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## Q4 2020 21Vianet Group Inc Earnings Call

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## PRESENTATION

**Operator**

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to 21Vianet Group's Fourth Quarter 2020 Earnings Conference Call. With us today are Mr. Samuel Shen, Chief Executive Officer and Executive Chairman of Retail IDC; Ms. Sharon Liu, Chief Financial Officer; and Ms. Rene Jiang, Investor Relations Director of the company.

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

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

Thank you, operator. Hello, everyone. Welcome to our fourth quarter and full year 2020 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 conference call.

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

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

All right. Thank you, Rene. Good morning, and good evening, everyone. Thank you for joining us on our earnings call today. During the fourth quarter of 2020, we exceeded our previous guidance range and grew our net revenues by 28.6% to RMB 1.35 billion from RMB 1.05 billion a year ago.

In addition, we expanded our adjusted EBITDA margin to 28.9% from 25.2% and grew our adjusted EBITDA to RMB 389.8 million from RMB 263.8 million during comparable periods. We attribute such solid results to robust market demand, methodical resource expansion, meticulous customer services and strong sales momentum.

2020 was an extraordinary year as we encountered both unprecedented challenges and tremendous opportunities. The challenges brought on by COVID-19 were certainly exceptional. Yet, out of a heap of challenges blossomed the robust demand for data center services. Since the pandemic outbreak, we have witnessed substantial change in both consumer behaviors and corporate mentalities.

Some of those changes were transitory, while others are permanent.

We believe that the migration towards online entertainment, e-commerce, mobile computing, remote collaboration and digitized services are permanent, thus filling the tremendous demand for IDC services. In addition, favorable government policies are also accelerating the digitization trend, which in turn are further stimulating the market demand for our solutions and services.

To satisfy such growing market demand, we have been proactively expanding our capacity and resources. As of December 31, 2020, our capacity reached 53,553 cabinets in total, 93% of which were self-built and the remaining 7% of which were partnered.

In the fourth quarter, we added 2,077 cabinets on a net basis. Our compound capacity utilization rate was 60.4% during the fourth quarter, among which our utilization rate was 77.8% for mature IDCs and 31.7% for ramp-up in newly built IDCs.

As we envision unabated market demand for the foreseeable future, we have proactively expanded our resources. During the fourth quarter, we acquired a data center in Beijing with approximately 2,000 ready-to-use cabinets already under commitment to a public cloud customer. Such additional capacity should enable us to better serve large enterprise customers who continue to locate their mission-critical data processing operations in Tier 1 cities to achieve ultra-low latency. The requirements and preferences of these large enterprises limit the potential locations of their data centers to within a 100 kilometers radius from metropolitan areas.

While we are expanding our capacity, we are also implementing strategic initiatives to ensure our capacity environmental sustainability. Such efforts include increasing our renewable energy utilization mix, improving the effectiveness of our power and water usage and reducing our carbon intensity across all of our data centers. To increase the transparency of our corporate sustainability practices, we are currently preparing our initial ESG report and plan to publish it later this year.

Beyond expanding our capacity in a methodical and sustainable manner, we also continued to leverage our flexibility in providing hybrid and multi-cloud infrastructure solutions, which enhance our client services. Witnessing the consumer and corporate behavior changes in 2020, we have taken the proactive and data-driven approach that enabled us to not only measure, forecast and address the unique IDC requirements for individual clients across industries but also strategically plan our resource expansion and optimize our site selection to align our development with our clients' growth trajectory. As a result, we have forged tight bonds with our customers and become an indispensable partner for our clients to cultivate their own evolving ecosystems.

During the fourth quarter, we acquired a new public cloud customer who had started moving in as of the first quarter of 2021. In addition to securing new cloud customers, we also ramp up our engagement with large-scale enterprises. We were able to sign an MOU with a popular content community and social platform company. As of today, we have accumulated wholesale MOU in service or under contract to over 180 megawatts.

We also continued our extensive discussions with an online entertainment company, which is interested in utilizing a portion of our IDC capacity in Shanghai, where its headquarters are located, to support its rapid growth.

In summary, we have accumulated abundant capacity, procured additional resources and forged strong client relationships. With the additional capital raised from our recent convertible bond offering, we are well positioned to capitalize on the robust market demand emerging in the post-pandemic era.

With that, I will turn the call over to Ms. Sharon Liu, our CFO, to review our financial results for the quarter. Sharon?

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**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Thank you, Samuel. Hello, 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 note that, unless otherwise stated, all of the financial numbers we are presenting today are for the fourth quarter of 2020 and are in RMB terms and that percentage changes are on a year-over-year basis.

We concluded 2020 with strong fourth quarter financial results, mainly attributable to our resource expansion capacities on track and efficient cabinet delivery to customers and improved operating efficiency. Our revenues for the fourth quarter and full year of 2020 both exceeded the high end of our guidance ranges, while our adjusted EBITDA for the fourth quarter and full year of 2020 both were within our guidance ranges.

Revenue in the fourth quarter increased by 28.6% to RMB 1.35 billion from RMB 1.05 billion. This increase continued to be driven by the industry ongoing growth as well as our steady capacity expansion, which allowed us to better satisfy the growing demand for a scalable retail cabinet and a carrier-neutral wholesale IDC solutions in the quarter. Retail IDC MRR per cabinet in the fourth quarter increased to RMB 9,131. We added around 2,077 new cabinets during the fourth quarter.

As of December 31, 2020, we operated and managed 53,553 cabinets, recognizing the ongoing growth in customer demand. We also worked to expand our cabinet capacity while remaining focused on maintaining healthy and stable cabinet utilization rates. Our compound utilization rate in the fourth quarter was 60.4%. More specifically, our utilization rate for those mature IDCs delivered prior to 2019 improved to 77.8% compared to 77% in the prior quarter.

Our utilization rate for ramp-up IDC and newly built IDCs were 31.7% compared to 35.9% in the prior quarter. The decrease mainly contributed to a large amount of cabinet delivery at the end of the third quarter.

Adjusted cash gross profit in the fourth quarter, which excludes depreciation, amortization and share-based compensation expenses, was RMB 581.9 million compared to RMB 425.9 million in the same period of 2019. Adjusted cash gross margin was 43.2% compared to 40.6% in the same period of 2019.

Adjusted operating expenses in the fourth quarter, which exclude share-based compensation expenses, impairment of receivables from equity investees and impairment of long-lived assets, were RMB 215.5 million compared to RMB 184.2 million in the same period of 2019. As a percentage of net revenues, adjusted operating expenses in the fourth quarter decreased to 16% from 17.6% in the same period of 2019, demonstrating our improved operating leverage and operating efficiency.

Adjusted EBITDA in the fourth quarter grew by 47.7% to RMB 389.8 million from RMB 263.8 million in the same period of 2019. Adjusted EBITDA margin increased to 28.9% from 25.2% in the same period of 2019.

Owing to loss of RMB 957.1 million from changes in the fair value of convertible promissory notes during the fourth quarter, our net loss attributable to ordinary shareholders was RMB 1.02 billion in the period compared to net loss attributable to ordinary shareholders of RMB 16.4 million in the fourth quarter of 2019. Basic and diluted loss both were RMB 1.28 per ordinary share and RMB 7.68 per ADS. Each ADS represents 6 ordinary shares.

Moving on to our balance sheet and liquidity. At the end of the fourth quarter, our debt-to-asset ratio was 64.5% after taking out the effect of the changes in the fair value of convertible promissory notes. Our debt to adjusted EBITDA ratio was 3.1. In addition, net cash generated from operating activities in the fourth quarter was RMB 283.8 million.

As of December 31, 2020, we reported a cash position of RMB 3.4 billion.

During the quarter, our efforts to maintain a strong balance sheet and leverage our solid recognition in the capital markets enabled us to further cultivate our future growth prospects. As such, we successfully executed a public offering of convertible notes for an aggregate principal amount of USD 600 million in January. This successful note issuance further demonstrated our acknowledged growth potential, significant brand value and strong investor interest. Going forward, we plan to use the raise to proceed to satisfy our CapEx demands and repay our existing notes that will come due in 2021.

Looking ahead into 2021, we continue to see a number of potential M&A opportunities and regard brownfield sites as a variable supplement to drive organic growth. We plan to continue expanding our IDC business in a prudent and balanced manner while leveraging our value-added service offerings to cultivate more business opportunities with our existing customers in turn.

Our balance sheet strength will also serve as a significant competitive advantage, enabling us to secure those IDC resources that align with our long-term growth targets, enabling us to capture additional market share and provide us with more customer engagement opportunities in key markets.

In 2020, our total CapEx was RMB 4 billion, including M&A payment during the year. We expect 2021 CapEx to be in the range of RMB 5 billion to RMB 6 billion, including acquisitions that we have bottom up knowledge.

Looking ahead, we expect net revenue for the first quarter of 2021 to be in the range of RMB 1,375 million to RMB 1,395 million and adjusted EBITDA to be in the range of RMB 395 million to RMB 415 million.

For the full year of 2020, we expect net revenues to be in the range of RMB 6.1 billion to RMB 6.3 billion and adjusted EBITDA to be in the range of RMB 1.68 billion to RMB 1.78 billion. This forecast reflects our current and preliminary views on the market and operational conditions, which are subject to change and do not factor in any of the potential impacts that could be caused by the COVID-19 epidemic in the future.

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

## QUESTIONS AND ANSWERS

**Operator**

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

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

And first, I would like to congratulate you on strong results and new customer addition. My first question is related with this new wholesale customer. You mentioned it is a social and content company. Could you please disclose more in terms of the current demand outlook and the order size (inaudible) and also share about your return profile while serving this customer?

The second question is, I would like to hear management comments on the resource at the edge of town. Is it becoming more and more difficult than before to get resources maybe in Hebei and Jiangsu, et cetera? And will this impact your 3-year expansion plan?

**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Thank you, Liu Yang. I will take your first question. Regarding to the new logo, actually it's a public cloud service provider in China with amount of 2,000 cabinets. Those MOU will start to move in Q1 this year. And for the returns of these projects, it's still at the company's acceptable level. Thank you.

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

Liu Yang, this is Samuel. Good to see you virtually. I'm taking on the second question. You mentioned about probably metropolitan area and surrounding areas as getting a little bit tough to secure the land together with the power quota. And I think the answer is yes. That's a general situation. That being said, because we have been in the industry for almost 25 years, we do have a strong relationship with the government, and we pay a lot of attention on the government's requirements and so on and so forth. If you drill down and double-click on the government's requirements lately, [getting to be tight], especially from the power quota perspective for existing data center, they're asking for better than 1.4; and for new one, they're asking for better than 1.3, in general. And luckily, because we have been in the industry for quite a while and then if you look at our existing data center, actually, our power consumption is actually top tier, I would say so. So both from an expansion point of view and from the acquisition point of view, I think things are pretty much on track from our expectation point of view. So I hope that gives you some of the color.

**Operator**

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

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

I have 2 questions. The first one is also regarding the recent M&A in Beijing. Wondering what is the deal size or the valuation you did the acquisition at. And also, the second question is, in terms of your 25,000 cabinet capacity target in 2021, wondering how much of that already has customer commitment this year. And also, related to the construction pipeline, I saw that in your third quarter presentation, there were 2 projects: number one is SH7; number two is E-JS Campus 02 that had around, like, 1,800 and 3,000 cabinets in plan. But then these 2 projects were missing in the 4Q presentation. So just wondering what has happened there.

**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Thank you, Tina. Yes, for your first question regarding the M&A, actually, we have disclosed those M&A in Tier 1 cities, which offers 2,000 cabinets that were ready-to-use and under commitment to the public cloud customer, a new customer. Actually, as this is a mature data center, we use EV/EBITDA multiple to do the valuation, and the valuation is in line with the market price.

And for our M&A strategy, we consider M&A as a supplement of our organic growth. And currently, in the market, there are 2 kinds of M&A targets. One is the brownfield ones. In that case, we will only provide a premium to the seller or the developer and then to obtain those data centers. Another one is the mature data center acquisition, which we will use EV/EBITDA multiple in the market. Yes, that's our M&A strategy.

Regarding to our 25,000 cabinet target this year, we have disclosed around 22,000 in our investor deck this year. Among that, over 60% of the cabinet we have received precommitment from both the wholesale customers as well as the large-scale retail customers.

I want to add more color on our large-scale enterprise customers. Besides the public cloud companies, we also see great potentials from the large-scale enterprises, for example, a popular content community and social platform company, a leading e-commerce platform for service. We will deliver the cabinet to the 2 customers this year. And both the 2 customers from our existing retail customer pool and from our already committed.

And regarding to the changes of certain projects, I would say, for the wholesale data centers, as we sign MOUs, we should deliver based on the commitment to our customers. But for some scale retail and traditional retail customer, we still have flexibility on the delivery to have good match from the supply and demand side. So you can see this quarter, we disclosed 22,000 cabinets, while for the gap from the 25,000 cabinets, we still have some M&A pipeline. And also for the existing disclosed data centers, we still have some expansion phases in the future to match our delivery target. And in the following months, we will match the -- especially the large-scale customers' demand and try to fix our delivery schedule.

**Operator**

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

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

It's James Wang from UBS. I'd just like to get a follow-on question on the capacity pipeline. I just want to get a bit more detail around that pipeline for the next 3 years. I know you've secured 22,000 for this year. I'm just wondering for the 75,000 cabinets over the next 3 years. Where are they in terms of location and proximity to Tier 1 cities? And what proportion already have electricity and carbon quotas? So that's the first question.

The second question is around the full year EBITDA guidance. I remember from the second quarter result, the indication was that you were expecting somewhere around 35% to 40% EBITDA growth for 2021. And I've also noticed that the first quarter, you're guiding to 56% EBITDA growth, but the full year guidance is actually somewhat below. So I'm just wondering whether you're being potentially conservative in the full year guidance or whether there's a bit more cost that you expect to spend over the rest of the year.

**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Okay. Thank you, James. Regarding to our capacity pipelines, actually, we have many pipelines in terms of the greenfield, brownfield and the mature data center M&As. So we are very confident to secure more resources for the delivery for the year 2022 and the year beyond. And currently, for the total 75,000 cabinets, over 60% have been secured -- fully secured. Yes, so we made good progress from the resources side.

And regarding your question to about our EBITDA guidance, actually, the EBITDA guidance is mainly due to the delivery schedule of this year. As we disclosed in the investor deck, among the 22,000 cabinets, we disclosed around 40% will be delivered in the first half, majority will be delivered in Q2 this year, and the rest 60% will be delivered in Q4 this year. So from the delivery schedule, the moving will be heavily weighted in the second half. That's why we -- so we factored in those moving schedule in our EBITDA guidance. And currently, we are very confident for our annual guidance and Q1 guidance, both from revenue and EBITDA perspective.

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

Can I just -- I think Samuel mentioned that it's getting more difficult to get resources around the Tier 1 city areas. So just wondering for next year and the year after in terms of the resources, how much of it has already been secured, whether you can provide any indication on that.

**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Yes. Actually, for the cabinets delivered in 2020, majority was in Tier 1 cities. And this year, actually, majority will be in the surrounding areas of Tier 1 city. For the next 2 years, the surrounding areas will weight over 50% from the incremental perspective.

**Operator**

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

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

I also want to congratulate company for presentation material that's [getting more disclosure] and also more data. On Page 23, my first question is, we saw the lines of ramp-up and new built capacity utilization, actually, increased in quarter 3 and then maintained in the quarter 4 level at 31%. I wonder is it because the capacity built in quarter 3 or is it because the demand has changed? And also, can you give us some color on 2021, how this line will go up or maintain flat? This is the first question.

And the second question is an [accounting] type of question. I want to ask under the current -- the increased price of the material, steel and also the -- everything -- I think everything's price is going up, will it impact our execution and also the margin profile in the next 2 years?

**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Thank you, Arthur. Regarding your questions on the utilization rate, actually for the existing cabinets we delivered before the year 2019, you can see the gradual increase of utilization rate for those data centers. And we combined the ramp-up on the new built data cabinets and disclosed those in another utilization line. The decrease in Q4 was mainly due to the heavy delivery in Q3, around 7,000 cabinets and 2,000 cabinets in Q4. So the new delivery increased the denominator in the formula of utilization rate. Actually, we achieved very good progress in terms of the billable cabinet. The billable cabinet increased a lot during the whole year of 2020.

And in 2021, we will still use the same methodology to disclose the utilization rate, the compound ones, the material cabinet and also the ramp-up and new built. For the material cabinet, the utilization rate at the end of this year will be around 80%, and for the ramp-up and the new built, it will increase accordingly. But in certain quarters, if we deliver more cabinets, there might be pressure in those quarters. But overall, the billable cabinets will increase in this year.

And your second question is about the construction of the margin and the construction cost, right? Actually, we still have rooms to optimize our construction cost through the centralized procurement as well as the supply chain management because we delivered more cabinet in the market. So currently, we have not seen any margin constraint or some pressure from the suppliers. We still can accept our returns from each of the data centers.

**Operator**

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

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

I have 2. Number one is that on the wholesale front, I know that you announced that this new wholesale customer together with this acquisition. So this wholesale customer basically is acquired from the acquisition. I just want to confirm that.

Number two is that in Jiangsu, do you expect to gain more locals of wholesale customers because of the power allocation you previously were able to obtain? And I think maybe a follow-up to that is, what are you seeing in terms of M&A opportunities, in terms of asking price and also in terms of locations?

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**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Yes. The answer of your first question is, yes, we added this new customer through the acquisition. And your second question regarding to our M&A strategy, actually, as I mentioned before, there are 2 kinds of M&A targets. For the brownfield ones, majority will be in the surrounding areas. And for the Tier 1 cities, we are looking for some mature data center acquisition opportunities currently in our pipeline. Thank you.

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

Have you seen any increase in asking price? Or do you think the asking price has become more reasonable because of government policy to threaten to cancel power quota for un-built projects?

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**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Yes, I should say, for the material data center acquisition, there is a market price, and we should acquire those ones in line with the market price. But for the brownfield ones, we still have bargaining rooms with the seller or developer to provide a reasonable premium to them. Thank you.

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

Sorry, just one follow-up. I just want to get some view from management that in terms of M&A opportunities, would you focus more on brownfield projects or mature data center projects?

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**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Well, that's depending on the -- sometimes depending on the customer demand and our delivery schedule. If there are some targets that can easily meet the customers' timelines, we may consider to do the acquisition. So there will be a mix of the customer demand, the location and our M&A strategy. Thank you.

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**Operator**

Our next question comes from the line of Kyna Wong from Crédit Suisse.

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

I have 2 questions. First one is actually regarding the wholesale in service and MOU in sales momentum 180 megawatt. I would like to ask like if these cover only 2021 that you adjust around 60% of these cabinets committed or is it actually a multiyear cooperation and MOU and which will also cover some of your targets in 2022 to 2023 in terms of your cabinet expansions? This is the first one.

And the second one is I would like to check if the company has some kind of like policy or like, you can say, some kind of a target to adjust these carbon emission reduction target from the government. And how much of the power consumption will be from, like, green power or green energy? Or should we wait for more details once you publish the ESG report?

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**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Yes, regarding to your questions, on the signed MOUs, actually, the 180 megawatt was delivered in 2020 and will be delivered in this year. So majority will be covered this year. And currently, for the cabinet we will deliver in year 2020 and the year beyond, we have some precommitment discussion with the customers but have not signed very solid MOUs. But in the following quarter, we expect to get very good progress and disclose those progress to the market.

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

Kyna, this is Samuel. Let me address your second question that's more around the ESG. As you probably know, the ESG stands for environmental, social and governance. And then so starting from this year, we're going to publish our annual ESG report. If we break down the ESG by each of the buckets, we pay a lot of attention on gas emission. The data centers definitely consume a lot of power. So we have a responsibility to drive up the renewable energy use. That's number one.

Other than the gas emissions, we also pay a lot of attention on the water use and also waste and pollution and also because we're big consumer from a land use point of view. So how do we better utilize the land, protect the earth, that's going to be very, very important.

Aside from the environmental, we also pay a lot of attention on the social, definitely from the workforce diversity inclusion point of view and safety management. Last year, COVID-19 pandemic basically tells every one of us on this planet that we have to keep up the safety management for our task force and things like that. And also, the way we engage with customers and to interact with the communities is also our focus.

And then from a governance point of view, the way we structure the Board, the amount of the independent Board members and how do we -- guiding the companies moving forward, making decisions and things like that and business conduct and also the value system, how do we keep up being transparent from a reporting point of view and also keep up the -- from the cyber-attack and things like that. And so those are the areas that we are -- luckily because we have been in the industry for 25 years, so we have a lot of pattern and practice that we want to share and report out. So my suggestion would be, please stay tuned for our coming update. And we're going to share more data, first of all, not just from the annual report point of view, but on a quarterly basis, where we're reporting out our progress. Thanks.

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**Operator**

Our next question comes from the line of John Choi from Daiwa Capital Markets.

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**John Choi** ***Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap***

I have 2 questions. First of all, on your guidance for 2021, can you kind of elaborate? On the CapEx side, you already said about RMB 5 billion to RMB 6 billion. Presumably, this does not factor in the M&A side. So if it does, I guess, this will imply that there will be more upside for both CapEx and M&A capacity?

And my second question is about your future financing because I know that on one of the slide decks, I think Page 26, you also talked about your debt structure and also your cash position. With the very aggressive capacity expansion for the next few years down the road, can you kind of, management, elaborate a bit more detail, are you guys trying to do so?

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**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Thank you, James. For our -- sorry, thank you, John. For our CapEx guidance amounting RMB 5 billion to RMB 6 billion, actually around 80% were before the construction of the data center for the IT and power, and the 20% were before the land and building and M&A. We have bottom up knowledge. So in the future, if we secure more resources for the delivery of the year 2022 or the year beyond or we have signed some sizable M&As, we may increase those CapEx guidance.

And for our financing strategy, as we mentioned before, we are very prudent. We are aiming to reserve more capital to support our future expansion plans. As we have disclosed 25,000 cabinet delivery plan each year, we will reserve more capital for those plans. In this January, we have completed the CB issuance and risen more capital. In the future, at the company level, we have diversified funding channel from both equity and debt side. And also, on the project financing level, we have made very good progress with the local banks. For example, in the year 2020, we have signed project financing contracts amounting USD 350 million. That will support our data center construction in the future. So from the future, there will be a mix of the financings from both the [listed] company level as well as the project financing level. Thank you.

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**Operator**

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

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

My first question is, I see we introduced Tencent Cloud as new logo. So how is your outlook on collaboration with Tencent in the future?

And the second question is more in terms of the strategy side because you have carried out the dual-core strategy in 2020, and we have made significant progress, including multiple cloud companies. So is there any change on [strategy focus weight] on wholesale and retail. In terms of the proportion, what's the service weight on wholesale and retail, respectively?

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**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Yes. Actually, as we mentioned regarding to the potential wholesale customers, they are the public cloud service provider as well as the top internet companies. So now for the new logo, we have very good progress with them. And we also have good progress with other potential customers to capture their future demand. So once we have very significant progress, we will disclose to the market.

And regarding to the strategy, I will move to Samuel.

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

Yes. Okay. Hongjie, nice meeting you virtually. Yes, last year, we mentioned about we have a dual-core growth engine, and we continue to execute on that. As a matter of fact, one of the good progress that you have seen from the earnings release is, we signed the wholesale MOU with a popular content community and social platform company and also the online entertainment company and things like that. Some of them, I would say, grew up from the retail segment point of view. So if you look at our 2 growth engines, basically, they go hand in hand, supporting each other and things like that.

From the retail side, I mentioned last year, the pandemic, most of the companies are starting to accelerate their digital transformation. Therefore, a lot of the add-on services that would require. And those add-on services in the past considered to be a competitive advantage. Now it's a competitive requirement. So we'll continue to partner with our ecosystem, providing more. And part of the indicator you can see is we maintain the previous day, the monthly recurring revenue from a retail side point of view. And this quarter, we still maintain roughly about 9,000 per month. And so that's a good indicator. So that should help to answer your question. Thank you.

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**Operator**

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

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

Congratulations on the strong results. Two questions from me. First, when I multiply your utilization rates with total capacity, the implied utilized cabinets for 4Q '20 dropped slightly Q-on-Q. Could you share with us the reasons behind? And as we further expand our capacity, how do we look at the utilization rate in FY '21?

And my second question is, have we seen wholesale customers incorporating more carbon-neutral-related requirements in the data center specifications? And would there be any impact to our margin due to this?

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**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Thank you, Chris. Regarding to the utilization rates for the ramp-up and new built, actually the decrease in Q4 was due to the delivery, 9,000 deliveries in Q3 and Q4, which will increase the denominator in the formula. But from a billable cabinet perspective, we still have very good progress in the whole year of 2020. We captured the demand from both wholesale and retail customers, and we sell more cabinets as well as more value-added services to them. So that's a formula question. So maybe we can clarify offline with you. Thank you.

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

Chris, this is Samuel. To answer your question again, that's more like -- that's more around the ESG. As I said previously, starting from this year, we are going to provide our annual ESG report. Other than environmental, we're also going to pay equal attention on the social and governance. And specifically around environmental because you probably know, first of all, from a carbon emission point of view, China has attributed roughly about 10% for the entire world. And then in data center, specifically in China, it's a big portion of that, roughly about 2.4% of the total power consumption.

So we have the responsibility as a market leader for carrier-neutral data center providers. We have the responsibility to continue to increase our renewable energy utilization mix. And also, we have to continue to improve the effectiveness of our power and water usage. And so with that, we are going to publish our progress and also our commitments from an annual point of view. And having said that, every single quarter, we would like to provide more granular data to share with all the institutional investors and the industries. Thank you.

**Operator**

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

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

My question is about the operating expenses. I saw some OpEx, for example, sales and marketing and SG&A, increase -- for the fourth quarter of last year increased quarter-over-quarter and year-over-year. Just wonder what's the future trend of this OpEx to sales ratio is.

And another quick question is on this new item of impairment of long-lived assets. Just wonder whether this is just only a year-end review of some prudent accounting reviews or there is some specific reasons for this item.

**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

Thank you, Ethan. Regarding to the operating expenses, we will use the adjusted operating expenses to valuate our operating efficiency. Actually, for the whole year of 2020, we achieved good progress in operating efficiency. The overall total -- adjusted operating expenses as a percentage of revenue was 15.7% compared to 17.5% in 2019. And this year, we will still try to improve our operations in all aspects. So this year, we aim to achieve the operating -- adjusted operating expenses as a percentage of revenue. The OpEx rate will be around 15%, nearly 1 percentage point from last year.

And regarding to the impairment of long-lived assed, you are right, we take a very prudent accounting treatment for that. And this was a one-off charge in our income statement. Actually, it was caused by a devaluation of assets related to the MVNO and fixed wireless business in Hong Kong, and they were acquired back in 2012. So this was a one-off impairment.

**Operator**

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

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

I have a follow-up question. Could you remind us what is the exact definition of a wholesale customer in terms of like their cabinet size or any other measures?

And then a related one on that is that now you have more than 1 wholesale customers. Wondering if we could get more details in terms of wholesale versus retail for your customer mix, your cabinet mix and also your -- potentially your wholesale MRR versus retail.

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

Tina, this is Samuel. Let me try to address your questions. So first of all, if you look at the data center definition, honestly, from a worldwide perspective, it's going to be super hard to define. From a global, I would say, practice, there are 5 different categories, if you will, number one being hyperscalers, and hyperscalers tend to be -- I would say, in the past and probably today, tend to refer to those public cloud service providers. And number two category will be wholesale colocation, and then the wholesale colocation in the past tend to be referred to more than 10,000 racks as a ballpark number. But again, that number may not be accurate year-over-year. And the third one being the retail colocation. And the fourth one being the carrier-specific ones. And the fifth one being the enterprise data center. So these 5 buckets were sort of defined in the IDC industry in the past.

So today, if you look at the hyperscale and wholesale colocation on one hand versus the retail colocation and our full stack services on the other hand, actually, in our investor presentation deck that we have a specific page, Page 7, and tried to provide more granular information from our dual-core growth strategy point of view. So if I have to use our, I would say, pattern and practice point of view, to give you a better view, the wholesale customers that we're trying to target in on those hyperscalers, again, in the past, tend to be more public cloud service providers, but we're seeing a lot of big data internet companies could be categorized as the hyperscalers. And these set of customers tend to require huge amount of space, power and also, first of all, to support their massive scale needs, but they're also requiring some of the customization, tailor-made solutions, things like that.

On the retail side, these are the set of customers going through digital transformation. They may not have one [bulky] data center but probably have multiple data centers, requiring an active business continuity, disaster recovery purposes. They probably need more than the pure colo, but requiring the connection services, bare metal and also the other value-added services to support their market cloud management and things like that. So these are a few very distinct segments. So that's the reason, internally, we carefully separate them and then provide the services to meet their needs. I hope that answers your questions, Tina.

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

Yes. Thank you very much, Samuel. Just a very quick follow-up. So when you disclose your retail MRR, right, how many customers or what are the customers that you exclude when you calculate the retail MRR?

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

In my understanding, we have not provided the detailed numbers of our data center customers. But what I can say is, we basically exclude roughly about a dozen customers. Those are the wholesale customers out of the total data center customers.

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

Okay. So in other words, they don't have to be getting like at least 1,000 cabinets from Vianet, just maybe, for example, some of the logos that you have shown on Slide 7 under wholesale and then maybe a number of other big internet customers. Is that like a reasonable understanding?

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

Yes. I think that's a reasonable understanding. But again, I want to make sure that the line is not very distinct, it could be blurred because some of the retail customers, when they continue to grow up, they become more, first of all, demanding. They have a lot of customization needs. They can easily grow from 5,000 racks to 10,000 racks. And so it could basically grow from a retail to wholesale. So that's possible. So it's not black or white. These 2 -- first of all, the way we define the wholesale versus retail, there are fundamental differences. The cost structure differences, the skill-set differences. The needs are different. And so that's the reason we have 2 sets of sales force to look after these 2 segments. So it's not purely either/or. It could be a grow up from retail become wholesale customers. And we're starting to see more, I would say, support or synergy between the 2 segments, just in case.

**Operator**

I would now like to hand the conference back to the management for closing. Please go ahead.

**Xiao Liu** ***21Vianet Group, Inc. - Group CFO & President of IDC Large Custom Business Group***

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

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.