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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for the Second Quarter 2022 Earnings Conference Call for VNET Group, Inc. (Operator Instructions)

Participants from our managements include 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. Please note that today's conference call is being recorded.

I will now turn the call over to the first speaker today, Ms. Xinyuan Liu. Please go ahead.

Xinyuan Liu ***VNET Group, Inc. - Investor Relations Director***

Thank you, operator. Hello, everyone, and welcome to our second quarter 2022 earnings conference call.

Our earnings release was distributed earlier today, and you can find a copy on our IR website as well as on newswire services.

Please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. For detailed discussions of these risks and uncertainties, please refer to our latest annual report and other documents filed with SEC. VNET does not undertake any obligation to update any forward-looking statements except as required under applicable laws.

Please also note that VNET's earnings press release and this conference call includes the disclosure of unaudited GAAP financial measures as well as unaudited non-GAAP financial measures. VNET's earnings press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited GAAP measures.

As a reminder, this conference is being recorded. In addition, a webcast of this conference call will also be available on our IR website at ir.vnet.com.

I will now turn the call over to our CEO, Samuel.

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

All right. Thank you, Xinyuan.

Good morning, and good evening, everyone. Thank you for joining our second quarter 2022 earnings conference call.

During the second quarter, our focus remained on driving healthy results and delivering high-quality solutions and services to our customers. Our solid growth momentum across our business segments amid macro challenges clearly reflects the effectiveness of our growth strategy and our strong execution capabilities.

On the operations front, total cabinets under management increased to approximately 80,800 by the end of the second quarter compared with approximately 62,900 one year ago. At the same time, cabinets utilized by customers increased sequentially by approximately 1,500 to 44,500 by the end of the second quarter compared with approximately 36,600 one year ago.

Accordingly, the overall utilization rate maintained a sequential ramp-up, reaching 55.1% by the end of the second quarter. Our retail MRR per cabinet reached RMB 9,186, showing a healthy increase from the same period last year.

On the financial front, we delivered a robust financial performance with a year-over-year growth of 15.2% and 14.5% in revenue and adjusted EBITDA year-over-year, respectively.

With the rapid growth of China's digital economy, we, as a leading IDC service provider, are in a good position to benefit from this growth momentum and local government's supportive measures.

This May, the National Committee of the Chinese People's Political Consultative Conference held a consultative session and called for stronger efforts to boost development of the digital economy across the broad swath of the industries. Technological empowerment was highlighted as a vital driver for higher quality economic growth. We believe this will carry immense potential to significantly amplify demand for IDC services. Within this environment, we are confident in our strength and our ability to capture exciting new growth opportunities.

Next, let's take a closer look at the business update, starting with the recovery momentum from the impact of COVID resurgences. Encouragingly, in June, with the gradual easing of COVID-19-related lockdowns and mobility restrictions in Shanghai, Beijing and Hebei province, we immediately resumed construction on new projects in these areas and have seen move-in rates recovering steadily.

Next, a review of our progress in key business segments during the quarter. Our wholesale business made solid progress in the second quarter. We once again extended our contract with an existing customer, a leading social platform in China, for building its network infrastructure in the Northern region of China. This new order will generate a total capacity of approximately 14 megawatts and further demonstrates our value proposition for this business segment.

In addition, we recently signed a new contract of approximately 15 megawatts with a leading cloud service provider in China to build its network infrastructure in the Yangtze River Delta region. In the data center for this customer, aside from conventional air cooling, we will also offer liquid cooling solutions, a more sustainable approach that will help reduce PUE and carbon emissions.

Moving on to our retail business. Thanks to our diversified customer base, we are pleased to see our retail business growing steadily amid macro challenges. In the second quarter, we leverage our technologies and expertise to cater to various vertical needs with a suite of value-added services. Existing customer expansion and new customer acquisitions both achieved impressive results driven by rising digital demand from a wide variety of industries such as local service, automobile, financial services, hardware manufacturing and online gaming.

Looking ahead, we plan to harness our advanced engineering capabilities to enrich our service portfolios, creating more value for our customers and generating more diverse revenue streams.

On the Blue Cloud business front, we continue exploring opportunities that will allow us to diversify our industry-specific cloud solutions. During the second quarter, we extended our Manufacturing Execution System aka MES to a leading automotive seating manufacturer in China. Through the delivery of MES, we help the customer manage manufacturing flexibility, improve productivity and maximize efficiencies by deploying digitalization, automation and new technologies that will provide a real-time workflow visibility, flexibility and insight into the entire manufacturing operations process, from order release to ready-for-shipment. This system has been successfully implemented across all of our customer's production lines, and we're very pleased with the progress we have made in this area.

In the meantime, we are actively accumulating more industry-specific expertise and look forward to tapping into greater opportunities in the cloud business industry in the future.

Despite macro headwinds, the unprecedented COVID-19 resurgence and lockdowns in the first half of the year, our sustained growth highlighted our excellent business resilience and our ability to capture the rising demand for high-quality IDC services. However, in the near term, the uncertain economic outlook and threat of COVID-19 outbreaks may bring some short-term challenges to us. While the long-term demand trend is secure, taking into account the short-term challenges of the current slowdown environment and the impact from COVID-related disruptions, we are adjusting our outlook for the full year of 2022 and revising our full year delivery plan to the range of 9,400 to 12,400 cabinets from previously provided 14,400 to 17,400 cabinets.

Going forward, we remain focused on our dual-core growth strategy, leveraging our scalable service offerings to drive growth and building our customer base across verticals. As the industry front runner and a fundamental link in China's digitalization chain, we will seize the opportunities from the nation's rapidly expanding and evolving digital economy, creating sustainable value for our stakeholders in the long term.

Thank you, everyone. With that, I will now turn the call over to our CFO, Tim Chen, to discuss our financial performance for the quarter and our business outlook. Hi, Tim.

Tim Chen *VNET Group, Inc. - CFO*

Thank you very much, Samuel. Good morning, and good evening, everyone. Before we start the detailed discussion of our financials, please note that we will present non-GAAP measures today. And 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 earnings press release.

Please also note that unless otherwise stated, all the financials we present today are for the second quarter of 2022 and in RMB terms.

For the second quarter, again, we delivered a robust financial performance driven by rising demand from both our wholesale and retail businesses. Our solid financial position gives us a firm foundation to drive a long-term and sustainable growth as we continue to leverage our scalable service offerings and build our customer base across a wider variety of industries.

Next, let me walk you through our second quarter financial results. Unless otherwise specified, the growth rates I will be reviewing are all on a year-over-year basis.

In the second quarter, our net revenue increased by 15.2% to CNY 1.72 billion from the same period last year 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 continued growth of our cloud business.

Gross profit was CNY 357.8 million in the second quarter of 2022, roughly flat compared with the same period of 2021.

Gross margin was 20.7% in the second quarter of 2022 compared to 24% in the same period of 2021.

Adjusted cash gross profit, which excludes depreciation, amortization and share-based compensation expenses, was CNY 713.7 million in the second quarter of 2022, an increase of 11.5% from the same period of 2021.

Adjusted cash gross margin in the second quarter of 2022 was 41.4% compared to 42.8% in the same period of 2021.

Adjusted operating expenses, which exclude share-based compensation expenses, compensation for post-combination employment in an acquisition and impairment of loan receivables to a potential investee were CNY 250.7 million in the second quarter of 2022 compared to CNY 235.6 million in the same period of 2021.

As a percentage of net revenues, adjusted operating expenses in the second quarter of 2022 were 14.5% compared to 15.7% in the same period of 2021.

Adjusted EBITDA in the second quarter of 2022 was CNY 486.9 million, representing an increase of 14.5% from the same period of 2021. Adjusted EBITDA in the second quarter of 2022 excluded share-based compensation expenses of CNY 47.5 million.

Adjusted EBITDA margin in the second quarter of 2022 was 28.2% compared to 28.4% in the same period of 2021.

Our net loss attributable to ordinary shareholders in the second quarter of 2022 was CNY 377.2 million compared to net profit of CNY 455.9 million in the same period of 2021.

Basic and diluted loss were both 0.43 per ordinary share and both 2.58 per ADS. Each ADS represents six Class A ordinary shares.

Turning to our balance sheet. As of June 30, 2022, the aggregate amount of the Company's cash, cash equivalents and restricted cash was CNY 3.62 billion. Meanwhile, net cash generated from operating activities in the second quarter of 2022 was CNY 942.7 million compared to CNY 314.8 million in the same period of 2021.

Our CapEx in the second quarter of 2022 was CNY 540.6 million.

And now on to our financial outlook. As Samuel mentioned, we faced the impact from COVID-related disruptions in the second quarter of 2022 on data center construction and customer move-in schedules and ongoing macroeconomic uncertainties as well. As a result, we adjusted our outlook for 2022.

Based on our current estimates, we expect our net revenues to be in the range of CNY 7,250 million to CNY 7,550 million and adjusted EBITDA to be in the range of CNY 1,800 million to CNY 1,950 million.

We always believe opportunities go alongside challenges. The COVID impacts are short term in nature and digitalization is rapidly advancing in the wider society. Looking ahead, we will remain committed to advancing our dual core growth strategy, broadening the spectrum of our services, increasing customer diversification and capitalizing on the enormous opportunities presented by a thriving digital economy in China.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Ethan Zhang from Nomura.

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

So I have two questions. So the first one is, given the current situation of the electricity supplies in China, especially the heat wave in Sichuan surrounding areas, how do you see the trend of the utility cost in the second half of this year and the impact on our EBITDA margin?

And second question is regarding the CapEx trend. So I remember, we guided around RMB 5 billion CapEx for the full year 2022. But during the first half, since that we only completed a limited portion of our CapEx target, so I just wonder if we maintain the previous guidance on our CapEx spending for this year and how would be our focus or target for CapEx spending in the second half of this year.

Tim Chen ***VNET Group, Inc. - CFO***

Thank you very much, Ethan. Let me take the first two questions.

First, in terms of electricity and impact of some of the areas, Sichuan as an example, we do not expect to be a major increase in the electricity tariffs. However, in the areas that are impacted by electricity shortages, not dissimilar to last year and early parts of this year where some of the data centers would need to switch over to diesel or would actually acquire diesel in preparation for potential shortfalls in terms of electricity supply. I think that will show up in the figures for the second half, especially for anything in the affected areas.

As to the CapEx and whether there are any changes to the CapEx guidance, we still expect to spend roughly CNY 4 billion and that's despite some of the capacity being pushed into 2023. As you know, these constructions do have a longer lead time. And so there will still be money being spent with regards to the power infrastructure, the buildings and so forth. It would just be a slowdown a little bit, but we still expect that it will be for the full year around CNY 4 billion. I hope that answers your questions.

Operator

Our next question comes from Edison Lee of Jefferies.

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

Samuel and Tim, I want to see what kind of power cost increases that you are assuming in your new guidance for the second half. And also, I want to know for the 2 new wholesale projects, what is the timing in terms of service launch and EBITDA contribution.

Tim Chen ***VNET Group, Inc. - CFO***

Edison, let me talk about the first one. In terms of the second half, we've assumed small increases coming from the power side. As you know, some of the power increases already took place in the first half. We do expect a little bit of further increases, but not in really the Tier 1 areas, but I would say the outer areas of the regions. We can go into some of the details later on, but not a very large increase. I think the full year, we had given to the market previously was about a 1% margin impact. I'd say that this moves the needle a little bit in the second half, but nothing that would be very material.

Let me pass to Samuel to talk a little bit about the 2 wholesale wins.

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

Sure. Thank you, Tim. And also thank you, Edison, for the questions.

Regarding the wholesale wins that we announced today, the social platform, it is actually an existing customer but with a new contract, and basically a contract signed in the second quarter.

And then for another one, which is the public cloud service providers, and we're expecting to sign the contract in Q3. We're very pleased because we spent quite a bit of time working with the customers and finally secure a design-win. So that's pretty encouraging for us.

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

Can you talk about the timing of these contracts coming into service?

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

Yes. As I said, the social platform wins, that would be second quarter, this quarter. And then for public cloud service providers, the contract will be signed in Q3 and we're expecting this to be serviced and a ramp up starting from Q4 this year.

Tim Chen ***VNET Group, Inc. - CFO***

So Edison, both of these, I would say, small or negligible contribution in 2022, but the ramp-ups should be within 2023.

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

So is the ramp-up period also 2 years for these 2 projects?

Tim Chen ***VNET Group, Inc. - CFO***

They should actually be quite quick. Again, contractually, as you know, our customers will sign a commitment. But what we've seen, at least from the customers that we've just talked about, they can actually ramp up extremely quickly. So I would say at the moment probably assuming that most of the ramp-up should be within 2023 for these projects.

Operator

(Operator Instructions) Next question comes from the line of Alex Wang from Daiwa Capital Markets.

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

My first question is regarding our pipeline. I understood we cut our capacity addition plan in the near term. But I understand we previous guide roughly 17,000 for '23, '24 capacity addition. So I want to have more color on this. Do we have any change on that previous guidance?

And the second thing is about the utilization ramp-up, happy to see a ramp-up acceleration in existing projects starting from June. So could we add more color on the current utilization rate for existing wholesale projects in service. And given current macro and COVID situation, I want to have more sense about what's the typical period for this kind of capacity rate -- normalized utilization rate.

Tim Chen ***VNET Group, Inc. - CFO***

Thank you, Alex. Let me take the first question in terms of the pipeline. You're correct, I think previously, we had a range from 14,400 to 17,400 in terms of the cabinet deliveries in 2022. We did revise down, down to a range of 9,400 to 12,400. You'll see the details that we've included in the IR PPT, that will be uploaded to our website. So that is the range of guidance down from the 17,400 that you discussed earlier on.

You'll see that the projects that we've taken out, again, some of these, we expect to take place in 2023. There's some related to construction slowdowns and then others related to customer demand being pushed back. And so rather than have everything ramped up in terms of delivering the cabinets and then waiting for the customers, we decided to also then match our pace of delivery with the customer requirements as well.

Of the second question, maybe I'll pass to Samuel, and he can address that for you.

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

Yes. In terms of the ramp-up for our wholesale customers, what happened is most of the customers basically from the contract were committed to have 2 years to ramp up to hit the 90% or even higher utilization rates. But in reality, from our experiences and by talking to the customers, given their business growth, normally within a year they basically hit the 90% or even higher.

And so for the 2 MOUs that we talked about today, including the social platform and public cloud service provider, we have a high expectation that can ramp up to 90% or even higher within a year period of time given the current forecast.

And then separately, from a retail point of view, we're also seeing kind of a momentum from the customer digital transformation trend as well. So I would say even though the macro condition is a little bit uncertain, the business is pretty solid in the quarters ahead of time.

Operator

Our next questions comes from the line of Sara Wang from UBS.

Sara Wang ***UBS Investment Bank, Research Division - China Telecom and Equipment Analyst***

Samuel and Tim, so I have two questions. First is still on the delivery target. May I ask what's the split between wholesale and retail of the delivery target of cabinets?

And another question is, so what's the increase magnitude or what's the magnitude of power tariff increase in the second quarter? I noticed that our adjusted EBITDA margin actually stayed relatively stable versus last year. So just wondering if there's any other area, we can actually save cost to offset the power tariff increase.

Tim Chen ***VNET Group, Inc. - CFO***

Sara, could you repeat the first part of the question, please, again?

Sara Wang ***UBS Investment Bank, Research Division - China Telecom and Equipment Analyst***

The first question is what's the split between wholesale and retail orders of our delivery target?

Tim Chen ***VNET Group, Inc. - CFO***

Okay. Thank you. Let me handle the first question. I'd say that right now, the split between the wholesale and retail, we're still looking at a similar split of around 60-40. So we talked about, again, in the past 60-20-20, 60 being the wholesale and then scale retail and retail. So we still expect that to be the same in that range, more than half being wholesale related, maybe up to 2/3 being wholesale related.

In terms of the power increases, again, the vast majority of the increase that we saw were in the Tier 1 cities. Again, the earlier part of the year, we saw them go up by anywhere from 10% to 20% in the Tier 1 cities. And so we factored in the impact to the full year margins.

In quarter 1, we did have some tax rebates and other income, and that's kind of some of the reasons behind why the margins in the first quarter weren't impacted as much. And then in the second quarter, there were some costs incurred there. But again, we have been quite focused on making sure we help to implement cost controls. So we'll continue to do that in the third and fourth quarter, but there are going to be limits to how much we can do to offset increases in our operating costs in general. Hope that helps, Sara.

Operator

The next question comes from the line of Albert Hung of JPMorgan.

Albert Hung ***JPMorgan Chase & Co, Research Division - Analyst***

Samuel and Tim, my first question is, if I look at the 2022 new guidance, the EBITDA margin implied that second half adjusted EBITDA could be like 22%, which is a multiyear low. Going now what are the one-off structural margin drag in second half? And how to drive the margin recovery in the next year?

And the second question is because the revenue is mainly driven by wholesale or a broad-based IDC demand weakness. And from your point of view, how long did you expect the downcycle will last. Historically, our spending will be the leading indicator for IDC. And right now, the average spending looks still quite weak in second half. Does that implied first half next year, we'll also see similar slowdown in IDC?

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

Okay. Thank you, Albert. Let me take the first part of the question, and then maybe Tim can help to chime in with additional context.

I think as Tim pointed out, the first quarter of the year, because we did have the tax subsidies and annual reimbursement from the depository bank. And then so by removing the one-time thing and then the second quarter margin is pretty much on par.

However, with the revised guidance, as you can see, our second half EBITDA margin is going to be roughly about 22% ratio. I would say in a nutshell, aside from the fact that some of the cost and expense got delayed to the second half due to the COVID outbreak and lockdown in the first half, we are also expecting some of the subpar revenue in the pipeline basically for new retail customer acquisition and then as well as some of the increased engineering cost, mainly focusing on the invest-ahead-of-revenue type. And so that basically impacts our EBITDA margin in the second half.

A lot of the analysts are asking about the power tariffs or even our data center maintenance and upgrade, I think both electrical and mechanical parts, although not really material per data center, but if we add up, it is still amount in the P&L. So that basically impact the

EBITDA ratio in the second half.

Are we expecting that, that will continue going on? We strongly doubt because a lot of the costs basically impact in the second half, it's more seasonality. And so we're expecting to have the improvement in the 2023. And then Tim, do you want to take on the second question?

Tim Chen ***VNET Group, Inc. - CFO***

Albert, you're asking about how long this will last for, I think Samuel started to address that and kind of will this drag into 2023 in terms of leading indicators. I would say that in our shifting of some of the capacity deliveries to 2023 alongside or matching with the customer demands is that we already see some of the things that they had initially wanted by end of year being pushed into the sort of first half of 2023. So there is that visibility that customers still intend to require these data centers, but it has been shifted backwards.

In terms of which area we've kind of seen, let's say the slower ramp-up, I would say, just given the sheer scale of the ramp-up pace of a wholesale customer versus a retail customer, I would say that it is more on the wholesale side. They are a sort of larger contributor in terms of billable cabinets ramp-up. But it's not to say that we've not seen a sort of similar slower pace during the times that there were lockdowns in place. We certainly hope that we see less and less of these types of lockdowns in the second half. And so then customers can actually resume a more normal pace of ramp-up during the rest of this year and into next year.

Operator

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

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

I have two questions. The first one is regarding wholesale demand. So for the move-ins you have seen for the existing customers we have had or existing orders, how different is that say in terms of months required for ramp-up? Is it different to our previous expectations, say, previous guidance versus our new guidance? That's #1 question.

The second question is the MRR, I see there is a small decline in MRR for 2 quarters running quarter-on-quarter. I was wondering, is there any trends we should pick up yet? Or should we still expect them to be broadly in line or previously we mentioned slightly upwards in the longer term. Two questions.

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

Thank you, Clive. I would say from the wholesale customers' point of view, basically, I think Tim and I have talked about specifically 2 type of the wholesale customers we're talking to almost on a weekly basis. The public cloud service providers and social platforms and especially for video-type customers who require a huge storage to store the data, I would say we're not seeing any difference from their move-in rates. Aside from the COVID-19 impact or lockdown impact and so on and so forth, their business continued to grow.

And then so when we talk to them, they proactively plan their demand forecast and do the site selection. And then when we participate and win a bid, it is not just a one-time deal, it is more like a lifetime partnership and so on and so forth.

So again, from our partnership, we're seeing the similar trend from a move-in rate perspective. So that's the reason when Tim and I, we talked about aside from what contractual say 2 years commit to ramp up 90%, we've actually seen the actual results way more faster than that.

So again, with the 2 MOUs that we talked about today, hopefully, we're seeing exactly the same trend as we talked about.

Tim, do you want to address the monthly recurring revenue for the retail one?

Tim Chen ***VNET Group, Inc. - CFO***

Yes, sure. In terms of the monthly recurring revenue, I think the main thing is quarter-to-quarter you will see some fluctuation, and that's because the figure there is a total retail-related revenue divided by cabinets. We do expect that these levels will remain around 9,000.

And Clive, you're absolutely correct in your second part of your statement, which is whether or not we expect this longer term to trend upwards. I think the answer is definitely yes. And that's going to be driven by some of the investments that Samuel mentioned earlier on. The investments on the retail services side that will then allow us to provide, again, a larger suite of services to the customers and expand the contribution of the value-added services to the overall MRR.

So again, longer term, expected to trend up. But I think quarter-to-quarter-to-quarter, roughly fluctuating around the 9,000 level. I hope that helps.

Operator

Our next question comes from the line of Mingran Li of CICC.

Mingran Li ***China International Capital Corporation Limited, Research Division - Associate***

I have two questions. First one is based on the current wholesale and retail demand, could you share more about the delivery pipeline and CapEx plan in recent years like in 2023?

And my second question is regarding the utility cost. Recently, in some regions in China, there's a power supply shortage. Is there any material impact for us and could you share more details about the future trend you think of the utility cost and the impact on our margin?

Tim Chen ***VNET Group, Inc. - CFO***

Yes. Let me take the two questions. In terms of, I guess, CapEx and delivery plans for 2023, I would say that based on the fact that some of the capacity we had planned for '22 being shifted into '23, I would say year-on-year we would expect that the capacity in terms of megawatts will be larger in '23 as compared to '22 clearly as things ramp up again and also as some of the construction delays ease, hopefully, as we see less COVID impact year in 2023.

And so CapEx also, we talked about earlier on, that we still expect CapEx spend to be around CNY 4 billion this year. Next year likely will be higher than that as we then continue to build out the capacity. Especially with the additional MOU wins, those will then clearly form part of what we see in terms of the spend for the latter part of this year but also then into next year in terms of expected future tender wins as well.

The second question in terms of power, again, the cost that we're seeing is largely similar to the last time around where there were power shortages around China. And these were related to mostly short-term purchases of diesel fuel and making sure that our data centers continue operating when there was uncertainty in terms of continued power supply from the grid. So these are the costs that we expect to see. Again, on a single data center basis, these are not material. If they persist or if they start to spread throughout China, then it will become a larger figure. But at the moment, I think largely covered in what we've already provided to the market in terms of what our views are for the second half and balance of the year. Hope that helps.

Operator

Thank you, management, for the answers. Ladies and gentlemen, that concludes our conference for today. Thank you for joining.