

VNET Group, Inc.

Investor Presentation

November 2023

世纪互联
VNET

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3Q 2023 Highlights



Financials (in RMB)

Revenue: **1,887 million** (+4.0% YoY)

Adjusted EBITDA: **508 million** (+11.6% YoY)



Liquidity (in RMB)

Unused Credit Line: **2,240 million**

Cash Position⁽¹⁾: **3,024 million**



Retail & Wholesale Updates

RMB 9,495

Retail IDC MRR⁽²⁾ per cabinet

~476 MW

Wholesale capacity in service & under MoU

(+45 MW in 3Q)



Capacity

88,922 R total cabinets under management

52,408 R utilized cabinets

58.9%⁽³⁾ overall utilization rate

Source: Company data as of September 30, 2023.

Notes:

1. Cash position refers to cash, cash equivalents and restricted cash.
2. Retail IDC MRR refers to monthly recurring revenues for the retail IDC business.
3. 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)	Signing Time of Contract / MoU	Customer Sector	Project Type
Yangtze River Delta	E-JS Campus 02	45	3Q23	Internet	Wholesale
	SH05	1.5	3Q23	Consumer Electronics	Retail



Source: Company data.

CONTENTS

1. Company Overview

2. Business Overview

3. Financials Overview

4. Appendix

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

Pioneer and Leader

- ✓ A **leading carrier- and cloud-neutral data center services provider in China** with 27 years of experience
- ✓ **~10%⁽¹⁾ market share** of China's carrier-neutral data center services market
- ✓ **220** approved and pending **patents** and **296 copyright registrations⁽²⁾**

Market Potential

- ✓ China's carrier-neutral data center services market is **fast growing**
- ✓ **Growing demand for IDC services from generative AI** as training and optimizing AI models require massive computing power
- ✓ 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 2022 report issued in March 2023.

2. Company data as of December 31, 2022.

Dual-Core Growth Strategy

Retail

Wholesale

Retail Colocation



Full-stack Services

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



Financial Services



IT Services



Enterprises Digitalization



Mobility



Big Data



Manufacturing Industry

Hyperscale IDC



Interconnectivity Services

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



Our Strengths:

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

Our Strengths:

- ✓ Dedicated team with 27 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



Received **A** rating by MSCI, representing the **highest** ranking to-date in China's Internet Services & Infrastructure industry



Scored **57** by the S&P Corporate Sustainability Assessment, ranking in the **top 10%** among all companies in the IT Services industry globally



Achieved **B** rating from CDP's climate change questionnaire, exceeding that of **96%** of participating companies in China



Being selected for inclusion in S&P Global's first China edition of *The Sustainability Yearbook 2023*, earning the highest ESG score among Chinese IT services companies participating in the assessment

CONTENTS

1. Company Overview

2. Business Overview

3. Financials Overview

4. Appendix

Differentiated Business Model with Comprehensive Offerings

Managed Hosting Services (IDC)

Cloud Services

VPN Services¹



Services

- Co-location
- Interconnectivity
- 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 to customer needs
- ✓ Long track record of outstanding operation performance

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

- ✓ Best-in-class, enterprise-grade network services
- ✓ 217 POPs² across Asia
- ✓ Customized VPN solutions for enterprise customers across various 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, 2023.

Resource Pipeline to Support IDC Growth



IDC Code	Tenure	Status	9M23	4Q23E	2023E
E-JS Campus 02 A	Owned	In-Service	1,270	-	1,270
E-JS Campus 02 B	Owned	In-Service	1,420	-	1,420
N-OR06 (Phase I)	Leased	In-Service	800	-	800
BJ17	Leased	Under Construction	-	750	750
E-JS Campus 02 C	Owned	Under Construction	-	1,560	1,560
N-OR06 (Phase II)	Leased	Under Construction	-	2,400	2,400
Secured Resources			3,490	4,710	8,200
Expansion Target					8,000-9,000

Source: Company data.

Note: Cabinet delivery numbers including blank space are rounded.

Wholesale Capacity In-Service



Region	IDC Code	Capacity Contracted / Under MoU (MW)
Greater Beijing Area	BJ06	2
	BJ12	9
	BJ15	7
	N-HB02	47
	N-HB03	11
Yangtze River Delta	E-JS Campus 01	42
	E-JS Campus 02 A	25
	E-JS Campus 02 B	24
	E-JS01	5
	E-JS02	64
	E-JS03	15
	SH04	2
	SH05	7
	SH06	11
	Other Region	N-OR02
N-OR04		14
N-OR05		15
N-OR06 (Phase I)		8
Total		339

Source: Company data as of September 30, 2023.
 Note: IT capacity numbers measured by megawatt are rounded.

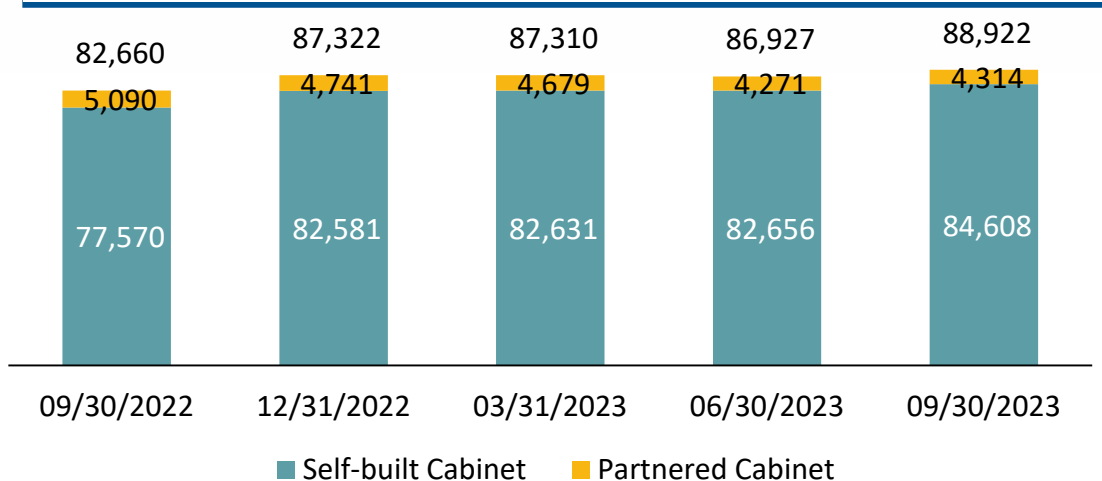
Wholesale Capacity Under Construction

Region	IDC Code	Capacity Contracted / Under MoU (MW)
Yangtze River Delta	E-JS Campus 02 (Phase II)	110
Other Region	W-OR03	2
	N-OR06 (Phase II)	25
Total		137

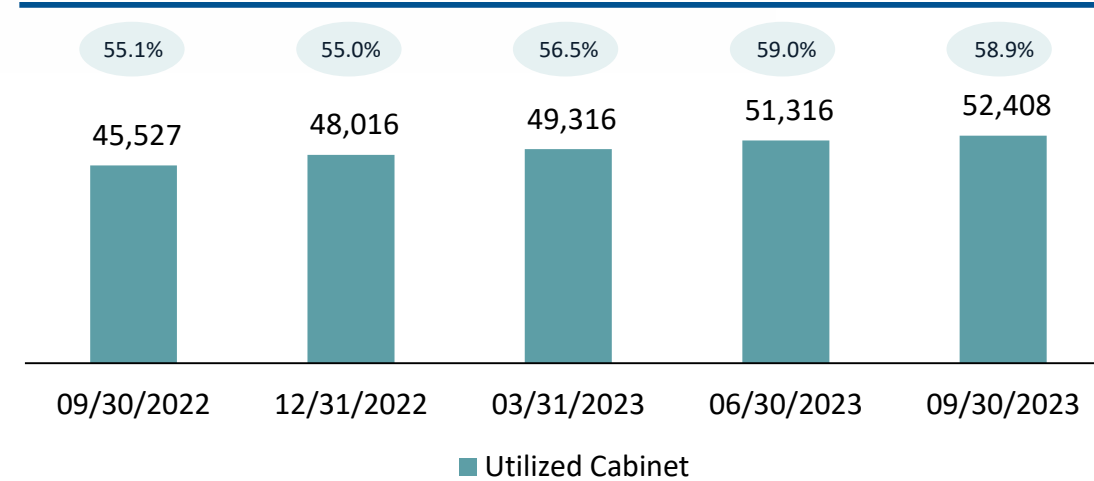
Source: Company data as of September 30, 2023.
Note: IT capacity numbers measured by megawatt are rounded.

Strategically Located Network of Premium Data Centers

Total Capacity (1)



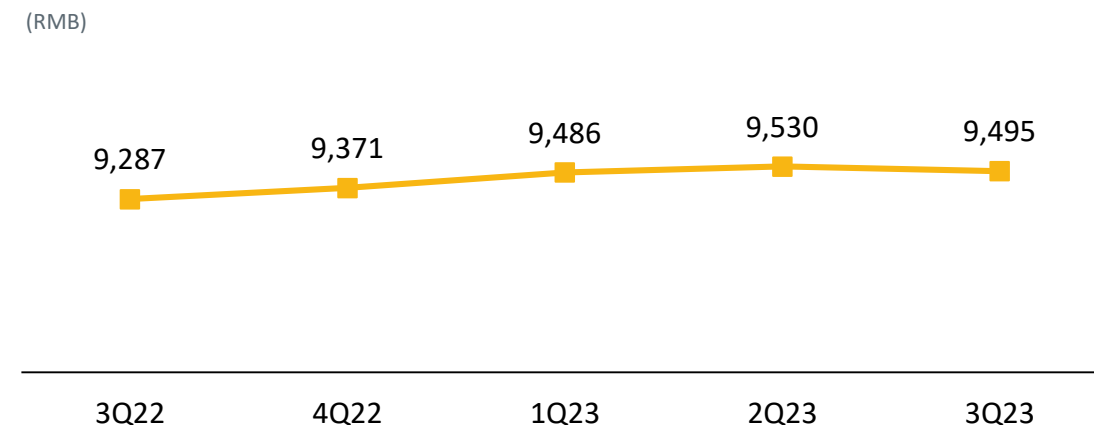
Utilized Capacity & Overall Utilization Rate (2)



Capacity by Region (3)

Region	# of Self-built Cabinets	% Contribution
Greater Beijing Area	37,600	44.4%
Yangtze River Delta	26,200	31.0%
Greater Bay Area	9,300	11.0%
Others	11,500	13.6%
Total	84,600	100.0%

Retail IDC MRR per Cabinet (4)



Source: Company data as of September 30, 2023.

1. Total capacity refers to number of total cabinets under management at the end of the period.

2. The overall utilization rate is calculated by dividing the number of customer-utilized cabinets divided 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 Average Monthly Recurring Revenues.

Large and Diversified Customer Base with Strong Loyalty

- **>7,000** 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 churn rate for core IDC business, constantly **below 1%** demonstrating our high customer retention
- Maintain low concentration risk with top 20 customers contributing **41.5%** of total revenues in 3Q23
- Since 2020, the Company began to generate revenue from **wholesale** customers; **~476MW** in service and under MoU



Sources:
1. Company data as of September 30, 2023.

CONTENTS

1. Company Overview

2. Business Overview

3. Financials Overview

4. Appendix

3Q23 Financial Highlights



RMB MM	3Q22	2Q23	3Q23	YoY	QoQ
Net revenues	1,814.2	1,821.7	1,886.9	4.0%	3.6%
Gross profit	316.6	342.7	306.5	-3.2%	-10.6%
Adjusted cash gross profit ⁽¹⁾	707.7	742.9	738.4	4.3%	-0.6%
<i>Adjusted cash gross margin</i>	<i>39.0%</i>	<i>40.8%</i>	<i>39.1%</i>	<i>0.1 pps</i>	<i>-1.7 pps</i>
Adjusted EBITDA⁽²⁾	455.3	535.0	507.9	11.6%	-5.1%
<i>Adjusted EBITDA margin</i>	<i>25.1%</i>	<i>29.4%</i>	<i>26.9%</i>	<i>1.8 pps</i>	<i>-2.5 pps</i>

Source: Company data as of September 30, 2023.

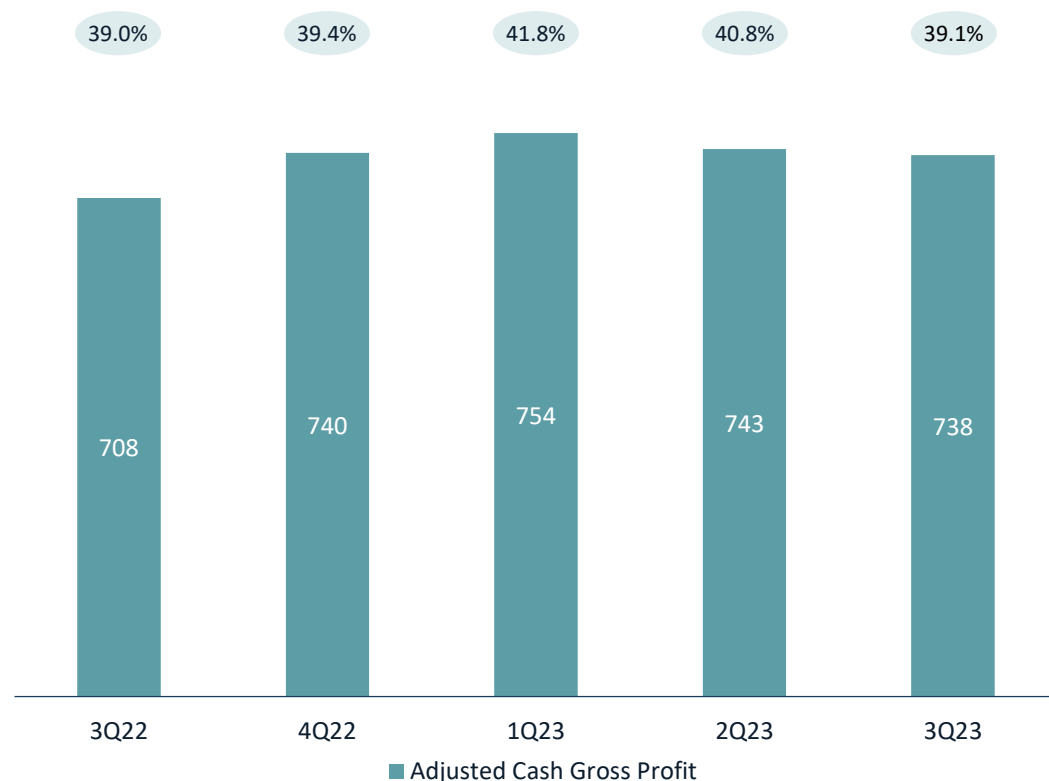
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

2. Adjusted EBITDA is defined as operating profit plus depreciation and amortization, share based compensation expenses, compensation for postcombination employment in an acquisition.

Healthy Margins Through Efficiency Enhancement

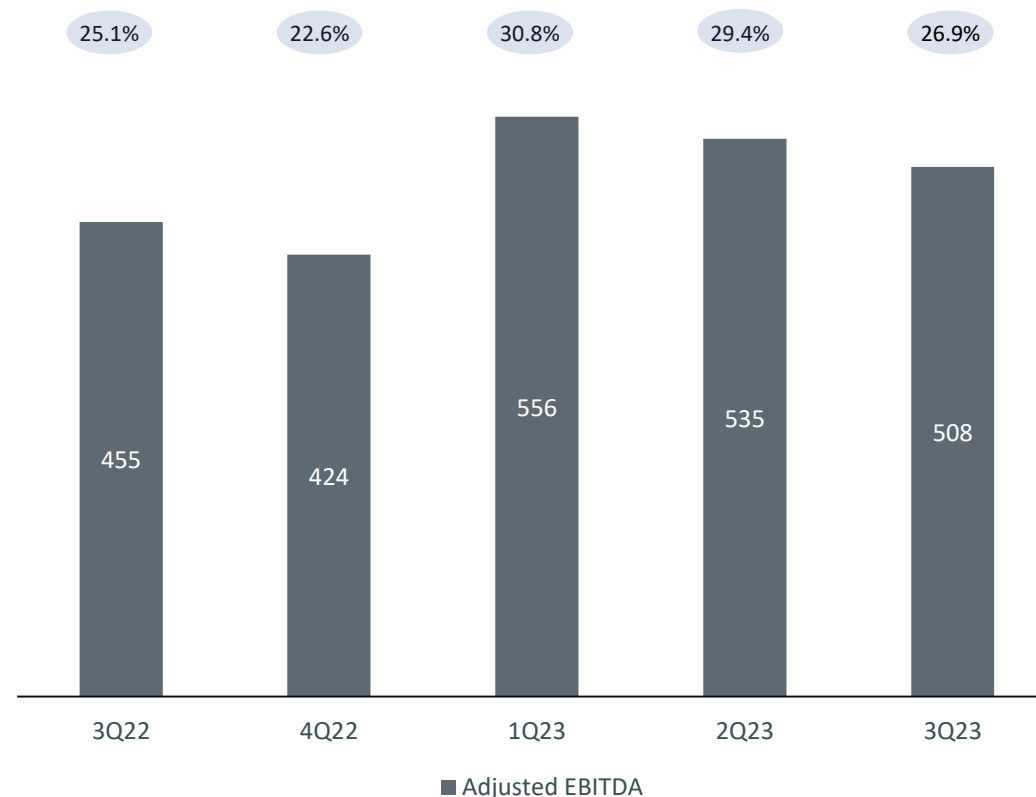
Adjusted Cash Gross Profit & Margin ⁽¹⁾

(RMB MM)



Adjusted EBITDA & Margin ⁽²⁾

(RMB MM)



Source: Company data as of September 30, 2023.

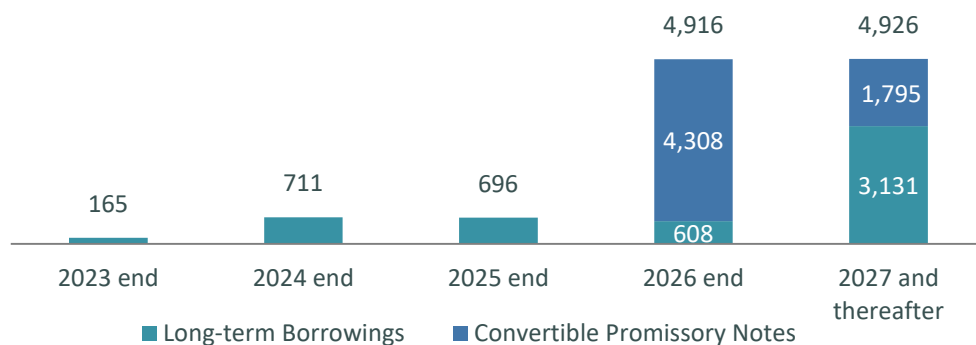
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

2. Adjusted EBITDA is defined as operating profit plus depreciation and amortization, share based compensation expenses, compensation for postcombination employment in an acquisition.

Well Laddered Debt Profile and Strong Liquidity Position

Debt Breakdown by Maturity

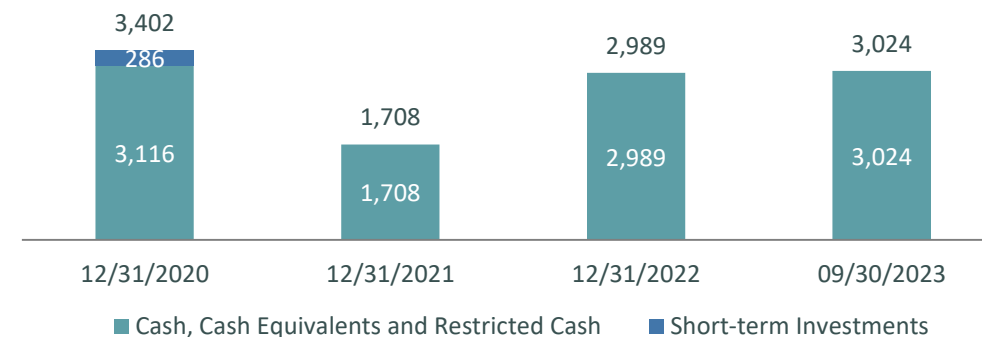
(RMB MM)



Cash Position (1)

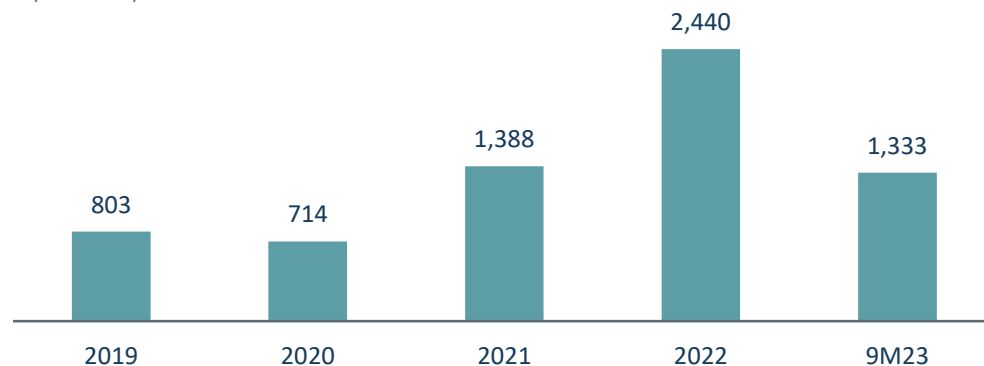
(RMB MM)

Credit line availability:
RMB 2,240MM unused



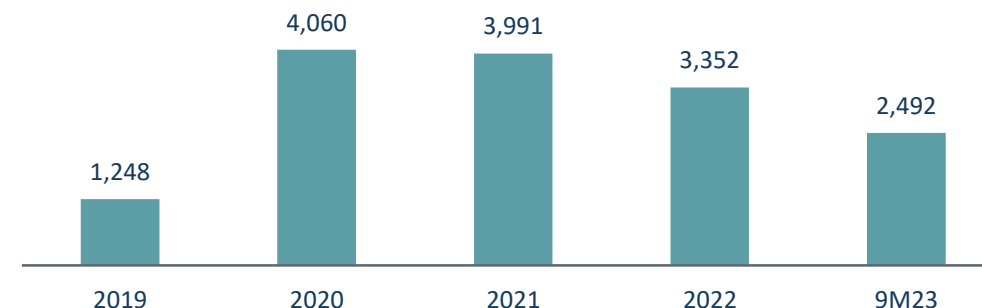
Operating Cash Flow

(RMB MM)



Capital Expenditure (2)

(RMB MM)



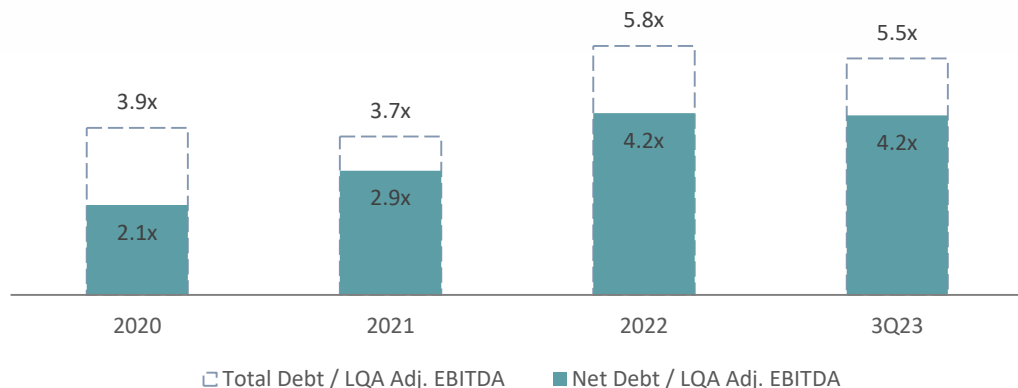
Source: Company data as of September 30, 2023.

1. Cash position refers to cash, cash equivalents, restricted cash and short-term investments.

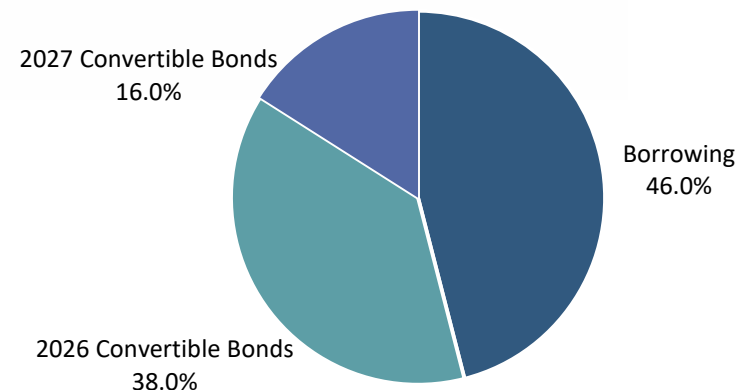
2. Capital expenditure refers to the overall outflow of funds for acquiring property and equipment, intangible assets, land use rights, engaging in mergers and acquisitions as well as long-term investments.

Healthy Capital Structure

Total Debt & Net Debt / LQA Adjusted EBITDA¹

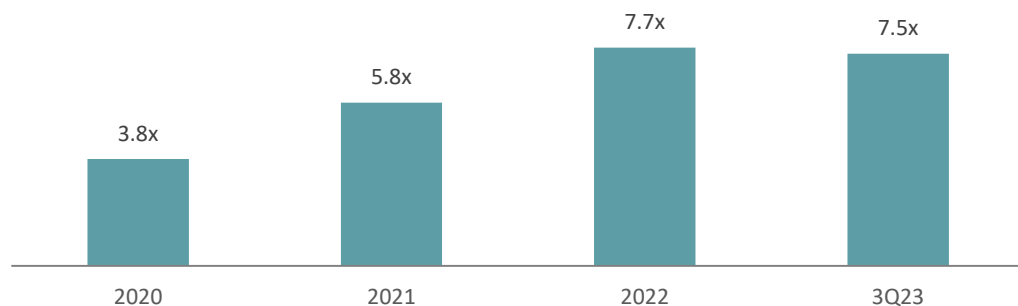


Debt Structure as of September 30, 2023



Total Debt: RMB 11,220 MM

LTM Adjusted EBITDA Interest Coverage²



Diversified Financing Channels

- 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

Source: Company data as of September 30, 2023.

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, compensation for postcombination employment in an acquisition, 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).

Guidance

RMB MM	2022 Actual	2023 Original Guidance	<i>Implied YoY</i>	2023 Revised Guidance	<i>Implied YoY</i>
Revenues	7,065	7,600 - 7,900	7.6% - 11.8%	7,400 – 7,600	4.7% - 7.6%
Adjusted EBITDA	1,873	2,025 - 2,125	8.1% - 13.5%	2,000 – 2,060	6.8% - 10.0%

CONTENTS

1. Company Overview

2. Business Overview

3. Financials Overview

4. Appendix

Key P&L Items

Amount in thousands	Three months ended			
	September 30, 2022 RMB	June 30, 2023 RMB	September 30, 2023 RMB	US\$
Net revenues	1,814,210	1,821,744	1,886,924	258,624
Cost of revenues	(1,497,627)	(1,478,995)	(1,580,446)	(216,618)
Gross profit	316,583	342,749	306,478	42,006
Sales and marketing expenses	(80,245)	(63,068)	(64,077)	(8,782)
Research and development expenses	(73,350)	(81,126)	(80,673)	(11,057)
General and administrative expenses	(165,436)	(128,017)	(137,931)	(18,905)
Operating profit	6,411	93,266	32,187	4,412
Net Interest expense	(69,278)	(61,671)	(78,913)	(10,816)
Other, Net	(1,005)	13,872	(3,439)	(471)
Changes in the fair value of convertible promissory notes	13,179	154	266	36
Foreign exchange (loss) gain	(317,157)	(271,630)	24,606	3,373
Loss before income taxes and (loss) gain from equity method investments	(367,850)	(226,009)	(36,408)	(4,989)
Income tax expenses	(55,717)	(12,545)	(6,317)	(866)
(Loss) gain from equity method investments	(384)	983	2,842	390
Net loss	(423,951)	(237,571)	(39,883)	(5,465)

GAAP to Non-GAAP Reconciliations



Amount in thousands	Three months ended			
	September 30, 2022 RMB	June 30, 2023 RMB	September 30, 2023 RMB	US\$
Gross profit	316,583	342,749	306,478	42,006
Plus: depreciation and amortization*	388,217	400,173	431,933	59,201
Plus: share-based compensation expenses	2,876	-	-	-
Adjusted cash gross profit	707,676	742,922	738,411	101,207
<i>Adjusted cash gross margin</i>	<i>39.0%</i>	<i>40.8%</i>	<i>39.1%</i>	<i>39.1%</i>
Operating profit	6,411	93,266	32,187	4,412
Plus: depreciation and amortization*	410,988	433,735	466,285	63,910
Plus: share-based compensation expenses	35,231	8,006	9,475	1,299
Plus: compensation for postcombination employment in an acquisition	2,685	-	-	-
Adjusted EBITDA	455,315	535,007	507,947	69,621
<i>Adjusted EBITDA margin</i>	<i>25.1%</i>	<i>29.4%</i>	<i>26.9%</i>	<i>26.9%</i>

Note: *Before the deduction of government grants for three months ended June 30, 2023 and three months ended September 30.

Key Balance Sheet Items

Amount in thousands	As of		As of	
	December 31, 2022	RMB	September 30, 2023	US\$
Cash, cash equivalents and restricted cash	2,989,494		3,024,214	414,504
Accounts and notes receivable, net	1,763,693		2,090,160	286,480
Property and equipment, net	11,964,498		12,920,470	1,770,898
Land use rights, net	576,020		606,075	83,069
Operating lease right-of-use assets, net	3,503,925		4,111,044	563,465
Goodwill	1,364,191		1,364,191	186,978
Total assets	26,948,405		29,920,918	4,101,003
Accounts and notes payable	713,628		765,448	104,913
Borrowings	3,533,876		5,164,377	707,837
Finance lease liabilities	1,253,900		1,290,237	176,841
Operating lease liabilities	3,579,571		4,155,947	569,620
Convertible promissory notes	6,397,037		6,055,345	829,954
Total liabilities	19,966,549		23,042,710	3,158,266
Total VNET Group, Inc. shareholders' equity	6,609,613		6,392,274	876,134
Noncontrolling interest	372,243		485,934	66,603
Total shareholders' equity	6,981,856		6,878,208	942,737
Total liabilities and shareholders' equity	26,948,405		29,920,918	4,101,003

Key Cash Flow Items

Amount in thousands	Three months ended			
	September 30, 2022 RMB	June 30, 2023 RMB	September 30, 2023 RMB	September 30, 2023 US\$
Net cash generated from operating activities	607,417	423,476	454,313	62,269
Net cash used in investing activities	(614,482)	(1,051,510)	(750,146)	(102,815)
Net cash generated from (used in) financing activities	72,765	(49,153)	715,554	98,075
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	74,119	51,314	(12,476)	(1,710)
Net increase (decrease) in cash, cash equivalents and restricted cash	139,818	(625,873)	407,245	55,819
Cash, cash equivalents and restricted cash at beginning of period	3,616,255	3,242,842	2,616,969	358,685
Cash, cash equivalents and restricted cash at end of period	3,756,073	2,616,969	3,024,214	414,504

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 provided by VNET, including Multiprotocol Label Switching (“MPLS”), software-defined wide area network (“SD-WAN”), internet access and network security solutions, and fully managed network enabling connectivity to enterprises across various industries
Cloud Services	Microsoft’s cloud services, including Azure, Microsoft 365, Dynamics 365 and Power Platform, operated by VNET as strategic partner to customers in mainland China

THANKS!

<http://ir.vnet.com>

Email: ir@vnet.com

IR Contact: Xinyuan Liu