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PRESENTATION

Operator

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to 21Vianet Group's First Quarter 2021 Earnings Conference Call. With us today are Mr. Samuel Shen, Chief Executive Officer and Executive Chairman of Retail IDC; Mr. Tim Chen, Chief Financial Officer; and Ms. Rene Jiang, Investor Relations Director of the company.

I'll now turn the call over to your first speaker today, Ms. Rene Jiang, IR Director of 21Vianet. Please go ahead, ma'am.

Rene Jiang ***21Vianet Group, Inc. - IR Director***

Thank you, operator. Hello, everyone. Welcome to our first quarter 2021 earnings call. Before we start, please note that this call may contain forward-looking statements made pursuant to the safe harbor provisions of 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 achievement 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.

I will now turn the call over to Mr. Samuel Shen, CEO of 21Vianet.

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

Thank you, Rene. Good morning, and good evening, everyone. Thank you for joining us on our earnings call today. During the first quarter of 2021, we grew our net revenue by 27.1% to RMB 1.39 billion from RMB 1.09 billion a year ago. Additionally, we grew our adjusted EBITDA to RMB 415.1 million from RMB 259.4 million, reaching the high end of our previous guidance. Our adjusted EBITDA margin increased to a new high of 29.9% from 23.8% in the prior year period. We attribute this quarter's financial achievements to our ability to capitalize on shifting market demand, our dual-core growth engine strategy and our methodical execution of business expansion.

As we transition into postpandemic world, leading to an age of digital transformation, we foresee both a multitude of headwinds and tailwinds in the IDC space. Central government's regulation on the supply side of the emission peak by 2030, carbon neutrality by 2060 will lead to near-term challenges. However, it should result in long-term sustainable value for industry leaders.

Recent intensified competition in certain geo locations could force companies to better compete over operational efficiency, business innovation and customer satisfaction, all areas in which we excel. Lastly, new market entrants in the IDC space might cause near-term market fragmentation, yet will create ample M&A opportunities for us in the mid- to long term.

On the other hand, central government and financing institutions maintain favorable policies towards the new infrastructure space in support of the digital lighting trend. Data sovereignty, data privacy and data security are ever-increasing in importance, leading to a shift in customer demand towards major carrier-neutral and cloud-neutral IDC providers.

Furthermore, the trend of remote working, increased regulatory compliance, data-driven decision-making as well as mixed reality all lead to a sustained market demand for IDC. High-growth areas such as industrial 5G, blockchain, Internet of Things and smart manufacturing are fueling a broader market demand for cloud computing, which will benefit leading IDC providers like Vianet. As such, we have seen an expansion of potential customer base far beyond public cloud service providers and Internet companies.

With our dual-core growth engine, we are well positioned to take advantage of these market trends and to transform headwinds into tailwinds in order to propel Vianet into the next phase of our growth trajectory. Our unique and specialized dual-core growth engine combined hyperscale green IDC wholesale solutions with next-generation IDC retail solutions. This has enabled us to grow to what and who we are today.

This year, Vianet celebrated our 25th anniversary since inception and 10th anniversary since being listed on NASDAQ. In collaboration with China IDC circle, which is an industry think tank, we hosted the 2021 China IDC Discovery Summit, which in itself is a strong endorsement to Vianet's leadership position in the industry.

Looking back at our 25-year history, we have ushered in the emergence of our China's IDC sector, growing in harmony with new digital era, and broadened the development horizon for the whole industry. Going forward, as we continue to boost our dual-core growth engine, expand our business and nourish our industry ecosystem, we will contribute further towards a healthy, stable and sustainable industry.

In preparation for our next phase of growth, we formally launched a new subsidiary brand called NEOLINK, which integrates 5 product lines into our new retail business segment, alongside our VPN business. NEOLINK's mission is to proactively capitalize on the market opportunities emerging out of the central government's digital China growth initiative as outlined in the 14th 5-year plan. It is also a manifestation of our wholesale plus retail dual-core strategy. NEOLINK is committed to construct a new digital infrastructure in order to ease our clients' digital transformation, while also become a trustworthy partner to our clients throughout their entire transformative life cycle.

Leveraging our dual-core growth engine, we were able to execute our business expansion in a methodical manner to achieve meaningful results. As of March 31, 2021, our net total cabinets under management increased by 2,373 cabinets sequentially to 55,926 cabinets compared to 53,553 cabinets at the end of 2020. In the first quarter, our compound utilization rate increased to 61.7%, reflecting a healthy customer acquisition in both wholesale and retail IDCs. In particular, our utilization rate from mature cabinets was 73.9% and for ramp-up cabinets was 30.6%. Since the beginning of the year, we have moved capacity delivered in 2019 to mature group and capacity delivered in 2020 to ramp-up group.

In addition to capacity expansion, we have also achieved encouraging sales progress. In the first quarter, we signed a contract with a leading e-commerce platform for services to provide 1,000 cabinets or roughly 6 megawatts in our HeBei II space to be delivered in Q2 of this year. This market now the successful conversion of a long-term retail customer to a wholesale customer.

In Shanghai, we won a retail bid from a leading video community company geared towards the younger generation and also entered into an agreement with a fast-growing tech-based logistics company. Additionally, we have seen an incremental demand from the financial services industry, mainly from commercial banks who have become the biggest gainers within our customer mix.

While we work tirelessly to satisfy growing customer demand, we are also mindful of social responsibilities. During the first quarter, we reached an important milestone in our ESG initiatives. The combined low carbon emission rate of our Beijing data centers surpassed China's industry benchmark by 15%. Furthermore, 3 of our data centers have been shortlisted for the honor of national green data centers. While our Beijing 06 data center was one of the first to receive the prestigious honor in China. With the adoption of multiple energy savings and consumption-reducing measures, we will continue to optimize our energy consumption structure as part of our commitment to build carbon-neutral centers. With the establishment of a strategic advisory committee and a specialized ESG working group, we at Vianet remain dedicated to further developing our ESG initiatives and meeting our goals.

Finally, I would like to take the opportunity to formally introduce our new CFO, Mr. Tim Chen. Prior to assuming the CFO position, Tim was our Chief Strategy Officer since August 2020 and has made significant contributions to our capital market operations. He was instrumental in our latest 2 rounds of capital raising, including the successful convertible bond issuance in January of this year. Tim has also made a meaningful impact to optimize our shareholder structure, provide ample liquidity for our future debt repayment and better position us for further capacity expansion.

In addition to his strong track record in fund raising, Tim also possesses an innate ability to engage with investors. Even before Tim's appointment as CFO, he was already in frequent communications with our shareholders and investors, making his transition a natural extension from his previous post.

So with that, I will now turn the call over to Tim, who will further discuss our financial results for the quarter as well as his thoughts on our future growth. Tim?

Tim Chen *21Vianet Group, Inc. - CFO*

Thank you very much for the kind introduction, Samuel. Good morning, and good evening, everyone. I'm very excited about our work here at Vianet, and it is my pleasure to speak with you all today.

In my new capacity as CFO, I am committed to provide shareholders and investors with increased transparency, frequent communications and more detailed discussions around our outlook. I'm also aiming to further enhance our team-oriented culture, bolster our operating efficiency, advance our various ESG initiatives and more. As always, the team here at Vianet remained focused on strategically allocating our capital to meet our ROI goals and securing diverse and quality funding sources.

Before we start our detailed financial discussions, please note that we will be presenting non-GAAP measures today. Our non-GAAP results exclude certain noncash expenses, which are not part of our core operations. The details of these expenses may be found in the reconciliation tables included in our press release. Please also note that unless otherwise stated, all the financial numbers we present today are for the first quarter of 2021 and in renminbi terms, while percentage changes are on a year-over-year basis.

We started off the year with a strong first quarter financial results, mainly attributable to our dual-core growth engine and methodical business transformation. Net revenue in the first quarter increased by 27.1% to CNY 1.39 billion from CNY 1.09 billion in the first quarter of 2020. This increase was attributable to both wholesale and retail IDC growth as well as increased growth from cloud revenue.

Gross profit in the first quarter was CNY 323.3 million, representing an increase of 38.1% from CNY 234.1 million of the same period in 2020. Gross margins in the first quarter of 2021 was 23.3% compared to 21.5% in the same period of 2020. This year-over-year increase in gross margin was mainly due to our ongoing efforts to improve operating efficiencies.

Adjusted cash gross profit, which excludes depreciation, amortization and share-based compensation expenses, was CNY 605.3 million in the first quarter of 2021 compared to CNY 417.1 million in the same period of 2020. The adjusted cash gross margin in the first quarter of 2021 was 43.6% compared to 38.2% in the same period.

Adjusted operating expenses, which excludes share-based compensation expenses and impairment of long-lived assets, was CNY 212.5 million in the first quarter of 2021 compared to CNY 177.8 million in the same period of 2020. As a percentage of net revenues, adjusted operating expenses in the first quarter of 2021 were 15.3%, and that is compared to 16.3% in the same period of 2020.

Adjusted EBITDA in the first quarter of 2021 was CNY 415.1 million, and this represents an increase of 60% from CNY 259.4 million in the same period of 2020. Adjusted EBITDA in the first quarter of 2021 excluded share-based compensation expenses of CNY 34.9 million. The adjusted EBITDA margin in the first quarter of 2021 was 29.9% as compared to 23.8% in the same period of 2020.

Our net loss attributable to ordinary shareholders in the first quarter of 2021 was CNY 84.7 million compared to CNY 138.8 million in the same period of 2020.

Basic and diluted loss both were CNY 0.1 per ordinary share and CNY 0.6 per ADS. Each ADS represents 6 ordinary shares.

As for our balance sheet, the aggregate amount of the company's cash and cash equivalents, restricted cash and short-term investments as of March 31, 2021, was CNY 7.33 billion, increasing by CNY 3.93 billion from December 31, 2020.

Meanwhile, net cash generated from operating activities in the first quarter of 2021 was CNY 274.5 million compared to CNY 58.7 million in the same period of 2020.

Looking ahead into 2021, we plan to continue to expand our IDC business in a prudent and balanced manner while, in turn, leverage our value-added service offerings to cultivate more business opportunities with our existing customers. Our balance sheet strength will serve as a significant competitive advantage, enabling us to acquire additional IDC resources that align with our long-term growth targets, capture additional market share and, of course, secure more customer engagement opportunities in our key markets.

For the second quarter of 2021, we expect net revenues to be in the range of CNY 1.47 billion to CNY 1.49 billion and adjusted EBITDA to be in the range of CNY 405 million to CNY 425 million.

For the full year of 2021, we anticipate net revenues to remain unchanged and be in the range of CNY 6.1 billion to CNY 6.3 billion and adjusted EBITDA to be in the range of CNY 1.68 billion to CNY 1.78 billion. The midpoints of the company's full year estimates imply year-over-year increases of 28.4% and 30.7% in net revenues and adjusted EBITDA, respectively.

This forecast reflects the company's current and preliminary views on the market and its operational conditions, which do not factor in any of the potential future changes or impacts caused by the ongoing COVID-19 pandemic and are subject to change.

This concludes our prepared remarks for today. Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Yang Liu from Morgan Stanley.

Yang Liu ***Morgan Stanley, Research Division - Research Associate***

Two questions from my side. The first one, we see some new entrants backed by some [PEs] and property firms, et cetera, entering the wholesale and the hyperscale market in the Tier 1 cities surrounding areas. But could you please update us in terms of the competition dynamics in the retail market? We see your MRR continue to go up, although the company previous commented this number should be largely stable. And what should be the outlook for the retail pricing going forward?

The second question is, in the presentation, I saw a new project called N-OR02 to be delivered in the second half this year. Could you please give more color on where this kind of project? Is it booked by anchoring customer? And is it included in the total 190-megawatt wholesale capacity?

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

Okay. Thank you, Liu Yang, for the questions. I'll let Tim to take on the MRR, and then I'll provide additional colors for your second question. Tim?

Tim Chen ***21Vianet Group, Inc. - CFO***

Sure. Thank you, Samuel. So Liu Yang, with regards to the MRR question and the question also on how we look at the outlook for the retail portion of the business, we did make a comment in the past that we expect it to be stable, and we expect during the course of this year and next year, the figure will be flat and slightly rising trend. We do expect that customers will continue to take on some new additional services. And obviously, that will help sort of an overall trend.

I would encourage though that you don't look at this necessarily quarter-to-quarter but perhaps on an annual basis. And again, management does expect that trend to continue to rise as we roll out more of our services. It's also, in some ways, linked to the NEOLINK rollout logo. And this is really our view of the positiveness of the market, really focusing on our retail enterprise customers and offering more of the services that they require. Hope that helps.

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

Yes. Additionally, a couple of things. First of all, it is true that we're seeing the competition, the new entrants come into the IDC space. But we also got a lot of great feedback from the customers that the IDC is not just pure like a real estate business. It requires years of great track records and also providing the customer peace of mind. It is a combination of the capital resources and also technologies combined together. So we welcome the competition. And then from the way we see that, by talking to the customers, assessing the market demand, and we're seeing a still very positive sign for Vianet.

And speaking of the new logos, HB02, it is true that because in the first quarter, we signed a contract with a leading e-commerce platform for services. And not only that, we also secured a long-term contract with the leading Internet companies. And in addition to that, I think in the first quarter, we also have great examples, basically transform and upgrade the retail customers into the wholesale customers. In the past, they tend to choose in Tier 1 cities to colo their servers and racks and networking services. But the growing demand give us great opportunities by leveraging our surrounding areas, providing the customization efforts to those customers. So we're seeing a positive trend, and we hope to continue to see more to come. Thank you.

Operator

Your next question comes from the line of Timothy Chau from Jefferies.

Tak-Hei Chau ***Jefferies LLC, Research Division - Equity Analyst***

I have 2. Number one is that on your mature capital utilization, it actually fell to 73%, which is a pretty big drop. So can you maybe elaborate a little bit on what's going on there?

Number two is that the recent government policies of high-tier cities seem to suggest that they are extremely vigilant in terms of power allocation. And they also try to ask potential bidders to tell them exactly what customers they will get, what utilization rate they will get and what applications they're going to use in the data centers. Does it mean that it's almost becoming impossible to have new retail IDC capacity in Tier 1 cities? So how would that affect your retail business? Would it be positive? Would it be negative? How do you see that?

Tim Chen ***21Vianet Group, Inc. - CFO***

Okay. I'll take the first question. Thank you very much for the question. And I'll take the first one on the mature data center cabinets. I think that perhaps looking at it purely from a quarter-on-quarter actually would be misleading. Because what we do is on January 1, we shift all the data centers delivered in a certain year to the next category. So for example, if you look at the mature data center cabinets now, these now include all of the ones that are delivered in 2019, including the ones that are delivered at the end of 2019, which means that they actually have less than 18 months ramp.

So if you want to compare the figures actually without this annual -- January effect is actually probably better for you to compare year-on-year. So you should actually be looking at first quarter '20 versus first quarter '21. And actually, at the end of the day, probably the better measure to focus on will be on the compound realization because that then eliminates any of the categorization impacts and rather look at the overall cabinets that we have available and the percentage of this utilized. Samuel, (inaudible) second question?

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

Yes. For the second question, yes, because as of today, we have a lot of the data center in the Tier 1 cities. It is true that the Tier 1 city government are taking the [30 60] policies very seriously. As a matter of fact, they have the policies for existing data center to meet a certain PUE bar and also for newly built data center to meet the additional strictly PUE bars.

And then because we have been in the industry for quite some time. And as a matter of fact, some of our data center happened to be the role model for the industry, way better than the benchmark -- industry benchmark. So in the first quarter, I think the 3 of our data centers being shortlisted to get the national green data centers. And also one of the -- we are -- in Beijing, we have one of the first to receive the prestigious honor for that kind of things.

And then so we will continue to maintain our high standard. And hopefully, that not only to meet the government's requirements for Tier 1 cities, but we can take the -- all the traditions and great traditions and our great efforts in those surrounding areas as well.

Operator

Your next question comes from the line of James Wang from UBS.

James Wang ***UBS Investment Bank, Research Division - Analyst***

Congratulations on a good result, particularly on the EBITDA line. So I've got 2 questions. And the first one is on competition. So one of your peers mentioned that the intense competition was isolated in the Jiangsu province but relatively stable across the rest of the country. So I just wanted to check whether that's your observation or whether more provinces see intense competition. And whether across the board, pricing or rental rates remain broadly stable or on a downward trend. So that's on the competition.

And the second question is on customer demand. So last year, it was a pretty strong year in terms of customer demand, partly maybe due to COVID. So I just wanted to check whether you've seen any moderation in demand from maybe some of the cloud customers so far this year. And I think Samuel mentioned a pickup in demand from financial institution customers. So overall, are you seeing any acceleration in demand from your retail customers?

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

Okay. Let me take on these 2 questions, and welcome Tim to chime in with additional inputs. So first of all, I think Jiangsu provinces, yes, we do have our data center located there. And from the conversation that we have with the customers, we have a high confidence that Jiangsu province, the data center would be the ideal location, not just for the cloud -- public cloud service provider, but also for some additional Internet companies. So we remain pretty confident on that one.

And for the second one, I think last year, COVID-19 hit the world pretty hard. And China's probably one of the countries in the world. We're living in the postpandemic era. And then that post -- that pandemic basically accelerate a lot of the digital transformation, not just for Internet companies, but also for traditional enterprises. You mentioned about the financial services industry, new energy vehicles and manufacturing -- smart manufacturing, particularly. We're seeing a strong demand on those one as well. And so I would say the first quarter gives us pretty good confidence. Things are going to be on track for the year, I would say, guidance. And so we're going to continue to head down, execute on our strategy, and hopefully, continue to drive up the monthly recurring revenue for the retail segment, and meanwhile, satisfy the hyperscaler and Internet giants' customization needs.

James Wang ***UBS Investment Bank, Research Division - Analyst***

Sorry. Can I just follow up on the first question, Samuel? Just on overall pricing or rental rates, are you seeing broadly stable trend or any downward pressure on rates or returns?

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

Yes. From the pricing point of view, I would say, so far, from all the conversations that we have discussed with the customers, I would say, probably that was like a one-off thing. And then we don't see any broader impact, not just from the Jiangsu provinces, but also other part of the geo as well.

Having said that, I would say the competition is there. But that competition will give us a great opportunity for industry consolidation. And we're here to play it for the long term. And then we have more to add not just -- it is not an apple-to-apple comparison. But one of the great advantages for our dual-core growth engine is we're not just providing the colocation. We're providing additional networking services and bare metal services and also hybrid cloud. And that gets reflected on our monthly recurring revenue, continue climbing up, even though gradually, but that's a great indication. So hopefully, that answers your question.

Operator

Your next question comes from the line of Arthur Lai from Citi.

Yu Jang Lai ***Citigroup Inc., Research Division - Director & Analyst***

So first, congrats on the Q1 continuous margin bids and also congrats to Tim's new role. So I have 2 question. Number one is on the margin side, and number two is on the new site to ramp up. On the margin side, we saw the gross margin grew 1.5% year-over-year, was driven by mix. So if we compare the dual-core growth engine, which business lift up the gross margin more? And can we expect the similar margin expansion into the 2022 or '23? That's my first question.

Tim Chen ***21Vianet Group, Inc. - CFO***

Okay. I'll take this. Arthur, thank you for your question. I would say that both the wholesale and retail do have strong gross margins. The contribution from the wholesale, as you can sort of see over time, will increase, and that's just because relatively speaking, the retailers is operating off a much larger original base as compared to the wholesale business. So I think as we go forward in time, we would expect that there will be continued improvements. As you know, our overall results, to have other business units in place. So I think that as the cabinets are delivered, as utilization rates go up, we will see a continued general improvement in terms of the gross margins. I hope that helps, Arthur.

Yu Jang Lai ***Citigroup Inc., Research Division - Director & Analyst***

Very good. And the second one is on the Jiangsu campus 2. We understand that there is still time for ramping. So can management give us update on which type of clients and what kinds of timing? And I think some analysts asked about the pricing. But can our company add more value-added service to stand out from the competition?

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

So I'll probably take this one and see whether Tim has additional comments. So Arthur, your questions about the Jiangsu campus 02, right? For that specific one, the Jiangsu campus 01, that's for our hyperscaler customers totally taking on that. And for Jiangsu campus 02, make no mistake, it is a great data center location. And also because it's very close to Shanghai, so from a network latency point of view and also from a bandwidth supply point of view, it's a high quality.

And then -- so at this current moment, we do have both wholesale customer and also retail customers are showing a great interest about the -- that specific data center. And so we're in the -- I would say, in the middle of the discussion to see which one will play out longer term. I think this is related to the previous question about the price competition and so on and so forth. I think because data center location, that's one key element. The second thing is specific for campus 02, that we have great expansion possibilities and plus that we have additional services that can offer to the Internet companies.

So from the management team point of view, we're not worried at all about the price negotiations and things like that. We remain to be very healthy, I would say, IRR gauge from the wholesale perspective still maintain to be 10%, 15% kind of range discussion. So I would say we're pretty cautiously optimistic on that one. And hopefully, that we can provide additional information in the quarters to come.

Operator

Your next question comes from the line of Kyna Wong from Credit Suisse.

Kyna Wong ***Crédit Suisse AG, Research Division - Associate***

I have like 2 questions. The first one is actually related to the capacity expansion. And we see our road maps, I mean, on those Jiangsu and others with sensor area expansion. And from the target this year of 25,000, so we should expect like 7,000 to 8,000 at the quarter like in the coming years to fulfill. And that will increase additional capacity in a certain -- in the period. And that would also somehow drive certain kind of like position in order to fill up these. So like in your customer pipeline and complete the schedule, I think is that still on track and to fulfill our target with manageable price competition along with the new capital rollout? That's the first question.

And the second one, I wanted to check the ESG road map because we do see from the ESG report, the company has achieved some kind of like, I would say, a treatment like PUE reduced a certain percentage like 2% last year and some of the, I would say, 33% of the -- if China data center (inaudible) from green power. But like do we expect some more concrete road map in the coming few years or in 2021 in your ESG road map?

Tim Chen ***21Vianet Group, Inc. - CFO***

Kyna, it's Tim here. I'll take your first question. In terms of the pipeline and the rollout of the cabinets, as we've told the market, yes, we are more back-ended this year. So more of the deliveries are expected to be in the second half of 2021.

But with regards to, I guess, increased pressure or increased competition, I would say there really is not that case because we're not talking to our customers a couple of months in advance but actually well in advance. And in many of the cases for the second half deliveries, these are locations that have already secured commitments from the customers. So I think this is much more of a timing issue, first half versus second half. And so I think that's something that we have great confidence in.

And overall, I would say, beyond 2021, we've already secured about 60% of the resources. So we do have sufficient ways to handle going forward the demand of our customers as well. So we're already talking to customers, obviously, about 2022 and beyond.

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

Yes. I can probably provide additional colors from the customer commitment point of view. So internally, Tim and I have a chance to review our wholesale segment and also retail segment from a customer demand point of view.

For the wholesale customer point of view, it is way ahead of time before we sit down, bid for the tender and also having a detailed discussion with the customers. It is way ahead of time. And so from the conversation that we have with the customers, I have less worry about whether we can deliver the 25,000 racks. As a matter of fact, we probably have more opportunity that we can consume based upon the resources that we have. It is the, I would say, bittersweet fact. That's one thing.

The second thing is this is the very first year for Vianet to publish our ESG report. Even though we have been working on ESG efforts, including the environment, social and governance in the past, we never had a chance to really systematically organize our commitment and efforts and share out. And so this year, I would say, marked the very first year for us to share and to be more transparent for all of our efforts and commitments around the ESG side.

And specifically on the -- even though purely from MSCI, ESG point of view, it only contributes to 5% of the total rating schema. But we're taking the E especially environment portion very seriously. So continue using our tech-driven, data-driven approach to reduce the PUE. And meanwhile, we're partnering with the local government, making sure that we can participate in the green energy effort as well. So hopefully, that we can share the results on a quarterly basis to the external world. And thanks for the question, Kyna.

Operator

Your next question comes from the line of Tina Hou from Goldman Sachs.

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

I have 2 questions. The first one is, recently, we've heard specifically for PDD projects, there were some intense pricing competition going on. So my question is that for Vianet, what is our actually customer acquisition strategy in terms of what are the measures we follow towards each tender that we try to bid? And then what are the customers we may be able to sacrifice a little bit of margin or a little bit of pricing in order to get that customer or we are very firm on pricing and our overall IRR return? That's my first question. The second one is regarding the Shanghai power quota allocation, which was announced in April this year. Wondering what is our strategy there and what's the progress so far.

Yuan-Ching Shen ***21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group***

Okay. Let me take on the questions and welcome Tim to comment and add additional inputs. I think for the PDD deal, in my opinion, I would say that's more like one-off things. Because if you drill down and double click on the specification, it is not really apples-to-apples comparison. And because a lot of the details happened to be the business confidential, not much I can talk about it. But from a very high-level point of view, each of the tender, if you break down and double click on that, there's a CapEx portion and there's a OpEx portion. It really depends on what you want and you get a different kind of a pricing schema. And so that -- you can't really compare that with the previous order or the following orders or tenders to a certain degree. And so that's one thing.

The second thing is, most of us know, Pinduoduo is one of the largest e-commerce providers. And then so when they're having a project like that, all of a sudden, a lot of the IDC providers, including Vianet, were showing interest to win such local customers. But again, each of the partners, including Vianet, we do have our internal gauge system to see whether it makes sense and makes no sense and so on and so forth. Sometimes you might just give some of the favorable discount to win a local customer at a very first deal, kind of sweeten the deal to win the first one in order to get in. But again, we have to weigh in all the factors.

And for us, it is not a strategic deal that we have to win. But again, the question is, will that trigger the price war moving forward? And I would say, I would be very, very honest to say, from all the customer calls and customer discussions, it is not. And it is more compliant into a one-off thing.

We have Jiangsu projects. We have other projects in Shanghai, in Beijing, in Guangzhou and also even Northern China. We're not seeing that get, I would say, spread out. That's the answer to your questions. Tim, do you want to take on the second one?

Tim Chen ***21Vianet Group, Inc. - CFO***

Yes. So on the second one, Tina, is on power, right?

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

The Shanghai power quota allocation this year.

Tim Chen ***21Vianet Group, Inc. - CFO***

Okay. Yes. So I think, look, overall, we continue to secure power quotas throughout the different regions. Our strategy, and what we've communicated in the past quarters, remains the same, is that we will continue to obtain the necessary quotas for our various projects. Some slower, some faster. So I think at the moment, there are a few projects that we have put in applications for. And when we have updates to give to the market and to the investors, we'll do so in due course.

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Just a very quick follow-up on that. Just in terms of the competition within the power quota allocation this year, have we seen like -- more like newcomers into the space? Because last year, there were -- like out of the 18 allocation, 6 were allocated to newcomers. But then this year, the government has tightened and raised the requirements for the new project allocations. So have we already seen like less -- fewer newcomers coming in and doing the bid?

Tim Chen ***21Vianet Group, Inc. - CFO***

I can't comment for the others that I've actually put in bids. But I think generally, I think what you wrote in your report as well is accurate. The tightened regulations and requirements does mean less of the pure money or people looking for a quick flip, and really more people that are qualified or on paper qualified. So this does put the advantage to existing experienced operators like ourselves.

Operator

Your next question comes from the line of Chris Ko from DBS.

Chris Ko ***DBS Bank Ltd., Research Division - Analyst***

Congratulations on the strong results. My first one is about our second quarter adjusted EBITDA guidance. Could management team please help us understand why the midpoint of the second quarter adjusted EBITDA guidance is flat Q-on-Q? Could it be due to some timing issue of the moving schedule? And my second question is on the cloud market. There is news reporting that there could be some market share changes and also a new entrant into it. What are the opportunities and threats to us in management team's point of view?

Tim Chen *21Vianet Group, Inc. - CFO*

I'll take the first question. So with regards to the margin and the guidance, EBITDA margins and the guidance -- EBITDA, sorry, and the guidance that we've given for 2Q, you're absolutely correct. This is -- as we've explained to the market, our deliveries at this moment are more in second quarter and in fourth quarter. So we do expect that with deliveries of the cabinets and the additional costs that are being incurred, that there will be some impact to the EBITDA. And so that's why we've guided to something that is flat to first quarter. I'll pass the second question to Samuel. I guess you had a question about cloud market and the new entrant.

Yuan-Ching Shen *21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group*

Yes. For the second question, so first of all, I would like to give you a broader view. First of all, as I've said earlier, the COVID-19 basically accelerated the digital transformation. And so to a certain degree, not just about the cloud service providers still maintained very healthy, double-digit growth year-over-year, we're seeing a hybrid cloud as a new norm because China is unlike the rest of the world, that we have more than a dozen cloud service providers. And now most of customers understand the importance of the cloud transformation to be live-and-die [DNA], but then to kind of thrive in the digital era. But on the other hand, they also pay a lot of attention on the data sovereignty and privacy and things like that. So hybrid cloud has become a new norm.

So having said that, for most of the public cloud service provider, because their base revenue is now a great portion of that, so to maintain the year-over-year growth is going to be a little bit challenging for them. But on the other hand, the carrier-neutral IDC, it's a very, I would say, unique segment in China because we provide the whole bunch of neutralities. Cloud neutrality and also carrier neutrality in driving multiple deliverables for -- to meet the customer demand.

So I would say from the overall perspective, the IDC segment, especially for carrier-neutral IDC segment, is not just a pure wholesale hyperscaler play. It is a huge combination of just resources and capital and also the tax receivables. And then so that's something that we're pretty confident.

From the overall market share point of view, we don't have the latest numbers. But we believe we're still at the 11%, 10%, that kind of range. And we're pretty confident we'll continue to grab more market share moving forward.

Operator

I would now like to hand conference back to the management for any closing remarks. Please continue.

Rene Jiang *21Vianet Group, Inc. - IR Director*

Thank you once again for joining the call today. If you have further questions, feel free to contact the company's IR. Bye-bye.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.