

VNET Group, Inc. (Q1 2025 Earnings)
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Corporate Speakers

- Xinyuan Liu; VNET Group, Inc.; Head of Investor Relations
- Ju Ma; VNET Group, Inc.; Rotating President
- Qiyu Wang; VNET Group, Inc.; Chief Financial Officer

Participants

- Tom Tang; Morgan Stanley; Analyst
- Edison Lee; Jefferies; Analyst
- Daley Li; Bank of America Securities.; Analyst
- Louis Tsang; Citi; Analyst
- Sara Wang; UBS; Analyst

PRESENTATION

Operator

Hello, ladies and gentlemen, thank you for standing by for the First Quarter 2025 Earnings Conference Call for VNET Group Inc. (Operator Instructions)

Participants from our management include Mr. Ju Ma, Rotating President; Mr. Qiyu Wang, Chief Financial Officer; Ms. Xinyuan Liu, Head of Investor Relations 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. – Head of Investor Relations*

Thank you, operator. Hello everyone and welcome to our first quarter 2025 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 today's call 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 the SEC. VNET does not undertake any obligations 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 include the disclosure of unaudited GAAP and non-GAAP financial measures. VNET's earnings press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited GAAP measures.

A summary presentation, which we will refer to during this conference call, can be viewed and downloaded from our IR website at <https://ir.vnet.com/>.

Next, I'd like to alert you that we will be utilizing text-to-speech technology powered by Neolink.ai to deliver this quarter's prepared remarks by Mr. Ju Ma, our Rotating President, and Mr. Qiyu Wang, our CFO. The management team will join the Q&A session in person.

Additionally, this conference is being recorded. A webcast of this conference call will also be available on our IR website at <https://ir.vnet.com/>.

Now, let's get started with today's presentation. Mr. Ma, please go ahead.

Ju Ma *VNET Group, Inc – Rotating President*

Good morning and good evening, everyone. Thank you for joining our call today.

I would like to begin by sharing our primary accomplishments during the first quarter of 2025. As we embarked on the new year's journey, we achieved a strong set of results that set a positive tone for the year ahead.

On the operational side, our wholesale IDC business recorded another impressive performance, supported by our robust deliveries and our customers' fast move-in pace. As of March 31, 2025, our wholesale capacity in service grew 18.1% quarter over quarter to 573 megawatts, an increase of 88 megawatts. Wholesale capacity utilized grew 23.9% quarter over quarter to 437 megawatts, a record high increase of 84 megawatts, while the utilization rate increased by 3.6 percentage points to 76.2%, indicating that newly delivered orders are being moved in faster than ever before. Meanwhile, our retail business continued to progress smoothly, benefiting from the rapid deployment of DeepSeek. Furthermore, propelled by our dual-core strategy, we consistently secured high-quality orders from customers across various industries. I will elaborate on this in detail on the next Slide.

On the financial side, we maintained our solid growth trajectory across both total net revenues and adjusted EBITDA. Our total net revenues increased by 18.3% year over year to RMB2.25 billion for the first quarter. Notably, wholesale revenues reached a new record high of RMB673 million for the quarter, representing an impressive year-over-year growth rate of 86.5%. Thanks to the rapid growth of our wholesale IDC business, our adjusted EBITDA for the first quarter also increased by 26.4% year over year to RMB682 million, with an adjusted EBITDA margin of 30.4%,

up 1.9 percentage points year over year. Excluding the one-off impact of asset disposals last quarter, adjusted EBITDA increased by 18.1% quarter over quarter.

We also further strengthened our financing capabilities, diversifying our channels at a relatively low cost. In March, we issued US\$430 million of convertible senior notes due in 2030 at an interest rate of 2.5% per annum. We also secured our first sustainability-linked loan of RMB500 million with a 3.7% interest rate per annum. Furthermore, our all-in cost for one of our new loan projects reached a record low at 3.05%, 55 basis points lower than the 5-year LPR.

Next, let's delve into our first-quarter accomplishments in more detail.

Moving on to our new order wins on Slide 5. We continued to win quality wholesale and retail orders in the first quarter. In addition to the wholesale orders we disclosed last quarter, a 55-megawatt order from a leading cloud computing customer and a 64-megawatt order from an Internet customer through our JV project, we won a 6-megawatt wholesale order from an intelligent driving customer for our data centers in the Greater Beijing Area. Furthermore, breakthroughs by DeepSeek are propelling growing demand among customers for our retail IDC services to deploy intelligent applications. During the quarter, we secured a combined capacity of around 4 megawatts in retail orders from customers in the internet, finance, local services, intelligent driving, and gaming sectors. These orders span multiple retail data centers in Greater Beijing Area, the Yangtze River Delta, the Greater Bay Area, and other regions.

At the beginning of 2025, China's AI development entered an explosive new phase of growth driven by DeepSeek's breakthrough technology. This created surging AI-related demand for premium IDC services, boosting the IDC industry's growth. As an industry-leading player known for our high-performance data centers and reliable, premium services, we quickly seized growth opportunities, winning quality new orders and driving progress. Notably, fueled by the rising demand for private deployments triggered by DeepSeek, our retail IDC business's revenues from customer private deployments of open-source large language models increased by 309% in March compared to January. Looking ahead, we remain confident in the China market's growth potential. We believe that the increasing maturity of open-source model technology and the continuous expansion of intelligent application scenarios will continue to drive high demand for computing power and premium IDC services, further fueling our sustainable, high-quality growth.

Now let's delve into our business updates, starting with our wholesale business on Slide 8. Our wholesale business maintained its robust growth momentum with capacity in service increasing to 573 megawatts and utilization rate rising to 76.2%, thanks to our strong delivery capabilities at our N-OR Campus 01 and E-JS Campus 03, and faster-than-expected move-ins at our E-JS Campus 02 and N-HB Campus 01B. We also delivered a mature capacity utilization rate of 94.5%, a relatively high level, and a ramp-up capacity utilization rate of 32.1%.

We have a clear growth path for our wholesale data center capacity. Let's move on to Slide 9. Our overall wholesale data center capacity continued to grow in the first quarter. Our capacity under construction was 377 megawatts, with a pre-commitment rate for capacity under construction stable at 81.6% as of the end of March. Additionally, capacity held for short-term future development remained relatively steady at 256 megawatts. Capacity held for long-term future

development further expanded to 414 megawatts, as we remain confident in China's market growth potential as AI spurs greater demand for premium IDC services. We will maintain our robust expansion plan to ensure we are well prepared for further business growth.

Moving to our retail IDC business on Slide 10. Our retail business continued to progress smoothly in the first quarter. Retail capacity in-service was 51,960 cabinets, with the utilization rate increasing slightly to 63.7% as of the end of March. MRR per retail cabinet increased to RMB8,898 this quarter.

Turning to our delivery plan on Slide 11. Supported by our robust and efficient delivery capabilities, we successfully delivered a total of 88 megawatts in the first quarter. We currently have 8 data centers under construction, with six in the Greater Beijing Area and two in the Yangtze River Delta. We plan to deliver 377 megawatts of capacity over the next 12 months, or around 165 megawatts during the second and third quarters of 2025, and around 212 megawatts during the fourth quarter of 2025 and the first quarter of 2026. This ambitious delivery plan reflects strong demand from our customers and our outstanding delivery capabilities.

Now turning to our Non-IDC business, a key component of our overall business. DYX continued to expand its customer base by acquiring new customers from several state-owned enterprises, as well as the financial services and home appliances sectors, for their premium dedicated internet services and internet connection services. What's more, I am pleased to share that DYX recently received approval as a Zero Outage Supplier for a fifth consecutive year from T-Systems, which is part of Deutsche Telekom, in recognition of DYX's reliable, outstanding services.

In conclusion, thanks to the strong execution of our effective dual-core strategy, we delivered robust first quarter results, propelling progress across both our wholesale and retail businesses. Going forward, we will continue leveraging our high-performance data center network, reliable solutions, and outstanding delivery capabilities to meet our customers' growing demand, driving growth and advancing the development of China's digital economy.

Now, I will turn the call over to our CFO, Qiyu, for further discussion of our operating and financial performance. Thank you, everyone.

Qiyu Wang *VNET Group, Inc. - Chief Financial Officer*

Good morning and good evening, everyone.

Before we start the detailed discussion of our first quarter performance, please note that, unless otherwise stated, all the financials we present today are for the first quarter of 2025 and are in Renminbi terms. Furthermore, unless otherwise specified, all the growth rates I am reviewing are on a year-over-year basis.

Let's turn to Slide 13. In the first quarter, we continued to pursue high-quality, high-margin business. Our total net revenues increased by 18.3% to RMB2.25 billion, mainly driven by the rapid growth of wholesale business. Our adjusted cash gross profit rose by 26.4% to RMB967.8

million, while our adjusted EBITDA also grew year over year by 26.4% to RMB682.4 million. Meanwhile, excluding the one-off impact of asset disposals last quarter, our adjusted cash gross profit and adjusted EBITDA increased by 11.5% and 18.1%, respectively, quarter over quarter.

Let's look more closely at our topline. As you can see on slide 14, in the first quarter, wholesale revenues, our key revenue growth driver, increased significantly by 86.5% to RMB673.2 million, mainly attributable to sales at the E-JS Campus 02 and N-HB Campus 01B. Also, excluding the one-off impact of asset disposals last quarter, wholesale revenues increased by 14.1% quarter over quarter. Retail revenues continued to account for the largest part of our total net revenues and increased by 4.8% to RMB968.3 million. Our non-IDC business remained stable.

During the first quarter, we maintained solid margins thanks to our continuous efforts to enhance overall efficiency. As shown on Slide 15, our adjusted cash gross margins improved to 43.1% from 40.3% in the same period last year. Our Adjusted EBITDA margin rose to 30.4%, compared with 28.4% in the same period last year.

Moving on to liquidity on Slide 16. We maintained robust and healthy liquidity, bolstered by net operating cash inflow of RMB195.7 million during the first quarter. Our cash positions remained solid, with total cash and cash equivalents, restricted cash and short-term investments reaching RMB5.79 billion as of March 31, 2025.

Next, let's take a look at our debt structure on Slide 17. We maintained our prudent approach to debt management, with our net debt to the trailing twelve months adjusted EBITDA ratio at 5.0 and total debt to the trailing twelve months adjusted EBITDA ratio at 6.5, both remaining at healthy levels. Our trailing twelve months adjusted EBITDA to interest coverage ratio improved to 7.5 as of March 31, 2025. We prioritize long-term debt maturity planning in our debt and strategic management to ensure the security of debt repayment. Additionally, the Company's short- and medium-term debt maturing in 2025 to 2027 comprises 45.6% of our total debt.

Turning now to CapEx spending. As you can see on Slide 18, for the first quarter, our capex was RMB1.82 billion, with the majority allocated to the expansion of our wholesale IDC business. As disclosed last quarter, we still expect our capex for full year 2025 to be in the range of RMB10 billion and RMB12 billion. The increase is mainly to support our planned delivery of 400 to 450 megawatts in 2025, or approximately three times 2024's total deliveries and surpassing our total deliveries in the past three years combined.

Now moving to our full year guidance for 2025 on Slide 19. We are reiterating our previous guidance for the full year of 2025, with anticipated total net revenues to be between RMB9.1 billion to RMB9.3 billion, representing year-over-year growth of 10% to 13%. Adjusted EBITDA is expected to be in the range of RMB2.7 billion to RMB2.76 billion, representing year-over-year growth of 15% to 18%. Based on our new orders and delivery plan, our capital expenditure for 2025 is still expected to be in the range of RMB10 billion to RMB12 billion, representing year-over-year growth of 101% to 141%.

Before I conclude, I'd like to briefly update you on our ESG initiatives. In April, we issued our fifth annual ESG report, detailing the Company's 2024 endeavors and progress in sustainability,

including our verified carbon inventory results. During 2024, we upgraded our "SHIELD" sustainability system to broaden stakeholder coverage and amplified our impact. We achieved encouraging progress across green power engagement, efficient energy consumption, and employee diversity and equality. Notably, our total energy usage from renewable sources reached about 360,880 MWh during the year, marking a fivefold increase year over year and accounting for 18% of total resources utilized by VNET. Also, our average annual power usage efficiency reached 1.27, and the percentage of female employees in our management positions increased to 33%. These efforts continued to garner recognition from top ESG rating authorities. This year, we ranked first among Chinese enterprises in the IT services industry in the China Edition of the S&P Global Sustainability Yearbook for the third consecutive year, and won the 2025 "Top 1%" and "Industry Mover" awards. Moving forward, we will remain committed to integrating ESG best practices across our business, facilitating the development of China's green, digital economy.

In summary, we got off to a strong start for 2025, highlighted by robust business growth and enhanced profitability. We will remain dedicated to our sustainable, high-quality growth strategy and continue to invest in future development, capturing market opportunities and creating sustainable, long-term value for our stakeholders.

This concludes our prepared remarks for today. We are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Tom Tang from Morgan Stanley.

Tom Tang *Morgan Stanley - Analyst*

Okay. Thanks management for the opportunity to ask questions and congratulations on a very robust result for the first quarter.

So I have one question on the demand side. So we know that H20 has been banned by the United States. So just wanted to have an update on the customer demand and order procurement processes after the chip has been banned. Just wondering if there's any changes. And if we have any outlook in the future?

Ju Ma *VNET Group, Inc – Rotating President*

(Interpreted)

Thank you for your question. Let me take your very first question. Yes, as we are aware that the H20 chip embargo was in place starting from this year. And because of that, it has caused a short-term impact on our client demand, particularly for those hyperscalers. However, there was a quick adjustment. Now everything is back on track. So our current orders on hand are sufficient to fill all the capacities to be delivered this year as well as the first half of next year.

Like I said, the hyperscalers quickly adjusted to their demand after the short-lived impact because of the chip embargo. Now, everything is back on track. And we expect that there is going to be sustained demand from these hyperscalers and they are also asking us to scale up the capacity to be delivered to them.

We expect that with the supply of GPUs used for large language model training and scaled-up centers, there is going to be continued and sustained demand from these hyperscalers.

Operator

Thank you. As a reminder, for the benefit of all participants on today's call, please ask your question to management in English and then repeat in Chinese.

Your next question comes from Edison Lee from Jefferies.

Edison Lee *Jefferies – Analyst*

Thank you for taking my questions. I have two quick questions. Number one is on your retail demand. I think that right now you've disclosed 4 megawatts of new retail contracts. I want to know if these are AI-driven applications and whether you are charging based on power rather than cabinets.

And number two question is that your MRR has gone up materially in the first quarter of this year. And maybe you can share some colors on the drivers behind that increase in MRR.

Ju Ma *VNET Group, Inc – Rotating President*

(Interpreted)

Thank you for the question.

As you readily mentioned that we did win 4-megawatt orders for our retail IDC business in the first quarter. And as you correctly mentioned that most of the demand is from AI-driven, and that covers the demand from financials, local services, Internet companies, as well as intelligent driving companies. So these are all AI-driven demands for these retail IDC services. And very little of that demand is from a cloud-based gaming company.

Qiyu Wang *VNET Group, Inc. - Chief Financial Officer*

(Interpreted)

I would just like to make a quick add to what Mr. Ma has mentioned about the drivers behind the MRR.

Most of the recent orders that we win for the retail IDC business are indeed from AI-driven, and that require high-density cabinets. Therefore, the company has been continuously repurposing some of the cabinets in our retail data centers to accommodate such needs.

And for that, we do charge a higher price. So the bill is higher. So that explains the growing MRR.

Operator

Your next question comes from Daley Li from Bank of America Securities.

Daley Li *Bank of America Securities - Analyst*

Hi, thanks management for taking my questions. Firstly, congrats on the strong 1Q results. I have two questions here.

Number one is regarding our gross profit margin in 1Q. We see a strong quarter-on-quarter improvement. And could the management give some color on what the key drivers are for the gross profit margin improvement, and what should be our future target or normalized gross profit margin?

And the second question is about our REITs progress. If you look at our peer company, they also submitted the application, and how do we see our REITs plan for private REITs or public REITs in the second half of this year?

Qiyu Wang *VNET Group, Inc. - Chief Financial Officer*

(Interpreted)

First, on the drivers of the improved gross profit margin, reason number one, the share or proportion of our wholesale IDC service is gradually improving. This is a business that has a higher gross profit margin. Therefore, overall, it is contributing to a higher gross profit margin on a corporate level.

Reason number two, our retail business's gross margin was also enhanced as we are repurposing to high-density cabinets to accommodate the demand for retail IDC services, bringing more high-quality revenue. And because that brings higher MRR, and with that going in progress, we are automatically closing or gradually phasing out some of those low-margin services.

So these two reasons combined have pushed up the overall gross profit margin. And we expect that to continue in the future.

As you readily mentioned that this year marks a critical year for the Chinese REITs sector. And the two peers in the IDC industry have also seen fairly smooth progress in terms of their public REITs. And as we see it, the valuation of these REITs is reasonable. And our public REITs project is also progressing well. For our private REITs, the current situation stands that the current valuation of these private REITs is reasonable, and it is progressing as we have expected. As you have noticed that our private REITs project has been formally accepted and approved by the Shanghai Stock Exchange. So hopefully, we will hear some good results soon. With our successful pre-REITs project, we are actively advancing all types of asset securitization projects. And we will maintain our annual target of recovering RMB 2 billion target unchanged, and we are confident in achieving that goal for this year.

Operator

Your next question comes from Louis Tsang from Citi.

Louis Tsang Citi - Analyst

Thanks management, for taking my questions. Congratulations on the strong results. So I have two quick questions.

So, first of all, wondering if we have any plans for the IPO in Hong Kong? And then, if you do, wondering if we can share more details? That's my first question.

And then my second question is about the electricity tariffs because we spoke that there is some downstream for some electricity tariffs. So wondering if there is any positive impact on the EBITDA margin that had or if there is no impact.

(Speaking in Foreign Language).

Qiyu Wang VNET Group, Inc. - Chief Financial Officer

(Interpreted) Thank you for your questions.

Yes. Looking at the potential Hong Kong listing, we know that the Hong Kong Stock Exchange extends its hands wide open to welcome those U.S.-listed companies to do a dual listing in Hong Kong. And we have held in-depth conversations with the Hong Kong Stock Exchange, and we have also had formal engagement in written form.

It's progressing. However, at this moment, I cannot give you a specific timeline on that.

With regard to your question on the electricity bills, we at the moment do not see a declining trend for the utility bills across our IDCs. It's fairly stable. So, no change whatsoever on that front.

Operator

Your next question comes from Sara Wang from UBS.

Sara Wang *UBS - Analyst*

Thank you for the opportunity to ask a question, and congratulations on the solid results. I only have one question on the wholesale business.

So I noticed that our delivery plan is actually rolling forward by a quarter to cover the first quarter of next year. So does that mean we also have visibility of utilization ramp up into next year? In other words, given our solid delivery plan. How shall we think about the utilization rate for the next three to four quarters?

Ju Ma *VNET Group, Inc – Rotating President*

(Interpreted) Thank you. I'll take your question.

As you readily mentioned, and have observed from our results that our clients do have a lot of demand for capacity. And to accommodate their capacity need, we have actually responded actively and delivered the capacity needed, and they have been moving in fairly quickly. And actually, we have just hit a record high in terms of the capacity that's utilized that we just added for the past quarter.

And according to the communications with these clients, as well as assessing their willingness, and also how firm they are about moving in scheduling. So we are confident that for the upcoming three quarters plus another quarter next year, we are going to see a very pleasant move-in pace from these clients. Thank you.

Operator

Ladies and gentlemen, that concludes our conference for today. Thank you for participating. You may now disconnect your lines.

**Please kindly note some content for Q&A session are revised by the company after the call to accurately reflect the company's information. So it may differ from the earnings call audio.*