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## Q3 2024 VNET GROUP INC EARNINGS CALL

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An LSEG Business

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- **Gavin Shen** *VNET Group Inc - Founder, Executive Chairperson & interim Chief Executive Officer*
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- **Shuyun Che** *CICC - Analyst*
- **Daley Li** *BofA Securities - Analyst*
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# PRESENTATION

### Operator

Hello, ladies and gentlemen. Thank you for standing by for the third-quarter 2024 earnings conference call for VNET Group Inc.

After the management's prepared remarks, there will be a question and answer session. (Operator Instructions)

Participants from our management include Mr. Gavin Shen, rotating President; Mr. Qiyu Wang, Chief Financial Officer; Mr. Ju Ma, Executive Vice President; Mr. Qi Yang, Senior Vice President; Ms. Xinyuan Liu, Investor Relations Director of the company.

Please note that today's conference call is being recorded. I would now like to turn the call over to the first speaker today, Ms. Xinyuan Liu. Please go ahead.

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

Thank you, operator. Hello, everyone and welcome to our third-quarter 2024 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 US Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual



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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 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 Gavin Shen, our rotating President; and Qiyu Wang, our CFO.

Gavin and Qiyu 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 ir.vnet.com.

Now, let's get started with today's presentation.

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## Gavin Shen *VNET Group Inc - Founder, Executive Chairperson & interim Chief Executive Officer*

Good morning and good evening, everyone. Thank you for joining our call today. I'll start with an overview of our third quarter results. Let's turn to slide 4.

We delivered a strong quarter, led by a 12.4% year-over-year increase in net revenues to RMB2.12 billion, mainly driven by the rapid growth of our wholesale IDC business.

Adjusted EBITDA also increased by 20.2% year over year to RMB595 million, thanks to our cost and resource allocation optimization efforts.

Our wholesale business maintained its strong growth momentum, with net revenues from this segment increasing by a remarkable 86.4% year over year to RMB523 million as we capitalized on rising demand.

Wholesale capacity in service reached 358 megawatts as of the end of September, increasing by 69 megawatts year over year, and 26 megawatts quarter over quarter. Wholesale capacity utilized reached 279 megawatts, increasing by 119 megawatts year over year, and 27 megawatts quarter over quarter. This reflects our ability to scale effectively and respond to the market's expanding digital infrastructure needs.

The utilization rate of our wholesale business rose by 2.1 percentage points quarter over quarter to 78%, a healthy pace in this high-demand environment, and the utilization rate of our mature wholesale business reached a new high of 95.6%. Our retail IDC business continued to progress smoothly, with capacity in service and utilization rate remaining stable as of the end of September.

Furthermore, our ample cash position and unused credit line provided reliable support for the company's current business operations and future development. Together, these results position us well for sustained growth and demonstrate our dedication to enhancing shareholder value.

Moving on to our new order wins during this quarter. We continued attracting high-quality customers during the third quarter, with six new order wins totaling 84 megawatts. As you can see on slide 5, in addition to the two IT services orders totaling 35 megawatts for our Ulanqab Campus that we mentioned on our last earnings call, we have secured another three orders for our data centers in the Greater Beijing area and one elsewhere.

Specifically, we won a new wholesale order from an Internet customer for 32 megawatts at our Huailai IDC Campus located in Hebei province, one of our green computing clusters, which I will review in more detail later. We also received a 14-megawatt wholesale order from another Internet customer and a 1.2-megawatt retail order from a semiconductor customer for our data centers in Hebei province, as well as a 1.8-megawatt retail order from an Information and Communications Technology services customer for our data center in the northern region. The strong demand for our wholesale and retail data centers across key regions underscores the enduring customer appeal of our reliable and high-quality IDC services.

Now, let's turn to slide 8 to look at the AI demand trends that shaped our development during the third quarter. We made significant strides in harnessing the growing AI-driven demand for high-performance computing power.



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We continue to see an increasing number of industries adopting AI applications for enhanced operational efficiency. AI-driven demand among our customers primarily stems from leading internet clients and industry leaders in the cloud computing services, short video, local services, financial, and semiconductors sectors.

We have expanded our AI computing capabilities in response, aligning our infrastructure with the market's surging needs for AI model training and data processing. Currently, over 98% of our wholesale capacity in service is capable of meeting high-performance computing power requirements, empowering us to quickly capture and accommodate customers' AI-driven demand.

We have witnessed the unprecedented surge of large language model development starting in 2023. During the past year, we have won around 300 megawatts of new orders, approximately 90% of which are set to facilitate AI demands of our customers. Additionally, we have deepened our collaboration with clients to better understand their specific AI requirements, enabling us to tailor our services to our customers more effectively.

We are consistently advancing our research and development on power modules and refrigeration and heat dissipation solutions that can achieve air cooling of up to 30 kilowatts per cabinet and liquid cooling of up to 120 kilowatts per cabinet. We also continued to enhance our data centers with innovative designs, high-density cabinet deployments, and cutting-edge cooling technology.

Moving to slide 9. I'd like to introduce our Huailai IDC Campus, which is part of the Zhangjiakou cluster of the national East Data, West Computing project, and serves as a demonstration project for the national collaborative innovation system for national integrated big data centers. It is situated just approximately 60 kilometers from downtown Beijing, close to customers, enabling us to efficiently meet their high demands for computing power, including the integration of training and inference for large language models as well as model fine-tuning.

Our Huailai IDC Campus is a hyperscale green computing cluster, with a total planned construction land area of around 326,000 square meters. Huailai, located in Hebei Province, northwest of Beijing, is home to our third computing power cluster, succeeding those in Ulanqab and Taicang. Huailai offers multiple strategic and geographic advantages.

Currently, our Huailai IDC Campus' capacity stands at approximately 500 megawatts, and we plan to build the Campus into a gigawatt-level capacity computing cluster in phases. Owing to its exceptional service capabilities, our Huailai IDC Campus recently won a 32-megawatt order from an Internet customer to meet its demand for AI computing power.

On a related note, we continue to develop our green data center business and recently received approval from the Energy Administration of Inner Mongolia for our first source-grid-load-storage integrated project, a 300,000-kilowatt project known as the Ulanqab Green Energy Project. The approved project encompasses 200,000 kilowatts of wind power, and 100,000 kilowatts of photovoltaic power, as well as 45,000 kilowatts of co-located energy storage, equivalent to 180,000 kilowatt-hours. It also includes the construction of a dedicated electricity transmission line from renewable energy sources to our Ulanqab data center.

Once stable operations are achieved, the project is expected to generate approximately 700 million kilowatt-hours of green energy annually, providing our Ulanqab Campus with a steady, long-term supply of green energy.

We view the Ulanqab Green Energy Project as another value creator for our business, and are very excited about its approval. It is one of just a few source-grid-load-storage integrated projects in the China's data center industry equipped with a dedicated electricity transmission line.

Not only will this project supply renewable, cost-efficient, green power to our Ulanqab Campus, but it will also create more synergies for our strategic cooperation with Shandong Hi-Speed Holdings Group Limited to develop renewable energy projects in northern China. Furthermore, Ulanqab's approval will elevate the proportion of green power used in our data centers, propelling progress in carbon neutrality, one of our key ESG initiatives.

Now, moving on to a regional data update. As you can see on slide 10, we remained focused on the development of the Yangtze River Delta and the Greater Beijing Area, with the latter region's under construction capacity proportion increasing during the third quarter, mainly driven by the construction of our Huailai IDC Campus.

Now, let's delve into our business updates, starting with our wholesale business on slide 11. Wholesale business continues to drive our overall growth, recording an 86.4% year-over-year increase in revenue this quarter. Our capacity in service increased by 26 MW quarter over quarter, reaching a total of 358 megawatts as of the end of September for an increase of 69 megawatts from the end of September of last year.

The utilization rate increased to 78.0% compared with 75.9% last quarter, with a mature capacity utilization rate of 95.6% and a ramp-up capacity utilization rate of 46.4%. These utilization rate improvements reflect our ability to facilitate quick customer move-



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ins and our timely responses to customer needs during the quarter. We have a clear growth path for our wholesale data center capacity.

Let's move on to slide 12, which illustrates our progress in capacity development and utilization. Notably, our utilized capacity continued increasing during the past quarters, from 236 megawatts in the first quarter, to 252 megawatts in the second quarter, to 279 megawatts in the third quarter, primarily driven by strong customer demand from E-JS Campus 02 C and N-OR06.

We also further ramped up construction in the past quarters to capture future rising demand, increasing capacity under construction from 139 megawatts in the first quarter to 279 megawatts in the second quarter to a total of 297 megawatts in the third quarter. This increase is mainly attributed to the new order for our N-OR Campus 01 and N-HB Campus 01 B, which will provide reliable, high-performance computing infrastructure to our client.

By the end of September, the pre-commitment rate for capacity under construction had risen to 88.4%. Additionally, the capacity held for short-term future development increased by 72 megawatts to 192 megawatts, primarily due to an abundance of demand with high certainty. We are closely communicating with our potential customers on multiple orders, which are soon expected to enter the construction phase.

Given our high pre-commitment rate and the continuous growth in market demand, we are planning to further expand the capacity of our wholesale data centers, targeting a total capacity of approximately 1 gigawatt to solidify our leadership position in the data center services sector.

Moving to our retail business on slide 13. Our retail IDC business continued to operate smoothly in the third quarter. The retail capacity in-service has increased slightly to 52,250 cabinets. The utilization rate was 63.1% as of the end of September, with mature capacity utilization rate holding steady at 69.5%.

Our MRR per retail cabinet has slightly increased to RMB8,788 this quarter from RMB8,753 last quarter.

Turning to our new capacity on slide 14, we see that the resource pipeline for our IDC business remains robust. Currently, we have seven data centers under construction. We plan to deliver an IT capacity of approximately 297 megawatts over the next 12 months from the fourth quarter of 2024 to the third quarter of 2025.

Our capacity in service for the wholesale business was 358 megawatts as of the end of the third quarter of 2024, meaning, that our expected new capacity is equivalent to approximately 83% of our current capacity in service. Specifically, we anticipate delivering approximately 191 megawatts in total during the upcoming fourth quarter of 2024 and the first quarter of 2025, and approximately 105 megawatts in total during the second and third quarters of 2025.

For our non-IDC business, our DYX business continued to expand its customer base by acquiring two new customers in the industrial and manufacturing sectors, offering its premium ICT consultation and SD-WAN services to support customers' digital upgrades and business operations. DYX currently boasts more than 220 PoPs in over 100 cities worldwide and will strategically expand its footprint to other countries and regions going forward.

In conclusion, the strong execution of our effective strategy drove strong third-quarter results. Looking ahead, we will continue to refine our core strengths to build high-performance data centers and offer innovative IDC services. We are confident that our industry know-how and innovation capabilities will empower our success amid the AI boom.

Additionally, building on our strategic cooperation with Shandong Hi-Speed Holdings Group, we will continue to develop our green energy business and deepen our commitment to our ESG goals. Propelling VNET's high-quality and sustainable development remains our priority as we strive to deliver value to all of our stakeholders.

Thank you, everyone. I will now turn the call over to Qiyu to discuss more about our operating and financial performance.

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## Qiyu Wang *VNET Group Inc - Chief Financial Officer*

Good morning and good evening, everyone. Before we start the detailed discussion of our third-quarter performance, please note that unless otherwise stated, all the financials we present today are for the third quarter of 2024, and are in Renminbi terms. Furthermore, unless otherwise specified, all the growth rates I am reviewing are on a year over year basis.

Moving on to slide 16. In the third quarter, we remained focused on high quality revenue businesses, with high margins and delivered strong financial and operational results. Our total net revenues increased by 12.4% to RMB2.12 billion. Our adjusted cash gross profit increased by 16.6% to RMB861 million， while our adjusted EBITDA also grew year over year by 20.2% to RMB595



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million.

In addition, our efforts to improve operational efficiency paid off, with sales and marketing, research and development, and general and administrative expenses decreasing by 12.9% year over year to RMB246 million for the third quarter.

Going forward, we will continue to refine cost control measures and optimize our working capital to maintain our robust financial position. Additionally, the company has deepened its emphasis on profitability through high-quality development, controlling costs and increasing efficiencies. While maintaining healthy cash flow, we also significantly improved our profitability this year, delivering a net profit for the third quarter as well as a cumulative net profit for the first nine months of 2024.

In the third quarter of 2024, the company recorded a net profit of RMB332 million. A significant improvement from the net loss of RMB40 million in the same period of last year. Sequentially, we recorded a substantial increase of 362% primarily due to the company's consistent operational improvements and a gain on debt extinguishment.

Let's look more closely at our topline, as we have mentioned previously, we have subdivided total net revenues from IDC business into wholesale and retail IDC business based on the nature and scale of our data center projects with revenues from non IDC business remaining separate.

As you can see on slide 17, our wholesale revenues remained our key revenue growth driver with strong momentum increasing by 86% year over year to RMB523 million, mainly driven by the E-JS Campus 02 C and N-OR06 data centers.

Our retail revenues continued to account for the largest part of net revenues. Our retail revenues remained relatively stable increasing sequentially by 1.1% to RMB975 million. Our non-IDC business continued to progress smoothly. During the third quarter, we maintained solid margins thanks to our continuous efforts to enhance overall efficiency.

As we have shown on slide 18, our adjusted cash gross margins and EBITDA margins remain quite stable.

Moving on to liquidity on slide 19, we maintained a strong cash flow during the quarter. We recorded a net operating cash inflow of RMB1.43 billion for the first nine months of 2024, slightly higher than that of the same period of last year, primarily due to steady payment collection from customers and effectively measured expenditures.

Our cash position remained healthy with the company's total cash equivalents or strictly cash and short term investments reaching RMB2.1 billion stable compared to that as of the end of the second quarter.

Next, let's take a look at debt on slide. 20. We maintained our prudent approach to debt management, with our net debt to the trailing 12 months adjusted EBITDA ratio at 4.9, and total debt to the trailing 12 months adjusted EBITDA ratio at 5.6 both remaining at a healthy level.

We prioritize long term debt maturity planning in our debt and strategic management to ensure the security of debt repayment. Notably, the company's short and medium term debt maturing in 2024 to 2026 comprises only 32% of our total debt.

Turning now to CapEx spending which we view as a critical investment in our future growth and industry presence. As you can see on slide 21, our CapEx has remained relatively stable over the past three years of between RMB3 billion and RMB4 billion. In the first nine months of 2024 our CapEx was RMB3.35 billion, of which RMB2.3 billion was used for wholesale business expansion.

We expect our CapEx for the full year 2024 will likely reach the high end of our guidance around RMB5.5 billion supported by our healthy balance sheet, solid cash flow, and the steady progress we're making in selling mature assets. We have sufficient capital to support our CapEx plan for the near future, while maintaining a reasonable leverage position.

Now, moving to our full year guidance for 2024 on slide 22. we have decided to increase our full year guidance for total net revenues and adjusted EBITDA, primarily because faster than expected move ins from our core customers' wholesale projects are accelerating the growth of our wholesale IDC business, along iwth our retail business is steady progress.

Specifically, we expect total net revenues to be in the range of RMB8 billion to RMB8.1 billion a year over year increase of 7.9% to 9.3% an adjusted EBITDA to be in the range of RMB2.28 billion to RMB2.3 billion, representing a year over year increase of 16.4% to 17.4%.

Next, I want to share some details on our pre-REITs project. As previously mentioned, we are proactively advancing the capitalization of our wholesale data centers and have made significant progress recently. Currently, we are in the final stages of entering into a definitive agreement with one of China's leading insurance companies and expect to sign this agreement by the end of 2024 to co-establish a pre-REITs fund through which the fund will acquire a 100% stake in the first and second phases of our Taicang IDC campus.



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VNET will retain a 51% equity interest in the underlying assets through the fund and will continue to consolidate the project's financial results in the company's financial statement, and manage the daily operations of the assets to provide a seamless customer experience.

The underlying assets have a total IT capacity of approximately 210 megawatts and are valued at RMB5.74 billion. VNET will receive approximately RMB1.15 billion, as the consideration of equity interest held by the insurance company. This transaction marks the first direct investment by a major Chinese insurance company in mature data center assets in China.

It highlights VNET's prowess in effectively managing capital cycle, bolstering and diversifying the company's capital sources with long term investors, while further enhancing the company's balance sheet efficiency. If this project progresses as planned, it will further strengthen our cash reserves and reduce our debt ratio. The company will continue to pursue exits for our existing premium data centers through multi-tiered REITs structures including public REITs. This will create a steady source of incremental cash flow and build a healthy sustainable capital structure and asset operating cycle supporting our high quality long term development.

As Gavin mentioned earlier, our source grid load storage integrated project in Ulanqab, facilitated in collaboration with Shandong Hi-Speed Holdings Group Limited, recently obtained a local governmental approval. This project is expected to come into service during the second half of next year and will further increase the proportion of VNET's green energy usage.

Going forward, we will further deepen our commitment to our ESG initiatives. To sum up, we are pleased to deliver another better-than-expected quarter led by robust growth in our wholesale business, continued revenue growth, and significantly enhanced profitability, thanks to the strong execution of our effective dual core strategy. Supported by our robust business fundamentals and healthy cash position, we will continue to invest in business development especially AI driven opportunities to propel our high quality sustainable growth.

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

# QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Sara Wang, UBS.

### Sara Wang *UBS Group AG - Analyst*

(interpreted)

Thank you for the opportunity to ask a question. I have two questions.

First is that it's actually encouraging to see that we have like multiple new orders for this quarter rather than a one and two, only have a new customer. So when I ask, what is driving the demand here, is it still AI computing demand? And how is the pricing or return on the new orders we see this year? Maybe a little bit more on the pricing. So given some of our peers also raising CapEx, how shall we see the competition going forward?

My second question is on the green energy project in Ulanqab. I believe it's definitely helping to win more customers and long-term relationships. How shall we think about pricing and margin of this project, given we now have an integrated solution of the green power supply? So can we think about the pricing and margin maybe better than before?

### Ju Ma *VNET Group Inc - Executive Vice President & General Manager, AIDC Strategic Business Group*

(interpreted)

This is Ju Ma, Executive Vice President. I will take your first question. As you rightly pointed out to that, we did have a lot of new orders from Q3. And to be specific, we signed 6 new orders [in Q3], totaling 84 megawatts. And most of them are AI workload-



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related requests.

And so with that being said, our total new orders received for the past year totaled 300 megawatts. And among them, 90% of them are AI workload related. So of course, you are right that the growth is mainly driven by the market demand from AI-related workload.

And looking forward, that we do notice that in the market there is stronger demand for inference as more applications are being rolled out because of the AI boom. And we are seeing a faster growth of inference-related requests in the market. So our reading is that [training-related demand will remain the major part of new orders accounting for around 90%], inference will become a stronger market demand going into next year [with higher] (added by company after the call) proportion among the new orders.

So to respond to market needs like this, we are planning ahead. And one of the moves that we did is plan for our Huailai IDC center campus because, given its geographic proximity to Beijing, and we are actually launching integrated training and inference services to cater to users' needs. And just a quick add to that, we have started to serve our clients for their inferencing needs starting from Q3 in our retail campus. So that's an answer for your question on the new orders.

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### Gavin Shen *VNET Group Inc - Founder, Executive Chairperson & interim Chief Executive Officer*

(interpreted)

On your second question, this is Gavin, rotating President. For the pricing of our newly secured orders, it remained consistent with our previous orders. As we are seeing a more balanced supply and demand, we are anticipating the price will become gradually stable in the second half of the next year and even starting to pick up.

And for our wholesale campus, because we are seeing more effect of economies of scale, our construction cost is gradually coming down, also, we are having [lower financing cost] (corrected by company after the call). So that brings the total cost for these operational costs for these centers are coming down. And as a result, we are seeing increased ROI.

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### Qi Yang *VNET Group Inc - Senior Vice President*

(interpreted)

This is Qi Yang. I will take your third question on the Ulanqab green project. Recently, we have received the approval from related energy authorities in Inner Mongolia Autonomous Region. I think the approval will significantly increase the synergies between us and the Shandong Hi-Speed. With related to the construction work, it's going to be carried out by the subsidiaries owned by Shandong Hi-Speed.

That's the new energy construction company. They will be doing the construction work for that. So we have received a total granted capacity of 300,000 kilowatts for this project. So once this project is put into operation, it is expected to generate a total of 700 million worth of kilowatt hours of green electricity. So this would provide long-term，[stable] green energy supply to our Ulanqab campus.

We are expecting that in the second half of the year, the electricity will be integrated into the grid, and start to supply the power. So once that's done, it's going to significantly increase the proportion of green energy used by the Ulanqab campus next year. And with regard to the margin, with all of that being said, I think the [project’s] (added by company after the call) margin will improve.

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

Next question, please.

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### Operator

Shuyun Che, CICC.

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### Shuyun Che *CICC - Analyst*



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(interpreted)

Congratulations on the strong results. My first question is for the pre-REITs in Taicang. This project has made progress, may I know more details such as the current utilization rate, revenue and EBITDA margin. And will the company carry out similar projects in the future?

And my second question is about VNET plans to deliver 297 megawatts in the wholesale business in the next 12 months. Could management please share with us the outlook of the CapEx next year?

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### Qiyu Wang *VNET Group Inc - Chief Financial Officer*

(interpreted)

I'll take your first question. Actually, the Taicang project has been in the making for a while, and I'm very pleased to be able to share more details at this earnings call. For the first phase and second phase of our Taicang campus, right now, the utilization rate is around 50% plus, give or take. And given that is still at the ramping up stage, we expected that the utilization rate will rise to 95% by the end of next year. And by that time, we would have an EBITDA at around RMB570 million.

The Taicang project marks the very first example where China's large-scale insurance company directly purchased the equity stake of domestic IDC. And we have gained a lot of experience through this project. In the process, we have engaged four to five large insurance companies and has had engaged with them extensively. And this laid a very good, solid foundation for our future cooperation.

So going forward, we would advance similar projects. So at the moment, the utilization rate for our Taicang campus is around 50%. So we would likely to advance to such a project when the utilization rate is lower than this because this would allow us to generate some [equity] cash flow [in early stage] (corrected by company after the call).

Meanwhile, we will still consolidate the financial statements into our group level statements. And our goal for 2025 is to carry out the pre-REITs project for our first phase of Ulanqab project.

(interpreted)

Next, on CapEx. We are seeing robust demand for our wholesale services, and that would translate into increased CapEx for 2025. Our strategy is to work closely with our strategic suppliers and to maximize the synergies in order to make sure that our CapEx grow at a steady pace.

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### Operator

Daley Li, Bank of America Securities.

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### Daley Li *BofA Securities - Analyst*

(interpreted)

Hi, management. Thanks for taking my questions. Congrats on the strong results. I have two questions. First one is regarding the demand outlook by region, we have a project in Mongolia Ulanqab, but also in Huailai in Hebei province. So how do we see the demand in the two regions in the next two to three years? And which region we may spend more CapEx in the future?

My second question is about the gross profit margin. We see the Q3 gross margin is in a good trend. And what's the key drivers for the better gross profit margin? How do we see the future gross margin trend?

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### Gavin Shen *VNET Group Inc - Founder, Executive Chairperson & interim Chief Executive Officer*

(interpreted)

I'll take your first question. Right now, for the group's development strategy, we would strategically focus on three campuses or three regions, while exploring the possibilities and opportunities at other regions. So the first strategic focus area is the Ulanqab campus.



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So we position this as a green, scalable, large language model driven or oriented campus. And our goal is to build it into a gigawatt scale campus.

The majority of the requests or tasks we're handling at this campus is training related. So that's the majority of the request or the workloads that we're handling at this campus，[while it will also supports some inference-related demand] (added by company after the call).

And the second strategic focus region is our Huailai campus at Hebei province. We have started to receive new orders for this campus. So we are very pleased to see that. And our goal is also to scale this into a gigawatt campus. Given its geographic proximity to Beijing, it could enjoy the spillover benefit. So we're going to use this campus to accommodate inference as well as some small-scale training-related workloads. And other than that, we're going to use this campus to accommodate some other requests by our existing clients from Beijing.

And the next strategic campus for us is the Taicang campus located in Jiangsu province. This is a core node to support our clients in the Jiangsu region. We're planning to carry out the construction for the third phases. Meanwhile, we'll explore other opportunities in Suzhou and within Jiangsu province to expand our wholesale business in that region.

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### Qiyu Wang *VNET Group Inc - Chief Financial Officer*

(interpreted)

On your question on gross profit margin, there are three reasons that could explain the increase of our gross profit margin. One, we are constantly optimizing our IDC centers'[operation] (added by company after the call). That includes the optimization for the personnel as well as PUE. And the second reason is the rising share of wholesale business among our revenue because it has a higher gross profit margin than retail business as well as non-IDC business. And the third reason is that last year, we made adjustment to our discount term so that we have a lower discount rate.

All these three reasons explained the rise of our gross profit margin. On the last reason, third reason, we adjust the term for our depreciation. So hence, it's more -- it's reflecting the actual situation on the ground. So with these three conditions and reasons we are having a better gross profit margin. [All these three reasons explained the rise of our gross profit margin] (added by company after the call).

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### Operator

Tom Tang, Morgan Stanley.

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### Tom Tang *Morgan Stanley & Co LLC - Analyst*

(interpreted)

Thanks for the opportunity to ask question. Congratulations on the very strong results. I only have one question, which is on the fourth quarter outlook. So can we have some more details on how we think about the demand in the fourth quarter, especially for wholesale business and if we're expecting to see more new orders coming in, whether it's from AI or training or different traditional demand?

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### Gavin Shen *VNET Group Inc - Founder, Executive Chairperson & interim Chief Executive Officer*

(interpreted)

Let me take your question. If you look at our guidance, we expect that our wholesale business to grow at a faster pace in Q4. And in terms of the revenue and gross profit for our retail business and non-IDC business, that will be consistent with the guidance that we give. So it's going to be relatively consistent or flat.

If you look at our deliveries in Q3, and based on that, we are confident that we are able to fulfill the annual delivery target set. So with that being said, we are confident that we can fulfill our operational plan going forward.



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**Operator**

Edison Lee, Jefferies.

## Edison Lee *Jefferies Group LLC - Analyst*

(interpreted)

(technical difficulty) in terms of CapEx, in terms of maybe tech requirement for AI training versus inferencing demand? That's question number one. Question number two is (technical difficulty). And question number three is looking at (technical difficulty) your amount of power held for short-term development actually went up from 120 megawatts to 192 megawatts. So can you explain to us what was driving that growth?

(technical difficulty)

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

Hello, Edison, can you please repeat your third question?

## Edison Lee *Jefferies Group LLC - Analyst*

Number one question or number three question?

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

Number three.

## Edison Lee *Jefferies Group LLC - Analyst*

Number three is on your page 12, future development short term (technical difficulty).

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

Sorry, your connection is not stable.

## Edison Lee *Jefferies Group LLC - Analyst*

I'll ask in the call back, don't worry. Just, let's talk about the first two questions.

## Ju Ma *VNET Group Inc - Executive Vice President & General Manager, AIDC Strategic Business Group*

(interpreted)

I'll take your first question. Given the current landscape supply and demand for the AI in China, we expect the demand for training-related workload will continue to perform very strongly, and that's going to last into next year.

However, we did notice that there are some industries like quantitative trading firms, as well as autonomous driving firms. they are having stronger demand for inference and training, integrated services, as well as pure inferencing-related requests. That's why we



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are actually expanding our services at Huailai and our retail service campuses to accommodate such demand. So we expect such a trend to continue well into next year and then with a stronger, quicker growth some time in Q4 and next year.

## Qiyu Wang *VNET Group Inc - Chief Financial Officer*

(interpreted)

I'll talk about the CapEx. Other than the investment in our wholesale business, so with regard to the RMB1 billion, over half of that is spent on our retail data centers that is used for the maintenance, [expansion] (added by company after the call), repairs and repurposing of these retail data centers. And we used the other half of the RMB1 billion to purchase GPU-related hardwares to meet users' demand. So that will be delivered coupled with their other related [demand for our data centers] (added by company after the call).

## Operator

Timothy Zhao, Goldman Sachs.

## Timothy Zhao *Goldman Sachs Group Inc - Analyst*

(interpreted)

Great. I have two questions here. One is that, I think on your wholesale IDC business, based on my calculation, I think in terms of the monthly recurring revenue or monthly services revenue, it seems that there is a Q on Q increase to a bigger extent. Could you explain the reason or the drivers behind?

And secondly, I think for your in service capacity for the wholesale IDC business, just wondering if management can give us any outlook for the fourth quarter this year and next year, please?

## Gavin Shen *VNET Group Inc - Founder, Executive Chairperson & interim Chief Executive Officer*

(interpreted)

Let me take your first question. I think that's mainly because for our wholesale business, the clients are moving in a lot faster than we expected. So that's why we are seeing the monthly recurring revenue increasing quarter over quarter.

And other than that, thanks to the effective scale of economies, the decrease in construction costs as well as the funding costs, our profitability is also improving, and it's better than our expectation. So these two reasons explain the increased MRR.

(interpreted)

On the delivery outlook, we maintain our current delivery plan unchanged. We are going to deliver the rest of the planned deliveries in Q4. So that's on the planned delivery for this year.

Looking ahead to the next year, given the orders that we have received as well as the potential expansion with our existing clients, we have already also given our guidance on the capacity to be delivered [in next four quarters] (corrected by company after the call).

## Operator

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

## Editor

Statements in English on this transcript were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring this event.



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