

# VNET Group, Inc.

## Investor Presentation

November 2022

世纪互联  
VNET

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# 3Q 2022 Highlights



## Financials (in RMB)

Revenue: **1,814 million** (+16.3% YoY)

Adjusted EBITDA: **455 million** (+1.1 % YoY)



## Unused Credit Line

**RMB 1,485 million** (+239 million in 3Q)



## Retail & Wholesale Updates

**RMB 9,287**

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

**~283 MW**

Wholesale capacity in service & under MoU  
**(+15MW in 3Q)**



## Capacity

**82,660 R** total capacity

**45,527 R** utilized cabinets

**55.1%**<sup>(2)</sup> for overall utilization rate

Source: Company data as of September 30, 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.

# Largest Customer Order Wins

Region	IDC Code	Capacity Contracted / Under MoU (MW) <sup>(1)</sup>	Signing Time of Contract / MoU	Project Type	Customer Sector
Yangtze River Delta	E-JS03	15	3Q22	Wholesale	Cloud Service
Yangtze River Delta	SH05	1	3Q22	Retail	Financial Institution
Other Region	N-OR06	33	4Q22	Wholesale	Internet



Source: Company data.

1. Capacity Contracted / Under MoU are rounded.

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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 September 2021.

2. Company data as of December 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 November 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**



Published the first **Carbon Neutrality Action Report**, which details the company's carbon neutrality-related efforts

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# Differentiated Business Model with Comprehensive Offerings

**Managed Hosting Services (IDC)**

**Cloud Services**

**VPN Services<sup>1</sup>**



## 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**
- ✓ **192 POPs<sup>2</sup> 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 as of September 30, 2022.

## Resource Pipeline to Support IDC Growth

Region	IDC Code	Tenure	Status	Cabinet Delivery Plan
Greater Beijing Area	BJ13 (Extension)	Leased	Under Construction	500
	N-HB03	Leased	Under Construction	1,300
Yangtze River Delta	E-JS03	Leased	Under Construction	1,900
	SH04 (Extension)	Owned	In-Service	300
Other Region	N-OR04	Leased	In-Service	1,500
	N-OR05	Leased	Under Construction	1,550
	N-OR03	Owned	In-Service	1,300
<b>Secured Resources</b>				<b>8,350</b>
<b>Expansion Target</b>				<b>8,000 – 9,000</b>

Source: Company data as of September 30, 2022.

Note: Cabinet delivery numbers including blank space are rounded.

# Wholesale Projects In-Service

Region	IDC Code	Capacity Contracted / Under MoU (MW)
Greater Beijing Area	BJ06	2
	BJ12	9
	BJ15	7
	N-HB02	47
Yangtze River Delta	E-JS Campus 01	42
	E-JS01	5
	E-JS02	64
	SH04	2
	SH05	7
	SH06	11
Other Region	N-OR02	29
	N-OR04	14
<b>Total</b>		<b>240</b>

Source: Company data as of September 30, 2022.  
 Note: IT capacity numbers measured by megawatt are rounded.

# Wholesale Projects Under Construction

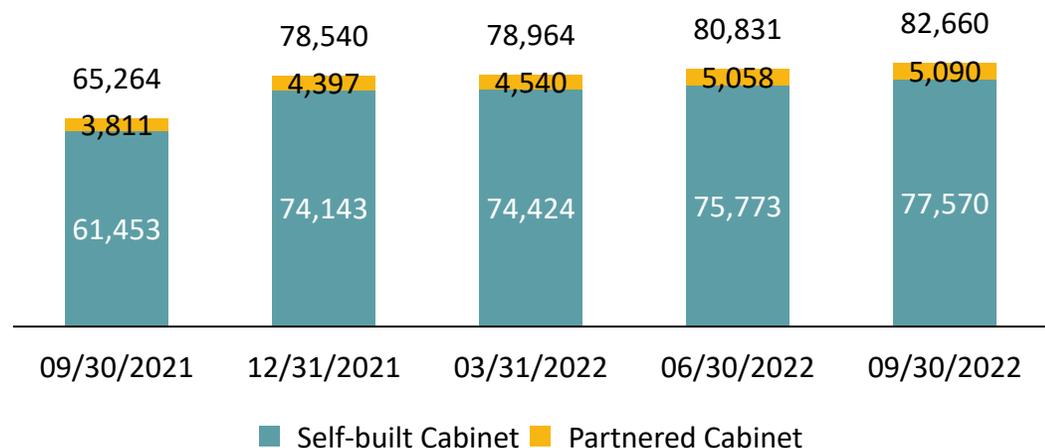


Region	IDC Code	Capacity Contracted / Under MoU (MW)
Greater Beijing Area	N-HB03	11
Yangtze River Delta	E-JS03	15
Other Region	W-OR03	2
	N-OR05	15
<b>Total</b>		<b>43</b>

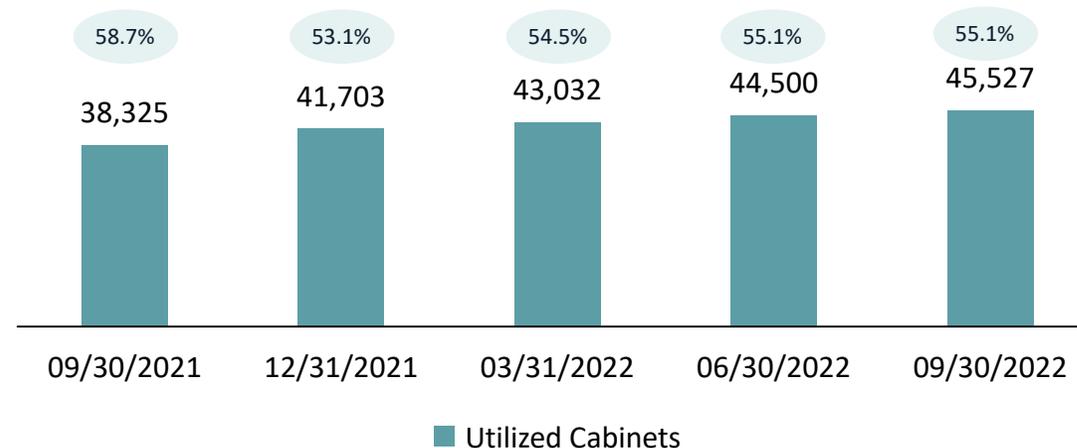
Source: Company data as of September 30, 2022.  
Note: IT capacity numbers measured by megawatt are rounded.

# Strategically Located Network of Premium Data Centers

### Total Capacity (1)



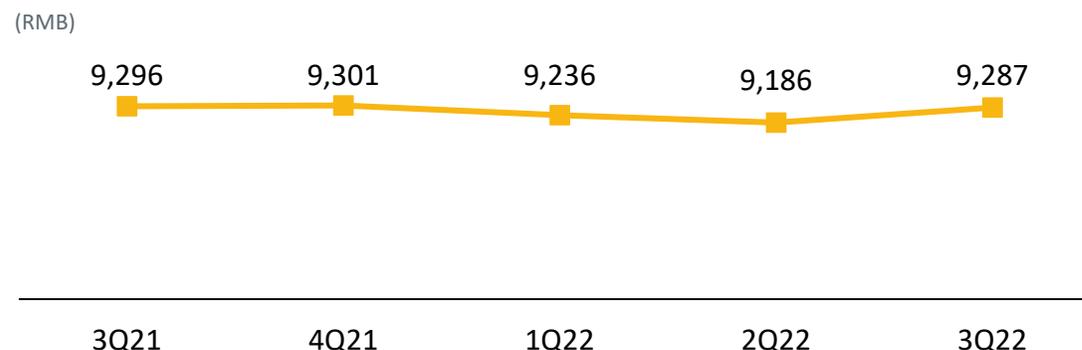
### Utilized Capacity & Overall Utilization Rate (2)



### Capacity by Region (3)

	# of Self-built Cabinets	% Contribution
Greater Beijing Area	37,500	48.3%
Yangtze River Delta	21,600	27.9%
Greater Bay Area	9,300	12.0%
Others	9,100	11.8%
<b>Total</b>	<b>77,500</b>	<b>100.0%</b>

### Retail IDC MRR per Cabinet (4)



Source: Company data as of September 30, 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.



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# 3Q22 Financial Highlights



RMB'MM	3Q21	2Q22	3Q22	YoY	QoQ
<b>Net revenues</b>	<b>1,560</b>	<b>1,724</b>	<b>1,814</b>	<b>16.3%</b>	<b>5.2%</b>
Gross profit	375	358	317	-15.6%	-11.5%
Adjusted cash gross profit <sup>(1)</sup>	674	714	708	4.9%	-0.8%
<i>Adjusted cash gross margin</i>	<i>43.2%</i>	<i>41.4%</i>	<i>39.0%</i>	<i>-4.2 pps</i>	<i>-2.4 pps</i>
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>450</b>	<b>487</b>	<b>455</b>	<b>1.1%</b>	<b>-6.5%</b>
<i>Adjusted EBITDA margin</i>	<i>28.9%</i>	<i>28.2%</i>	<i>25.1%</i>	<i>-3.8 pps</i>	<i>-3.1 pps</i>

Source: Company data as of Sep 30, 2022.

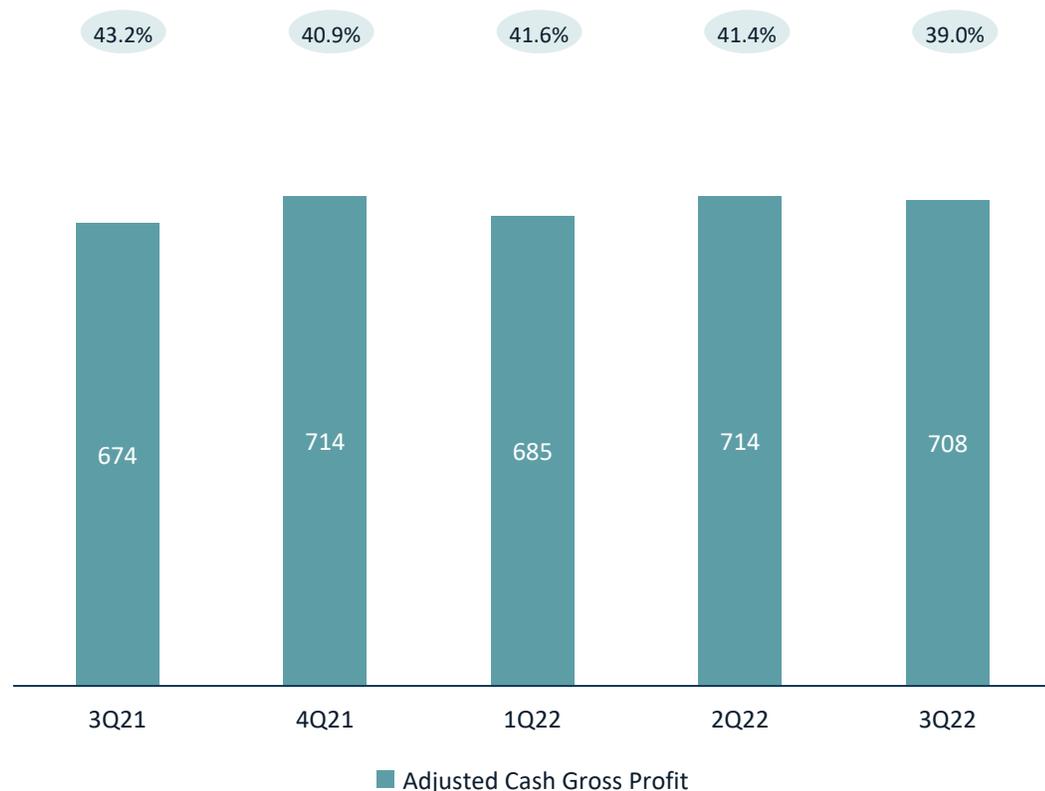
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

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

# Healthy Margins Through Efficiency Enhancement

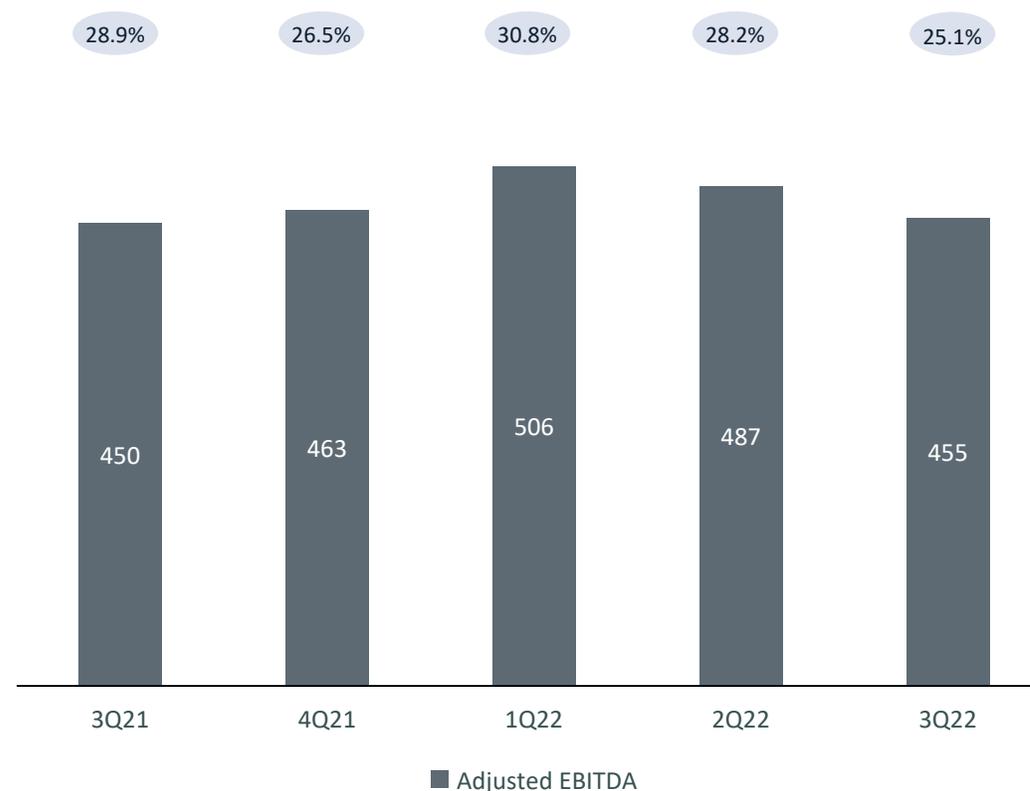
## Adjusted Cash Gross Profit & Margin <sup>(1)</sup>

(RMB mm)



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

(RMB mm)



Source: Company data as of Sep 30, 2022.

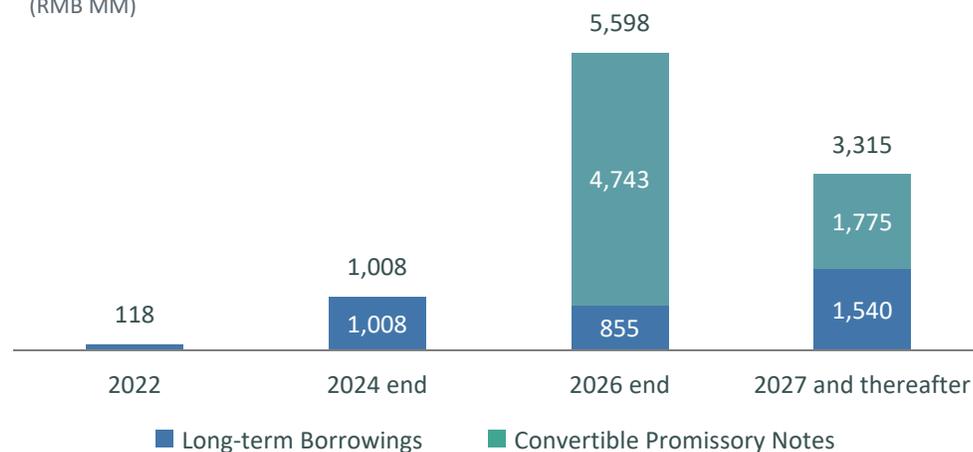
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

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# Well Laddered Debt Profile and Strong Liquidity Position

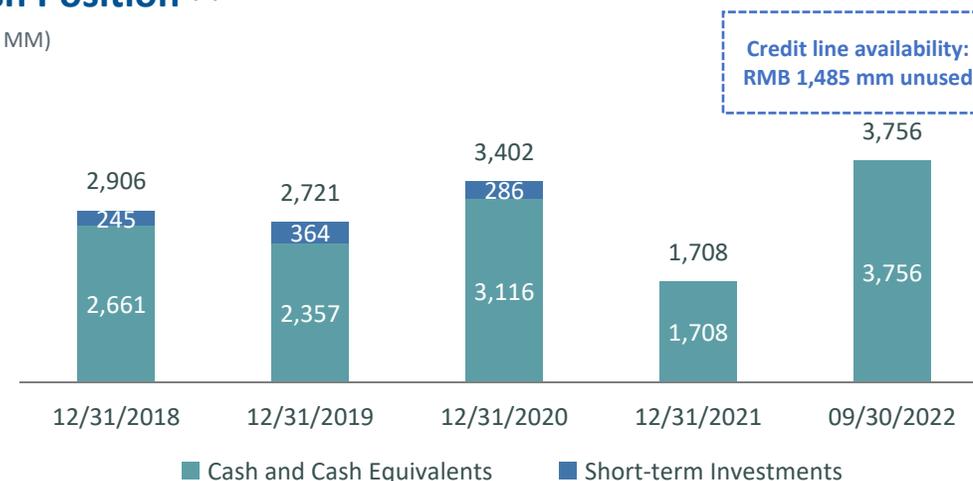
## Debt Breakdown by Maturity

(RMB MM)



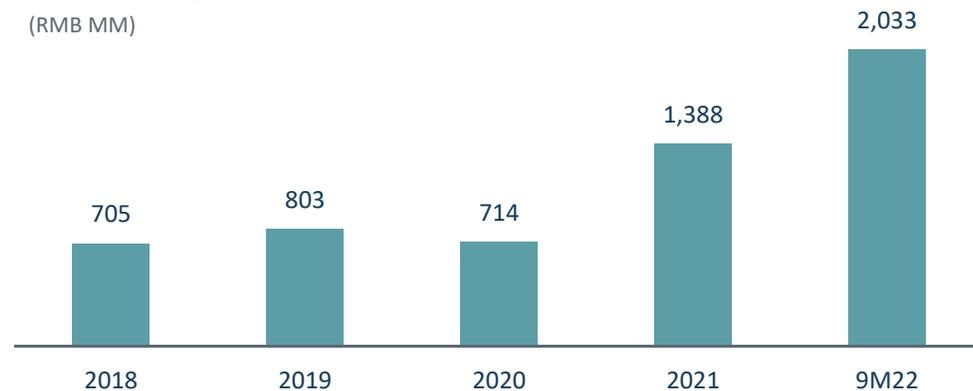
## Cash Position (1)

(RMB MM)



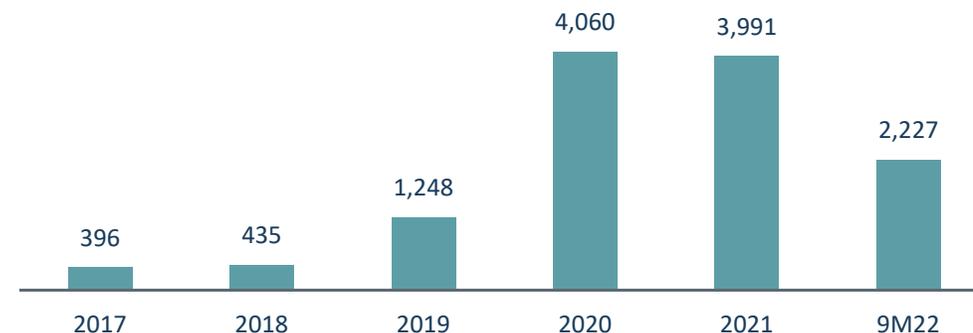
## Operating Cash Flow

(RMB MM)



## Capital Expenditure

(RMB MM)

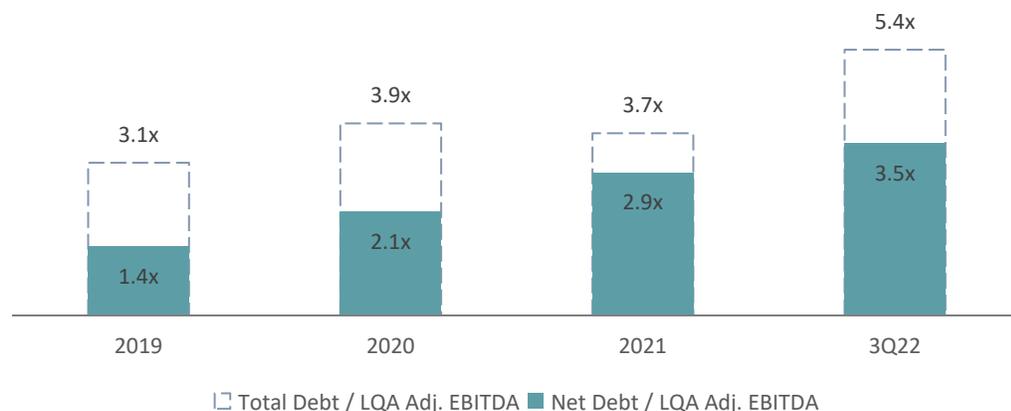


Source: Company data as of September 30, 2022.

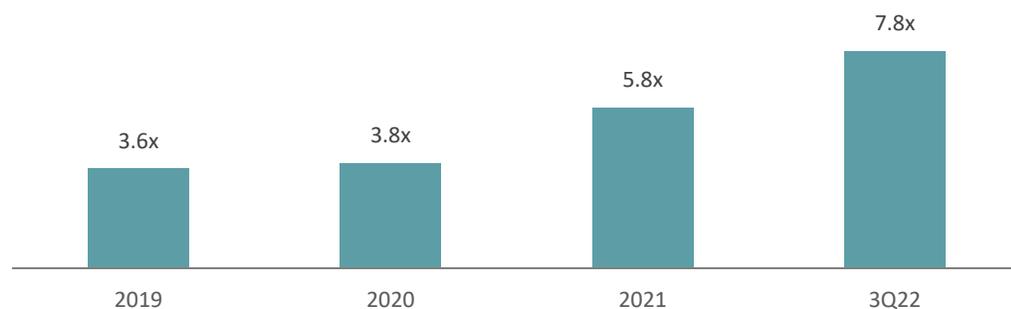
1. Cash Position refers to cash & cash equivalents + restricted cash + short-term investments

# Healthy Capital Structure

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



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



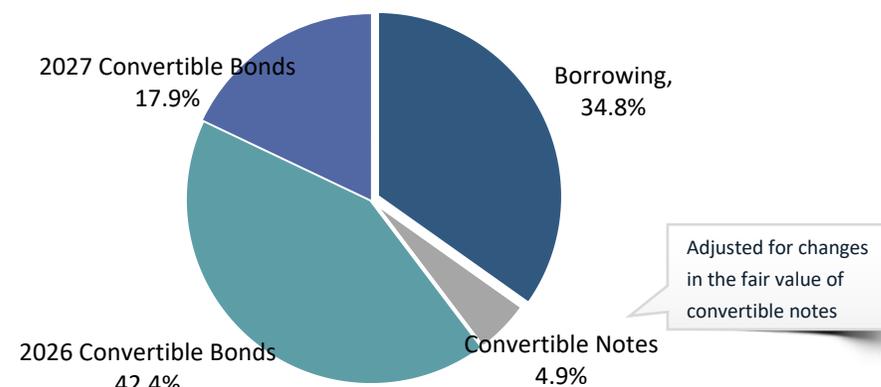
Source: Company data as of September 30, 2022.

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 September 30, 2022



Total Debt<sup>3</sup>: RMB 9,900 MM

## 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 December 2021
- Received Blackstone’s investment of US\$250 million in the form of convertible note in January 2022

# Guidance

RMB MM	2021 Actual	2022 Guidance	Implied YoY
Revenues	6,190	7,250 - 7,550	17.1% - 22.0%
Adjusted EBITDA	1,754	1,800 - 1,950	2.6% - 11.2%

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# Key P&L Items

Amount in thousands	Three months ended				
	September 30, 2021	June 30, 2022		September 30, 2022	
	RMB	RMB	RMB	US\$	
Net revenues	1,560,460	1,724,863	1,814,210	255,038	
Cost of revenues	(1,185,225)	(1,367,086)	(1,497,627)	(210,533)	
Gross profit	375,235	357,777	316,583	44,505	
Sales and marketing	(36,361)	(80,368)	(80,245)	(11,281)	
Research and development	(53,591)	(76,740)	(73,350)	(10,311)	
General and administrative	(161,930)	(167,044)	(165,436)	(23,257)	
Operating profit	113,902	36,058	6,411	901	
Net Interest expense	(78,865)	(59,716)	(69,278)	(9,739)	
Other, Net	443	2,203	(1,005)	(141)	
Changes in the fair value of convertible promissory notes	185,840	(2,321)	13,179	1,853	
Foreign exchange gain (loss)	(16,588)	(319,875)	(317,157)	(44,585)	
Gain (Loss) before income taxes and (loss) gain from equity method investments	201,237	(343,651)	(367,850)	(51,711)	
Income tax expenses	(29,060)	(30,946)	(55,717)	(7,833)	
(Loss) gain from equity method investments	(12,027)	1,090	(384)	(54)	
Net profit (loss)	160,150	(373,507)	(423,951)	(59,598)	

# GAAP to Non-GAAP Reconciliations



Amount in thousands	Three months ended				
	September 30, 2021	June 30, 2022	September 30, 2022		
	RMB	RMB	RMB	US\$	
Gross profit	375,235	357,777	316,583	44,505	
Plus: depreciation and amortization	297,046	362,003	388,217	54,575	
Plus: share-based compensation expenses	2,211	(6,066)	2,876	404	
Adjusted cash gross profit	674,492	713,714	707,676	99,484	
Adjusted cash gross margin	43.2%	41.4%	39.0%	39.0%	
Operating profit	113,902	36,058	6,411	901	
Plus: depreciation and amortization	316,951	385,876	410,988	57,776	
Plus: share-based compensation expenses	4,608	47,485	35,231	4,953	
Plus: compensation for postcombination employment in an acquisition	14,959	17,453	2,685	377	
Plus: impairment of loan receivable to potential investee	-	-	-	-	
Adjusted EBITDA	450,420	486,872	455,315	64,007	
Adjusted EBITDA margin	28.9%	28.2%	25.1%	25.1%	

## Key Balance Sheet Items

Amount in thousands, As of	December 31, 2021		September 30, 2022	
	RMB	RMB	US\$	
Cash, cash equivalents and Restricted cash	1,708,473	3,756,073	528,021	
Accounts and notes receivable, net	1,405,997	1,683,961	236,727	
Property and equipment, net	10,092,419	11,653,367	1,638,204	
Land use rights, net	337,235	485,407	68,237	
Operating lease right-of-use assets, net	2,869,338	3,750,424	527,226	
Goodwill	1,339,657	1,339,657	188,326	
<b>Total assets</b>	<b>23,095,039</b>	<b>27,639,949</b>	<b>3,885,561</b>	
Accounts and notes payable	493,506	647,749	91,059	
Borrowings	2,599,173	3,449,331	484,899	
Finance lease liabilities	1,363,783	1,459,643	205,193	
Operating lease liabilities	2,892,052	3,806,285	535,079	
Convertible promissory notes	4,266,951	6,463,682	908,650	
<b>Total liabilities</b>	<b>15,494,038</b>	<b>20,601,175</b>	<b>2,896,067</b>	
<b>Total VNET Group, Inc. shareholders' equity</b>	<b>7,242,229</b>	<b>6,673,338</b>	<b>938,122</b>	
Noncontrolling interest	358,772	365,436	51,372	
<b>Total shareholders' equity</b>	<b>7,601,001</b>	<b>7,038,774</b>	<b>989,494</b>	
<b>Total liabilities and shareholders' equity</b>	<b>23,095,039</b>	<b>27,639,949</b>	<b>3,885,561</b>	

# Key Cash Flow Items

Amount in thousands	Three months ended				
	September 30, 2021	June 30, 2022	September 30, 2022		
	RMB	RMB	RMB	US\$	
Net cash generated from operating activities	134,672	942,711	607,417	85,391	
Net cash used in investing activities	(1,492,614)	(578,629)	(614,482)	(86,382)	
Net cash generated from (used in) financing activities	256,400	(161,679)	72,765	10,229	
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	11,540	48,962	74,119	10,418	
Net increase (decrease) in cash, cash equivalents and restricted cash	(1,090,002)	251,365	139,818	19,656	
Cash, cash equivalents and restricted cash at beginning of period	5,021,490	3,364,890	3,616,255	508,365	
Cash, cash equivalents and restricted cash at end of period	3,931,488	3,616,255	3,756,073	528,021	

# Definitions

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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.

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# THANKS!

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