REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q2 2021 21Vianet Group Inc Earnings Call

EVENT DATE/TIME: AUGUST 25, 2021 / 12:00AM GMT

CORPORATE PARTICIPANTS

Samuel Shen *21Vianet Group, Inc. - Group CEO & Executive Chairman of Retail IDC Business Group*
Tim Chen *21Vianet Group, Inc. - CFO*
Xinyuan Liu *21Vianet Group, Inc. - IR Director*

CONFERENCE CALL PARTICIPANTS

Ethan Zhang *Nomura Securities Co. Ltd., Research Division - Analyst*
Guohan Wang *Daiwa Securities Co. Ltd., Research Division - Research Analyst*
Clive Cheung *Crédit Suisse AG, Research Division - Associate*
James Wang *UBS Investment Bank, Research Division - Analyst*
Camille Xu *Morgan Stanley, Research Division - Equity Analyst*
Tina Hou *Goldman Sachs Group, Inc., Research Division - Equity Analyst*
Arthur Lai *Citigroup Inc., Research Division - Director & Analyst*
Edison Lee *Jefferies LLC, Research Division - Equity Analyst*

PRESENTATION

Operator

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to 21Vianet Group's Second Quarter 2021 Earnings Conference Call. (Operator Instructions)

With us today are Mr. Samuel Shen, Chief Executive Officer and Executive Chairman of Retail IDC; Mr. Tim Chen, Chief Financial Officer; and Ms. Xinyuan Liu, Investor Relations Director of the company.

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

Xinyuan Liu ***21Vianet Group, Inc. - IR Director***

Hello, everyone. Welcome to our second 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 achievements 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 earnings call.

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

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

All right. Thank you, Xinyuan. Good morning, and good evening, everyone. Thank you all for joining us on our earnings call today. We're very pleased to announce another quarter of strong results. Our revenue of roughly RMB 1.5 billion and adjusted EBITDA of RMB 425.1 million, both exceeded the high end of our guidance, representing year-over-year growth of 30.8% and 38.7%, respectively.

Meanwhile, our adjusted EBITDA margin improved to 28.4% from 26.8% a year ago. This robust growth continued to be driven by strong IDC market demand, meticulous strategy execution and our increasingly diversified customer base.

In the second quarter, the government released some new regulations, which were generally issued in support of fair competition with very little impact on our business to date. In fact, during the quarter, we continued to observe growing demand for our carrier and cloud-neutral IDC services across various industries, including e-commerce, financial services, logistics and automobiles.

The government continues to support the trend of digitalization and implement policies that are favorable to the IDC industry. For example, the 14th 5-year plan, which was announced earlier in this year is promoting digital everything initiatives. This demonstrates that industry digitalization remains a key strategy for China's industrial transformation.

Importantly, in China, the concept of industrial digitalization is not merely focused on developing the digital industries, but also fueling the transformation of traditional industries through digital technologies. Such initiatives indicate that there will be more investments in new infrastructures going forward.

In July, the Ministry of Industry and Information Technology issued a notice for the country's 3-year plan to empower the digital economy. According to the notice, the government plans to implement an improved development pattern for new data centers to optimize data center layouts, improve network quality, accelerate computing capacity and lower carbon emissions. We believe that this initiative will benefit industry leaders like us who have strong track records of ramping up IDCs to mature levels within reasonable time frames as well as effective systems for measuring and optimizing PUE levels to ensure sustainable IDC growth.

On the back of these favorable conditions, our established market foothold, our scalable industry solutions, our pipeline and customer relationships have remained very strong.

Now turning to our business updates for the second quarter. Our dual-core growth engine strategy continued to fuel our organic expansion. We added approximately 7,000 cabinets in the second quarter, while our cabinet deliveries in the first half of 2021 were in line with our expectations. As a result of our new cabinet deliveries, our compound utilization rate in the second quarter dropped to 59.9% from 61.7% in the prior quarter. Our utilization rate for mature IDC delivered prior to and during 2019 improved to 76.3% in the second quarter compared to 73.9% in the previous quarter.

On the retail business front, the growth momentum continued driven by highly demand from both existing and new customers in a variety of sectors. For instance, during this quarter, we have seen a leading global food chain company and a global logistics company have ramped up their usage of our IDC solutions for colocation, connectivity and additional value-added services. Meanwhile, we witnessed increasing demand from customers in industries such as artificial intelligence, technology, local life services and financial services.

For our wholesale business, we continue to make steady progress. During this quarter, for example, we expanded our geographic coverage to Northern China, and we expect to deliver approximately 30 megawatts in capacity to provide the data support for a leading content community and social platform in China. In addition, for the June 18 midyear shopping festival, we demonstrated our customer centricity by establishing a special team and preparing for our clients' advanced deployment of infrastructure and customer services. As a result, our e-commerce wholesale customers maintained smooth operations during the peak traffic period.

For our Blue Cloud business, after a nearly 8-year cooperation with Microsoft, in July, we further extended our collaboration to become one of the first partners for the Microsoft connected vehicle platform in China by providing our advanced cloud and edge mobility services.

ESG initiatives have always been the driving force for our sustainable development. Therefore, it should not -- it should come as no surprise to everyone that we have been well prepared for the government's latest announcement on encouraging renewable energy enterprises to implement energy storage for peak load shifting. By specifying the first quantitative requirements for the energy storage ratios of market-oriented renewable projects, this announcement is of great value and importance to the industry's direction of development.

Through a collaboration with Tsinghua University's Energy Internet Innovation Research Institute, we launched our data center energy storage projects in Foshan, Guangdong province, which is one of the first successful applications of large-scale energy storage technology for data centers in China.

To further promote our brand awareness, we have proposed to change the company's name from 21Vianet Group Inc. to VNET Group Inc. The EGM to approve the change of name will be held on October 8 in Beijing. The notice of the extraordinary general meeting and form of proxy have been filed on Form 6-K with the SEC and posted on our Investor Relations website.

As the government promotes new infrastructure initiatives, enterprises fully realize that digital transformation is no longer a nice-to-have, but a must-have for business success and survival. As such, enterprises are constantly searching for trustworthy providers capable of supporting their digitalization processes and migrations to the cloud.

Against this backdrop, we recently announced our acquisition of Tenxcloud, a leading cloud-native application and data platform service providers in China. Tenxcloud will play an integral role in extending our suite of full stack solutions for public, private and hybrid clouds. Therefore, we will be able to provide a full life cycle support to our customers throughout their digital transformations and further enhance our leadership in the carrier and cloud-neutral IDC services market.

In summary, we remain well positioned to capitalize on the growing market opportunities arising from the trend of digitalization. We remain confident in our full year target for the delivery of 25,000 cabinets and a utilization rate of 60%. We reiterate our dual-core growth engine strategy and strong execution to acquire more customers from various industries, diversify our revenue streams, sustain our growth trajectory and generate lasting shareholder value for the long term.

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. Hi, Tim.

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

Thank you very much, Samuel. Good morning, and good evening, everyone. Before we start our detailed financial discussion, please note that we will present 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 second quarter of 2021 and in renminbi terms, while percentage changes are on a year-over-year basis.

We delivered stellar revenue growth and improved operating margins in the second quarter driven by our organic business development, dual-core growth engine, diversified customer base and strong IDC market demand. Our net revenues and adjusted EBITDA rose by 30.8% and 38.7%, respectively, both exceeding the high end of our previously announced guidance range.

Net revenue in the second quarter of 2021 increased by 30.8% to CNY 1.5 billion from CNY 1.14 billion in the second quarter of 2020. This increase was mainly due to increased customer demand for our highly scalable carrier and cloud-neutral IDC solutions from both wholesale and retail IDC customers as well as the notable growth of our cloud business.

Gross profit in the second quarter of 2021 was CNY 359.5 million, representing a year-over-year increase of 32% from CNY 272.3 million in the same period of 2020 and a sequential increase of 11.2% from CNY 323.3 million in the first quarter of 2021. Gross margin in the second quarter of 2021 was 24% compared to 23.8% in the same period of 2020 and 23.3% in the first quarter of 2021. The year-over-year increase in gross margin was primarily attributable to our continued efforts in optimizing our operating efficiency.

Adjusted cash gross profit, which excludes depreciation, amortization and share-based compensation expenses, was CNY 640.2 million in the second quarter of 2021 compared to CNY 467.6 million in the same period of 2020 and CNY 605.3 million in the first quarter of 2021. Adjusted cash gross margin in the second quarter of 2021 was 42.8% compared to 40.9% in the same period of 2020 and 43.6% in the first quarter of 2021.

Adjusted operating expenses, which excludes share-based compensation expenses and impairment of loan receivable to potential investee, were CNY 235.6 million in the second quarter of 2021 compared to CNY 182.5 million in the same period of 2020 and CNY 212.5 million in the first quarter of 2021. As a percentage of net revenues, adjusted operating expenses in the second quarter of 2021 was 15.7%, compared to 15.9% in the same period of 2020 and 15.3% in the first quarter of 2021.

Adjusted EBITDA in the second quarter of 2021 was CNY 425.1 million, representing an increase of 38.7% from CNY 306.4 million in the same period of 2020 and an increase of 2.4% from CNY 415.1 million in the first quarter of 2021. Adjusted EBITDA in the second quarter of 2021 excluded share-based compensation expenses of CNY 27.5 million. Adjusted EBITDA margin in the second quarter of 2021 was 28.4% compared to 26.8% in the same period of 2020 and 29.9% in the first quarter of 2021.

Our net profit attributable to ordinary shareholders in the second quarter of 2021 was CNY 455.9 million compared to a net loss of CNY 2.12 billion in the same period of 2020 and a net loss of 87 point -- sorry, CNY 84.7 million in the first quarter of 2021.

Basic and diluted profit was CNY 0.52 and CNY 0.04 per ordinary share, respectively, and CNY 3.12 and CNY 0.24 per ADS, respectively. Each ADS represents 6 Class A 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 June 30, 2021, was CNY 5.03 billion, increasing by CNY 1.63 billion from December 31, 2020. Meanwhile, net cash generated from operating activities in the second quarter of 2021 was CNY 314.8 million compared with CNY 161.8 million in the same period of 2020 and CNY 274.5 million in the first quarter of 2021.

Looking forward, we will continue to leverage our strong cash position as we execute our dual-core growth strategy and further diversify our customer base to capitalize on growing IDC demand. We are confident in our ability to build on our leading position in the IDC market to deliver continued growth to our shareholders.

For the third quarter of 2021, we expect net revenues to be in the range of CNY 1.53 billion to CNY 1.55 billion and adjusted EBITDA to be in the range of CNY 420 million to CNY 440 million. For the full year of 2021, we anticipate net revenues to 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 updated estimates imply year-on-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 impacts caused by COVID-19 pandemic or other factors and are subject to change.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Camille Xu from Morgan Stanley.

Camille Xu ***Morgan Stanley, Research Division - Equity Analyst***

Congrats on very good results. My question is about the regulatory risk. The first one is on our client side. So do we see some recent regulations such as the data security review that may compress a little bit on the demand from the major Internet customers?

So for policies on our side, is the recent some regulations, such as the power quota allocation in Shanghai becoming a little bit more favorable to new entrants or SOE background or at least the non-VIE structured vendor? And do we see this will further intensify the competition, especially in the area with relatively more sufficient supply like in Jiangsu? That will be my question.

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

Okay. Camille, this is Samuel. Thanks a lot for attending the session and for your questions. As we pointed out, Tim and I mentioned to the investors, in the second quarter, the government did release some of new regulations. But if you double-click on that, the regulation basically is issued to support a fair competition from a market perspective and, to a certain degree, there's very little impact on our business to date.

And also regarding the security-related information, the regulation of security protection for critical information infrastructure was basically a sign-off on August 17, and that would take effect on September 1. And then -- and to a certain degree, we believe we have the highest standards for data securities, and we already obtained the related certification, cases like ISO 27001 and also ISO 20000 for both data security and services management for several years already. So we believe we should be one of the top to be compliant with government regulation. Having said that, we will definitely keep a close eye on the further implementing regulations once they are published.

As to the power quota from Shanghai, literally, we have today more than 62,000 cabinets under our management as of today. And then in this round of allocation in Shanghai, basically 3,000 cabinets per company would not have any material impact to our business operations and also development plan. That being said, we are actively communicating with the Shanghai government at both city and district level. And hopefully, we can continue to explore the options, allow us to secure the appropriate power quota moving forward.

Operator

Our next question comes from the line of Edison Lee from Jefferies.

Edison Lee ***Jefferies LLC, Research Division - Equity Analyst***

Congrats on the great results. I have 2 questions. Number one is that I saw that the MRR, the retail MRR, fell a little bit on a sequential basis in 2Q. Can you comment on the trend there? And what are the drivers behind the MRR on retail?

Number two is that I want to see on your 3-year plan of 25,000 cabinets growth per year. I believe you're sticking to that. And I remember that in the last quarter, you said that 60% of resources have already been secured. Could you please give us an update on that level of securing the resources? And what is your outlook of that progress in the next 2, 3 quarters?

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

All right. Thank you, Edison. Tim, do you want to take those 2 questions?

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

Yes, of course. Thanks, Edison, for your questions. With regards to the retail MRR, basically, as you know, the MRR is made up of a variety of services that we offer. And so actually, the 9,000-plus MRR is still within our expectations. We've mentioned this before, but I would caution investors to look too much into quarter-to-quarter because there will be volatility as we take on new cabinets and offer different services and rather just focus on the medium- to long-term trend. And we expect that to basically remain at the 9,000 and potentially grow a little bit as well as we expand the wallet share of each of our customers and expand the services that we offer to them.

With regards to your second question, I think that was to the 3-year plan as well as about the 25,000 cabinet target. You're correct. We reiterate that we will be targeting 25,000 cabinets per year. And in terms of the update for next year, I think, previously, we had indicated around 60% or so. I think today, based on the latest figures that we have, we're probably closer to 2/3 to 70%. And as was the case last year, as we get to the end of the year, we will provide then a more detailed disclosure or breakdown of the different projects that comprise. As you can appreciate, we're in discussions with a number of different customers. And as we do that, we'll have a better idea of which projects we'll be landing within '22 and which ones we'll be likely then moving to '23. So we'll have a better idea on that end. Hope that answers your questions, Edison?

Edison Lee ***Jefferies LLC, Research Division - Equity Analyst***

Can I have a follow-up? Because I looked at your slide, Page 6 -- Page 9 and I think that if [HeBei] Campus 02 is new relative to the 1Q presentation. Can you discuss a little bit of that project?

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

Yes. Well, it's a project that we've secured land and power and power quota. So it's something that, again, we'll be able to give you more details on exactly where it will fall. We're expecting it to start in '22, but we are still discussing with the sales team in terms of what the breakdown will be between '22, '23 and '24. So we'll give you more details on that. But that is a newly acquired resource. That's correct.

Operator

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

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

Congratulations on the good result. First question, just on your guidance. You've exceeded the top end of guidance for the second quarter and have kept yet full year guidance. So just wondering whether you're being conservative there or there are some uncertain factors that could weigh on the second half. That's the first question.

And the second question, just still around regulation. So you look at the share prices of your company and the peers, they're all being under a bit of pressure recently and also there's uncertainty around U.S.-listed Chinese companies with VIE structure. So I'd just like to get an understanding of how you are thinking about this risk, this listing risk and your funding plans for the cabinet expansions over the next few years.

And the last question is just around the older and less efficient data centers. So the government is looking to improve the PUE and the efficiencies of data centers in China, and there were discussions that older, less efficient data centers in CBD areas may be forced to move out. So given you've been in the industry for a long period, so can I get an understanding of the state of your existing data centers in the CBD areas and if the government were to move the data centers, whether there will be adequate compensations for such a move?

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

Okay. Thanks, James. I'll take the first 2 and probably pass the third one to Samuel in Beijing. In terms of our guidance and the fact that we exceeded this quarter, but then kept the full year unchanged. I wouldn't necessarily put it to being conservative more. I think just a recognition that there is revenue recognition between quarters. And so I think that a little bit more of it ended up in the second quarter side of the equation.

We basically have very detailed discussions internally with all of our teams and map out the rest of the year. And so at this point, we're still looking to maintain our guidance. And it was just that, in this instance, the second quarter came a little bit higher than what we had initially expected.

On the sort of VIE and listed company risk or our management's views on that, we've disclosed all of our VIE structures and risks, obviously, in the 20-F, as is the case with many of our peers. At this point in time, we have not seen any new laws or regulations from the PRC government since that time. And so before any new laws are actually adopted, the VIE structure remains valid. And so obviously, we will, along with the rest of the market, keep a very close eye. There have been a number of instances also where I think many of the banks have heard word from CSRC and some other government bodies as to their support for companies to list at the place of their choice. And so I think that would then also go to an overall positive view on this issue. So hopefully, that answers the question.

Sorry, the last part, in terms of financing plans, obviously, the company has worked quite hard over the past year, 1.5 years to really grow the avenues or channels of capital sourcing. And so we don't believe that this one issue is going to be a major problem in terms of our future growth. We will continue to look at the full spectrum ranging from asset level project financing all the way through to offshore alternatives, and that includes bonds, CBs and equity. Hope that helps, James. I'll pass it to Samuel on the third question.

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

Sure. So James, in terms of the -- your third question, it is true. If you look at the past quarter, the government did mention several things. First of all, the 14th 5-year plan clearly articulate about the digital everything initiatives. And then July time frame, the MIIT issued a notice about the country, the 3-year plan to empower the digital economy. And even mentioned about the new data center sort of initiative.

In VNET, from our point of view, first of all, we do have a distinctive advantages compared to the peer companies. With that, we have 25 years of great track record. We have full stack services. And most importantly, we do have the very diversified vibrant ecosystem with more than 6,000 customers and a whole bunch of the partners. And so to that degree, when government mentioned about some of the old data centers and focusing on continuing to improve the PUE, it give us a great opportunity, hopefully, to consolidate some of the industry. We're here for the long term. And then, honestly, some of the players in the market space, given all of the limitations and things like that, probably will be the great target to get consolidated.

So that being said, we've been working with the government very closely, and we'll continue to double-click on the efforts we put in and also looking for the opportunity to further consolidate some of the players in the market space. So hopefully, that gives you some of the colors about what we're going to do.

Operator

Our next question comes from the line of Guohan Wang from Daiwa.

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

Congratulations to the strong results. My question is regarding our new client commitments. So I know we have attracted, I'm Kuaishou, (inaudible) clients last quarter and we also acquired a new leading community platform for this quarter. So I want to know any visibility currently in attracting new client and ties -- and want to have a better impression on our differentiated strategy in attracting wholesale clients. So another issue is that I understand that our actual execution for the first half is basically in line with our expectation. So looking into the second half, is there any visibility or possible issue management may think about that may impact our capacity delivery?

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

Guohan, yes. Let me answer the questions and also then see if Samuel has anything to add to that. In terms of new client and new customers that we've attracted over the past quarter, yes, you're correct. I mean we've made some very good progress. I would say that when we first started pushing ahead and starting our wholesale business at the end of 2019, I think there were, I guess, questions about our ability to expand beyond our single customer. And I think that we've proven over the past 1.5 years a very strong ability not only to attract new customers but also to get a very diverse range of types of customers, and that's been extremely strong in how we've grown our overall wholesale business.

As to the execution, you're correct. The first half, we did meet what we had expected in terms of capacity. And currently, we don't expect any issues in terms of the second half. Obviously, there are -- as all things related to construction and so forth, there may be time shifts backwards and forwards, but we still expect to be able to hit what we've put out into the slides about 15,000 cabinets and hit our 25,000 cabinets for the balance of the year. Samuel, I didn't know if you wanted to add anything else in terms of the customer side.

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

Yes. And so originally, I think we mentioned about not until like 2019 we started the dual-core strategy and, to a certain degree, that's the industry-leading, fairly, fairly distinctive compared to our peers. And then originally, we focused on the hyperscalers, which is basically the public cloud service providers. And then we noticed some of the big name Internet company also have strong needs to customize their data centers.

And then on the other hand, from a retail side point of view, because the COVID-19 basically accelerated digital transformation, so we now have a lot of the traditional enterprise financial services industry, automobiles, logistics and so on and so forth. They're getting very serious about build out their own data centers or have their specific requirements. And so because of that, our scaled retail customer has started to get increased. And so it's not only about 5, 6 wholesale customers. We now have more than a dozen potential wholesale customers and scaled retail customers that we can go after or even partner with.

And so from our point of view, these 2 engines, originally, sounds very distinct, but to a certain degree, it also helped us to supporting each other's hedge the bets and things like that and providing the good air cover and ground support. So hopefully, that answers Guohan's questions. Thank you.

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

So I may double-check from you any updates on any sense of intensified supply issue in surrounding area of Beijing? Is there any updates or any sense?

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

I'm sorry -- Guohan, can you repeat your question again, I'm sorry?

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

Okay. Sure. So may I double check from you that do we have any color or sense of intensified supply issue in surrounding area for Beijing, maybe in Langfang or et cetera?

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

Okay. And so for those areas, as we mentioned to the industry, so far, from our data center resource point of view, we focus on the Tier 1 city as well as the surrounding area. Having said that, we also pay equal attention on the remote areas, cases like North China, the Western region. In government, 3 years, directional guidance also give us a very good framework in terms of the data center, future directions and things like that.

So as Tim pointed out earlier, for the first half, we did secure some of the additional resources in Hebei province. That's a very good one because in a way to give us the land and power as well as the power quota sufficient enough to support both wholesale and retail customers, and we're going to continue to double down the efforts to do that. Thank you.

Operator

Our next question comes from the line of Clive Cheung from Crédit Suisse.

Clive Cheung ***Crédit Suisse AG, Research Division - Associate***

My question -- I guess, follow-ups on competition. I want to check, I guess, for second quarter, on the MRR a slight decline. How much had, or if any, impact was from the competition side instead of the capacity new add? That's my first question. My second question, do we have any update on the Tuspark sell-down?

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

Thanks, Clive. Let me take that question. With regards to the MRR, again, I would say that there is no apples-to-apples comparison. I wouldn't be able to point to one single factor. It is a mix of the different types of services that are being offered to the customers. And so if a customer takes service a and b and another one takes a and c, that could actually also then change the MRR. So again, I would encourage investors to really focus on the sort of medium- to longer-term trend. Management, again, expects it to be around 9,000 and then slowly increasing as we increase the number of services. But the quarter-to-quarter volatility, I wouldn't make much of a small drop or a small increase in the quarter-to-quarter basis.

With regards, Clive, to your second question, on the Tuspark transaction. Actually, the company, we don't have a timetable for the deal, given the fact that it is a transaction between 2 shareholders. But it is our understanding that both of the parties will file with the SEC in accordance with regulations. So once there is, I guess, an appropriate time, we'll probably see the regulatory file. To the extent that we know anything else or have a further update, we'll let the market know. Thank you.

Operator

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

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

Arthur Lai here. Two questions. I will come one by one. The first question is, would you mind share with the investor your revenue mix in terms of the percentage of wholesale and retail from their revenue cabinets? And then for the time horizon is now in for the long term, your target?

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

Arthur, I'll take this first question. We actually don't provide breakdowns between the wholesale and retail at the moment just because the wholesale is a very, very small component. I can give you roughly 20% of our cabinets or wholesale cabinets as compared to retail. But as we get through this year, you will see then a gradual increase of that contribution.

I would say that from a revenue point of view, we're probably around 2/3 IDC. 1/3 is the VPN and cloud business. So again, when we are at a point we can reveal more or give more disclosures on the wholesale versus retail, we will. But at this point, I think you would appreciate that there is a bit of sensitivity with regards to our customer information here. So again, we will provide that in due course, but you can look at sort of the split at the moment of the cabinets as a rough indication 20-80. Thank you.

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

And second question is more like a long-term target. So we also are seeing your peers' analyst meeting and then maintain their long-term target unchanged. So I wonder as to our 25,000 cabinet per year increase, how do you think of your long-term goal in the Phase 2? And also, one of the small question is, you mentioned this quarter, you add logistic clients tenant. And can you share more the successful story, how you grow this client and how big the demand will be? Okay, that's my all questions.

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

Okay. Arthur, let me handle the first part of that question in terms of the targets that we've set, and then maybe I'll let Samuel give you a little more color on how we've nurtured and grown these new customers of ours.

In terms of the target, I would say that, yes, we're still maintaining the 25,000 per year for this year, next year and a year after. Following our increase last year from 15,000 cabinets, 25,000 cabinets, I think at this moment, we don't see any big transformative changes that will have us increasing our targets yet again. And so I would say that we've maintained 25,000 cabinets.

Samuel, I'll pass to you in terms of the logistics and sort of how we've grown other clients, our customers.

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

Yes, for sure. So thank you, Arthur, for the questions. Yes, we did mention about the second quarter that we secured a lot of the customers from various industries. And a specific one that we talked about related to the logistics, it is J&T Express. That is a very fast growing logistics company supporting a lot of the e-commerce providers. And not just from a domestic point of view, they also have a strong foothold in the global areas. And then -- and so J&T Express and VNET are a very strategic partnership not just from the data standpoint of view, but also from the full stack services point of view. So we're very pleased to be able to secure the customers and partner with them to support their future growths.

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

And can you quantify like how the growth rate of those type of clients would be?

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

We can't really provide the granular data. But having said that, I think it's very, very important. If you look at the VNET versus our peers, as we mentioned to the industry that we do have dual-core growth engines in a way that -- so while the hyperscaler wholesale segments enjoy the high double-digit growth year-over-year, but we can't underestimate the huge momentum from the traditional enterprise Internet companies and things like that. And so we fully leveraged our retail engine to support a company like J&T Express because they're growing dramatically to support their customers to deliver the goods and services. And so we're going to provide their -- we're going to provide them the digital era infrastructures. So we're happy to partner with them and enjoy the growths. Thank you.

Operator

Our next question comes from the line of Hou-chan from Goldman Sachs.

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

This is Tina Hou from Goldman Sachs. So I have 2 questions. The first one is regarding the latest competition environment in the market. So for example, in terms of winning these new customers, what was the process like? Like, for example, how many competitors do you need to bid against in winning some of the new customers? And also, what is the latest project IRR you're getting in these new orders or new MOUs?

And then the second question is regarding our non-GAAP EBITDA margin. So I saw that based on our -- the midpoint of our full year guidance, the EBITDA margin is about 27.9%. However, in the first half, we are trending above 29%. So does that mean we're going to come down to around 27% in the second half? Is that management being quite conservative? Or is there any reason that we should expect lower EBITDA margin in the second half, such as lower overall utilization rate or the ramping data center utilization rate in the second half?

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

Thank you, Tina. I'll probably take the first one and pass to Tim to answer your second question. In terms of competition, yes, there's a whole bunch of competition in the specific new infrastructure market space in a way that because not only from the traditional enterprises and carriers and also carrier-neutral players, we also have the newcomers, right? And then so it's going to be a very, I would say, competitive fierce competition environment.

But that being said, we have the fairly, fairly distinctive advantages among the peers. Not only we have the 25 years of great track record. We also have full stack services all the way from colocation, networking capabilities, bare-metal services and hybrid cloud and even include the latest acquisition the cloud-native for capabilities and plus the O&M. And so we're very, very confident from the ability point of view.

And then the third one being the 6,000 very vibrant ecosystem. And then so those are the great assets, give us the competitive advantages versus our peers, whether they are long-term players and short-term players and so on and so forth.

And also from a market business model point of view, there are only about a handful of customers very much focused on customizing their data centers and supporting their business needs. But majority of the customers actually is going to leverage in the digital infrastructure to support their digital transformation. And so unlike our peer companies, majority of them happen to either support the wholesale or support the retail, but we also have a -- but we have -- we are the only one probably in the market space to have 2 dual engines. So that's something we're -- I would say, we're very, very confident to do that.

And also, as I mentioned earlier, something we pay extra attention is we do see opportunity from the cloud on-ramp and also off-ramp opportunities. That's primarily from an Internet company segment point of view. So that would fuel our future growth, in our opinion.

So Tim, should I -- can I pass on the second question to you?

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

Sure. So let me, I guess, address the second part of that question as well, Tina. I think you had a question with regards to whether or not IRRs were being affected and competition. And so I think Samuel gave you some of the color in terms of what we offer to our customers. And look, we've seen a lot of live examples of cases where this does not actually come down to an IRR question, but rather actually having the right resources in the right places with the right solutions. And we're on both sides of the ledger here. There are cases where, unfortunately, we're not able to meet the very, very precise requirements of the customer. And so we're not in running. But similarly, we're in cases where we meet all of the customers' requirements. And therefore, there actually isn't a lot of sort of price competition here, but rather making sure that we have the right resources in right places. So I think that's a very, very big focus.

Secondly, with regards to your question on EBITDA, I would say that you would see, in terms of cabinet delivery and ramp-ups, cabinet delivery is very, very heavy in the, well, second quarter compared to first quarter and the same thing will be in terms of fourth quarter compared to third quarter and second half. So you remember, it was roughly a 10,000 and 15,000 split between first half and second half. So that is the driver for the lower expected EBITDA margins in the second half and then for the full year numbers that you're calculating out. I hope that helps to answer your question, Tina.

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

Yes. Can I just have a follow-up question? So in the presentation, management mentioned that this year, the target overall utilization rate is 60%. Do we have a target for next year?

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

Do we have target for next year? We'll give some more details. I think at this moment, it really -- we're rolling out 25,000 a year. And so depending on the customers, we have, obviously, our wholesale customers that ramp up a little bit faster than our retail. And so we'll have to look at that. But we will be targeting a rather similar range for next year as well. So despite the fast rollout, I think we'll still be targeting to get to around 60%.

Operator

Our next question comes from the line of Ethan Zhang from Nomura.

Ethan Zhang *Nomura Securities Co. Ltd., Research Division - Analyst*

So I have just one question on CapEx. So during the first half, I noticed that the company only spent around CNY 1.1 billion on CapEx, which only represents around 20% of the full year CapEx guidance of CNY 5.5 billion. So just wondering whether the company will maintain its previous CapEx guidance or this indicate we may do more like M&A projects during the second half of this year or the delivery of capacities were further accelerated? And also regarding M&A, what's our current M&A strategy here?

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

Okay. Thank you, Ethan. Let me take this, and I'll see if Samuel wants to add anything to this. In terms of CapEx, you are correct. The CapEx that we've spent in the first half of the year has been less but, again, this is related to our second half ramp-up and acceleration. So we certainly do expect that this will ramp up quite significantly in the second half and will be within the CNY 5 billion to CNY 6 billion that we've guided.

Secondly, in terms of M&A and M&A strategy, I think the strategy is to identify opportunistic transactions, which suit our requirements and, obviously, the requirements of our customers. But as you can well appreciate, M&A deals are not the easiest to forecast because you can be talking to many and only have a few, ultimately, come through.

So we are in a number of discussions. And as we had indicated, we've also acquired some additional land and power and quota assets in the northern part of China. And so we'll continue to do that, and you'll see some of those coming through again in the next 2 quarters. Hope that helps.

Operator

Ladies and gentlemen, this does conclude our conference for today. Thank you for participating. You may now disconnect.