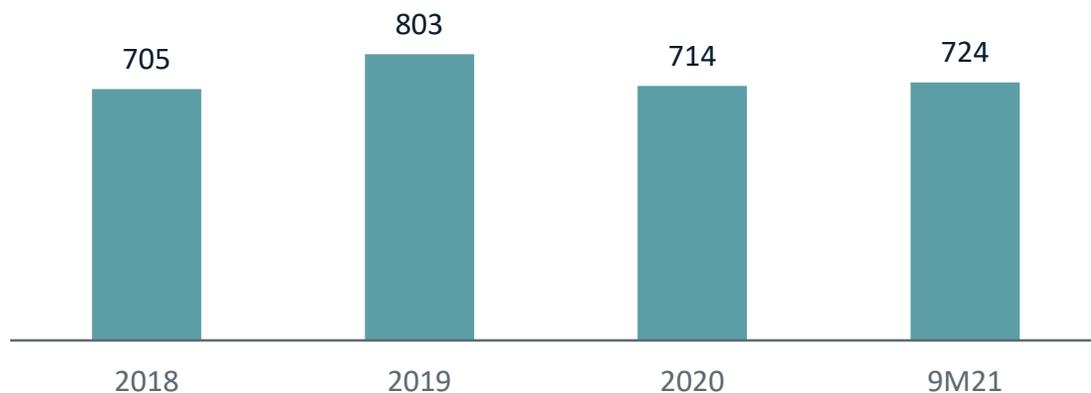
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

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

# Healthy Cash Flow Generation and Capital Expenditure

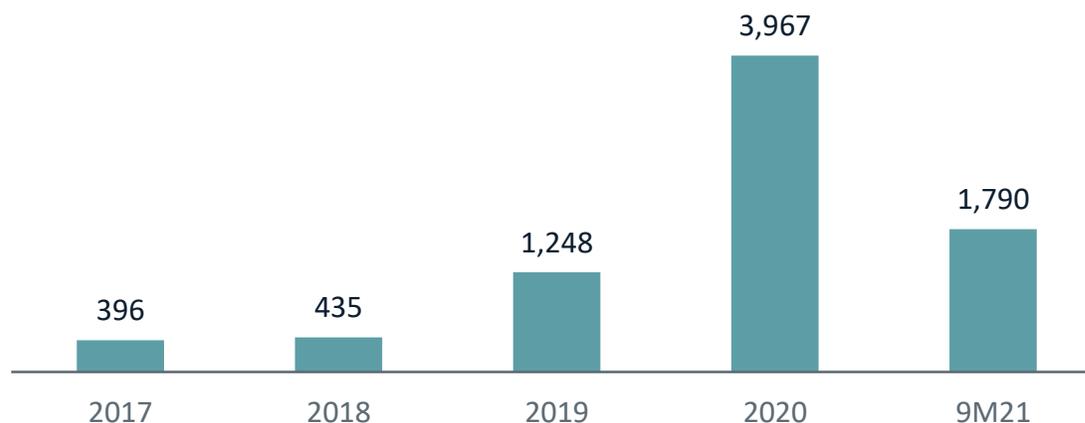
## Operating Cash Flow

(RMB mm)



## Capital Expenditure

(RMB mm)



## Key Drivers

- Continuously increasing cash flow from operations
- Mainly driven by growing top line and improved operating leverage

## Key CapEx Spending & Expected Capacity Expansion

- Capex mainly include expenditure for data center property, construction and equipment procurement
- Additional capex includes payments of consideration price for certain acquisitions

# Healthy Capital Structure

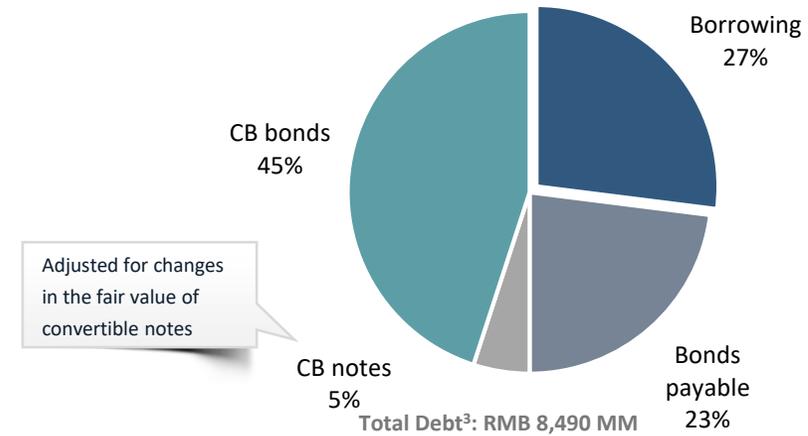
## Total Debt & Net Debt / LQA Adjusted EBITDA<sup>1</sup>



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



## Debt Structure as of Sep 30, 2021



## 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

Source: Company data as of Sep 30, 2021.

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.

# Guidance

| RMB mm          | 4Q20 A | 3Q21 A | 4Q21 E        | YoY <sup>(1)</sup> |
|-----------------|--------|--------|---------------|--------------------|
| Revenues        | 1,348  | 1,560  | 1,750 – 1,770 | 30.5%              |
| Adjusted EBITDA | 390    | 450    | 450 - 470     | 17.9%              |

| RMB mm          | 2020 A | 2021 E        | YoY <sup>(1)</sup> |
|-----------------|--------|---------------|--------------------|
| Revenues        | 4,829  | 6,190 - 6,210 | 28.5%              |
| Adjusted EBITDA | 1,324  | 1,740 – 1,760 | 32.2%              |

# THANKS!

<http://ir.vnet.com>

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