

VNET Group, Inc.

Investor Presentation

August 2023

世纪互联
VNET

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2Q 2023 Highlights



Financials (in RMB)

Revenue: **1,822 million** (+5.6% YoY)

Adjusted EBITDA: **535 million** (+9.9% YoY)



Liquidity (in RMB)

Unused Credit Line: **2,534 million**

Cash Position⁽¹⁾: **2,761 million**



Retail & Wholesale Updates

RMB 9,530

Retail IDC MRR⁽²⁾ per cabinet

~431 MW

Wholesale capacity in service & under MoU



Capacity

86,927 R total cabinets under management

51,316 R utilized cabinets

59.0%⁽³⁾ overall utilization rate

Source: Company data as of June 30, 2023.

Notes:

1. Cash position refers to cash, cash equivalents, restricted cash and short-term investments.
2. Retail IDC MRR refers to monthly recurring revenues for the retail IDC business.
3. The overall utilization rate is calculated by dividing the number of customer-utilized cabinets by the total cabinets under management at the end of the period.

Largest Customer Order Wins

Region	IDC Code	Capacity Contracted / Under MoU (MW)	Signing Time of Contract / MoU	Customer Sector	Project Type
Greater Beijing Area	N-HB01	7	2Q23	Local Service	Retail
Yangtze River Delta	E-JS Campus 02	45	3Q23	Internet	Wholesale



Source: Company data.

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A Pioneer and Leader in China's Fast Growing IDC Market

Pioneer and Leader

- ✓ A **leading carrier- and cloud-neutral data center services provider in China** with 27 years of experience
- ✓ **~10%⁽¹⁾ market share** of China's carrier-neutral data center services market
- ✓ **220** approved and pending **patents** and **296 copyright registrations⁽²⁾**

Market Potential

- ✓ China's carrier-neutral data center services market is **fast growing**
- ✓ **Growing demand for IDC services from generative AI** as training and optimizing AI models require massive computing power
- ✓ The pandemic **accelerates enterprises' digital transformation** — either scaling the transformative efforts or rapidly pivoting to innovate, catch up and, maintain operations

Future Upside

- ✓ **Dual-core strategy** addressing both wholesale and retail IDC market opportunities
- ✓ **Accelerate capacity roll-out** and enrich value-added services
- ✓ Investment in **technology**

Sources:

1. Frost & Sullivan 2022 report issued in March 2023.

2. Company data as of December 31, 2022.

Dual-Core Growth Strategy

Retail

Wholesale

Retail Colocation



Full-stack Services

Focusing on **high-growth verticals** which require colocation interconnectivity, bare-metal, and other value-added services



Financial Services



IT Services



Enterprises Digitalization



Mobility



Big Data



Manufacturing Industry

Hyperscale IDC



Interconnectivity Services

Targeting **hyperscalers** which require huge amount of space and power to support massive scaling needs



Our Strengths:

- ✓ Scalable IDCs located in Tier-1 metros, surrounding areas, and satellite cities, providing premium colocation and interconnectivity offerings
- ✓ Full-stack managed services for enterprise customers, addressing various digital transformation needs
- ✓ All-round industry ecosystem, providing additional add-on solutions



Our Strengths:

- ✓ Dedicated team with 27 years of experience and reputation in datacenter design, construction, and operations
- ✓ Providing tailor-made solutions suitable for clients' needs
- ✓ Established supply chain as well as comprehensive planning and service capabilities

ESG Initiatives – Commitment to Sustainability



Commitment to achieve both targets of **carbon neutrality** and **100% renewable energy usage** by 2030



Received **A** rating by MSCI, representing the **highest** ranking to-date in China's Internet Services & Infrastructure industry



Scored **57** by the S&P Corporate Sustainability Assessment, ranking in the **top 10%** among all companies in the IT Services industry globally



Achieved **B** rating from CDP's climate change questionnaire, exceeding that of **96%** of participating companies in China



Being selected for inclusion in S&P Global's first China edition of *The Sustainability Yearbook 2023*

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Differentiated Business Model with Comprehensive Offerings

Managed Hosting Services (IDC)

Cloud Services

VPN Services¹



Services

- Co-location
- Interconnectivity
- Hybrid IT Services
- Other Value-added Services
- Customized, High-power Density Solutions



- Multi-protocol Label Switching (MPLS) & Software-defined Wide Area Network (SD-WAN)
- Internet Access & Network Security Solutions
- Cloud & SaaS Solutions



Strengths

- ✓ Multi-carrier & multi-cloud connectivity
- ✓ High-performing facility & network
- ✓ Turn-key solutions tailored to customer needs
- ✓ Long track record of outstanding operation performance

- ✓ Long-term strategic partnership with Microsoft in mainland China for public and hybrid cloud services
- ✓ IaaS, PaaS, and SaaS to enterprise and individual end customers

- ✓ Best-in-class, enterprise-grade network services
- ✓ 230 POPs² across Asia
- ✓ Customized VPN solutions for enterprise customers across various verticals

Broad-based and high quality solution suite to meet customers' mission critical needs

Source: Company information.

1. VPN refers to virtual private network.

2. POP refers to point of presence as of June 30, 2023.

Resource Pipeline to Support IDC Growth

Region	IDC Code	Tenure	Status	2023 Cabinet Delivery Plan
Greater Beijing Area	BJ17	Leased	Under Construction	750
	BJ18	Owned	Under Construction	2,300
Yangtze River Delta	E-JS Campus 02 A	Owned	Under Construction	1,000
	E-JS Campus 02 B	Owned	Under Construction	1,000
	E-JS Campus 02 C	Owned	Under Construction	1,000
Other Region	N-OR06	Leased	Under Construction	3,200
Secured Resources				9,250
Expansion Target				8,000-9,000

Source: Company data.

Note: Cabinet delivery numbers including blank space are rounded.

Wholesale Capacity In-Service

Region	IDC Code	Capacity Contracted / Under MoU (MW)
Greater Beijing Area	BJ06	2
	BJ12	9
	BJ15	7
	N-HB02	47
	N-HB03	11
Yangtze River Delta	E-JS Campus 01	42
	E-JS01	5
	E-JS02	64
	E-JS03	15
	SH04	2
	SH05	7
	SH06	11
Other Region	N-OR02	29
	N-OR04	14
	N-OR05	15
Total		281

Source: Company data as of June 30, 2023.
 Note: IT capacity numbers measured by megawatt are rounded.

Wholesale Capacity Under Construction

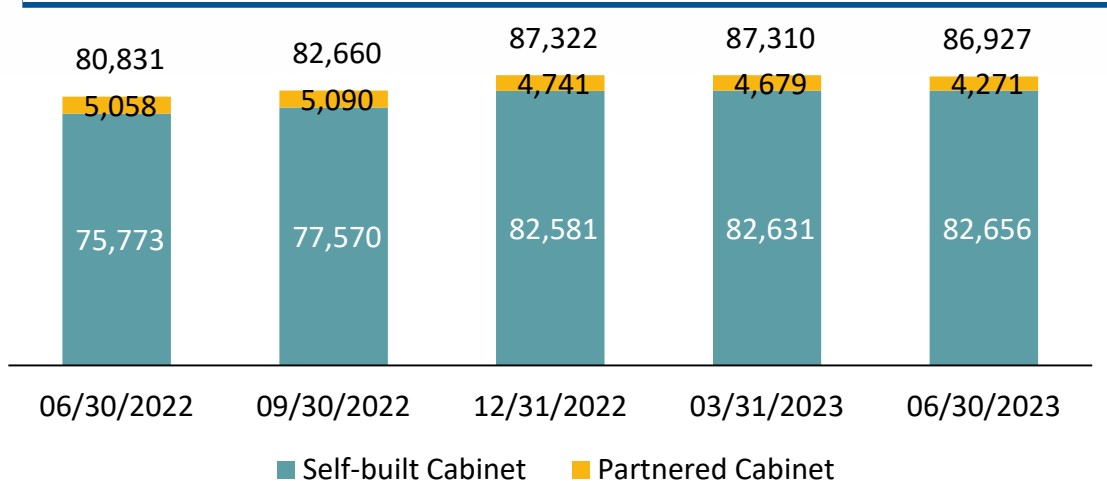


Region	IDC Code	Capacity Contracted / Under MoU (MW)
Yangtze River Delta	E-JS Campus 02	115
Other Region	W-OR03	2
	N-OR06	33
Total		150

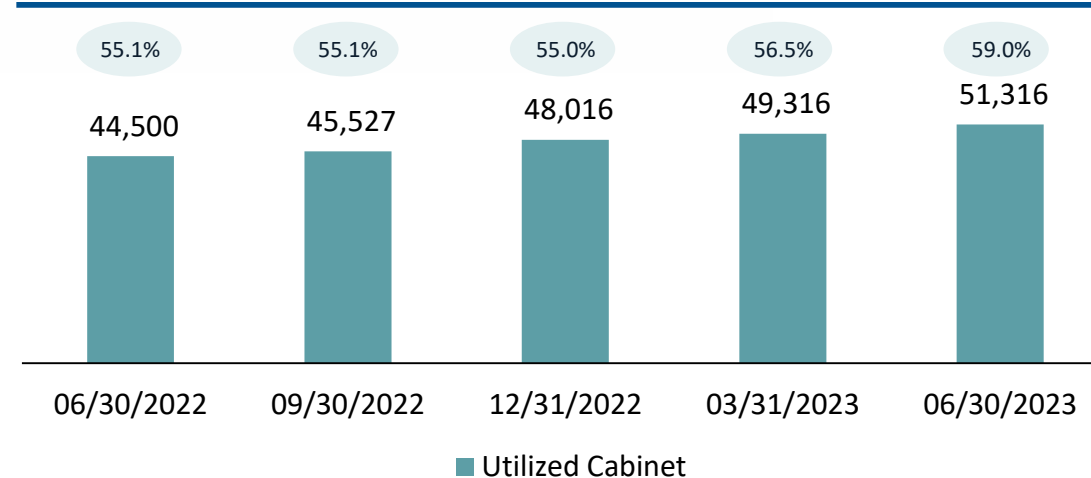
Source: Company data as of June 30, 2023.
Note: IT capacity numbers measured by megawatt are rounded.

Strategically Located Network of Premium Data Centers

Total Capacity ⁽¹⁾



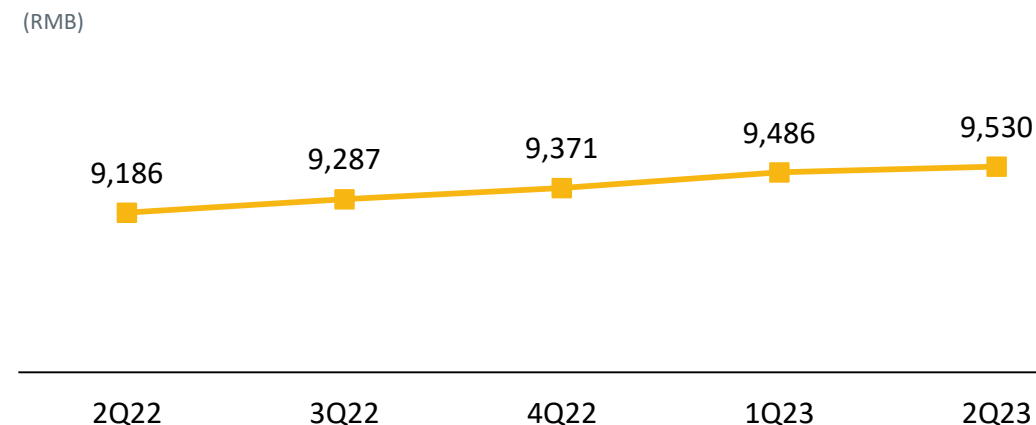
Utilized Capacity & Overall Utilization Rate ⁽²⁾



Capacity by Region ⁽³⁾

	# of Self-built Cabinets	% Contribution
Greater Beijing Area	39,100	47.3%
Yangtze River Delta	23,500	28.5%
Greater Bay Area	9,300	11.2%
Others	10,700	13.0%
Total	82,600	100.0%

Retail IDC MRR per Cabinet ⁽⁴⁾



Source: Company data as of June 30, 2023.

1. Total capacity refers to number of total cabinets under management at the end of the period.

2. The overall utilization rate is calculated by dividing the number of customer-utilized cabinets divided by the total cabinets under management at the end of the period.

3. Regional cabinet numbers including blank space are rounded.

4. MRR refers to Average Monthly Recurring Revenues.

Large and Diversified Customer Base with Strong Loyalty

- **>7,000** enterprise customers, of which **>1,400** customers have enjoyed our colocation, connectivity, bare metal, hybrid cloud and maintenance services, etc.
- Around **90%** of net revenues have been recurring revenues since IPO
- Low churn rate for core IDC business, constantly **below 1%** demonstrating our high customer retention
- Maintain low concentration risk with top 20 customers contributing **40.1%** of total revenues in 2Q23
- Since 2020, the Company began to generate revenue from **wholesale** customers; **~431MW** in service and under MoU



Sources:
1. Company data as of June 30, 2023.

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2Q23 Financial Highlights



RMB MM	2Q22	1Q23	2Q23	YoY	QoQ
Net revenues	1,724.9	1,805.8	1,821.7	5.6%	0.9%
Gross profit	357.8	352.4	342.7	-4.2%	-2.7%
Adjusted cash gross profit ⁽¹⁾	713.7	754.3	742.9	4.1%	-1.5%
<i>Adjusted cash gross margin</i>	<i>41.4%</i>	<i>41.8%</i>	<i>40.8%</i>	<i>-0.6 pps</i>	<i>-1.0 pps</i>
Adjusted EBITDA⁽²⁾	486.9	556.2	535.0	9.9%	-3.8%
<i>Adjusted EBITDA margin</i>	<i>28.2%</i>	<i>30.8%</i>	<i>29.4%</i>	<i>1.2 pps</i>	<i>-1.4 pps</i>

Source: Company data as of June 30, 2023.

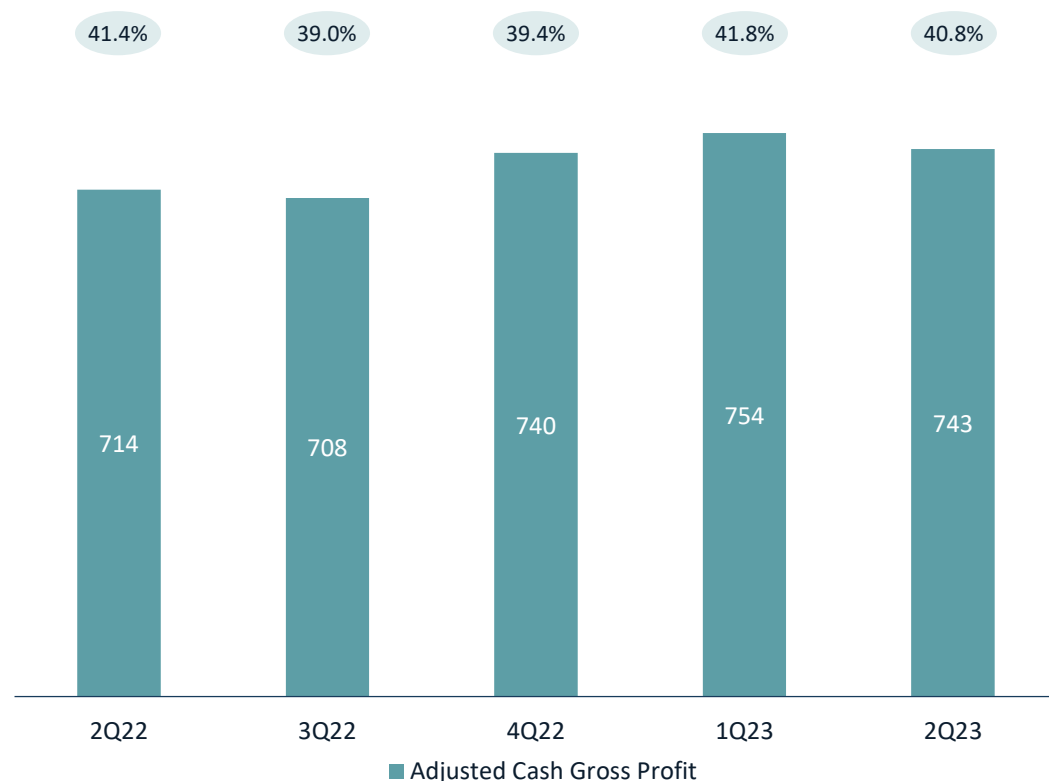
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

2. Adjusted EBITDA is defined as operating profit plus depreciation and amortization, share based compensation expenses, compensation for postcombination employment in an acquisition.

Healthy Margins Through Efficiency Enhancement

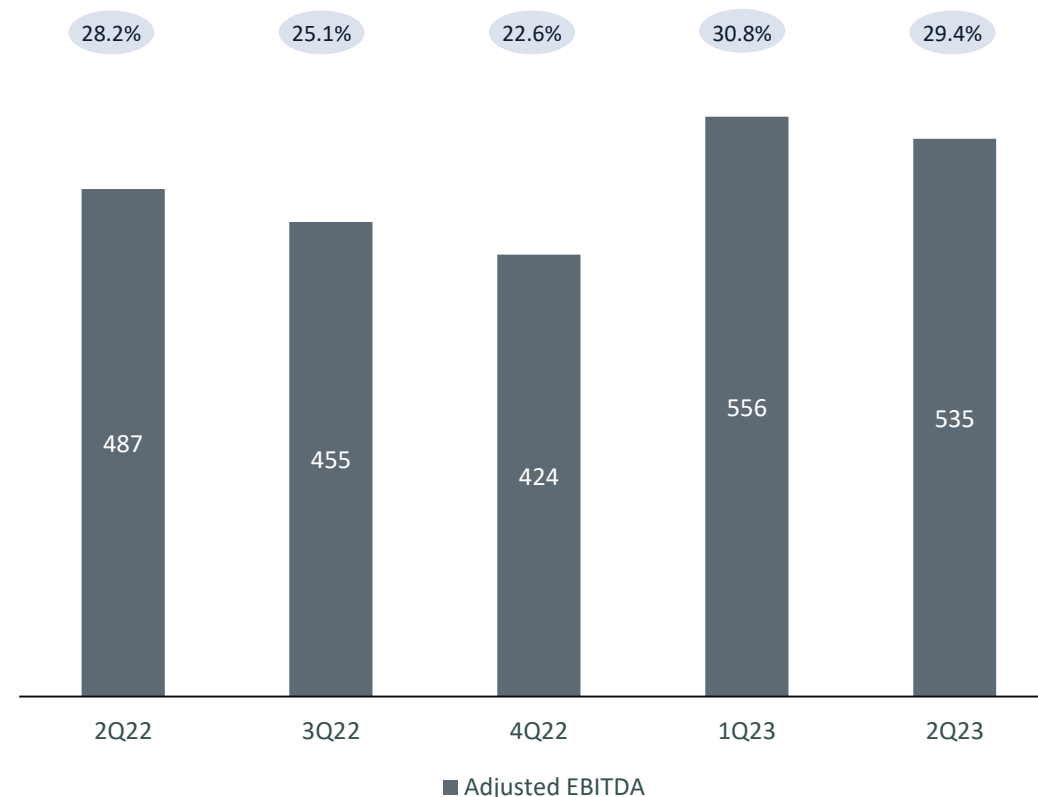
Adjusted Cash Gross Profit & Margin ⁽¹⁾

(RMB MM)



Adjusted EBITDA & Margin ⁽²⁾

(RMB MM)



Source: Company data as of June 30, 2023.

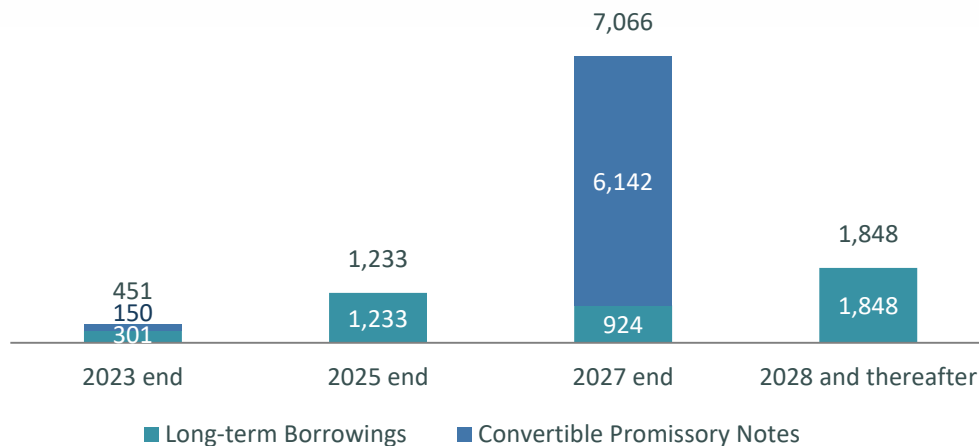
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

2. Adjusted EBITDA is defined as operating profit plus depreciation and amortization, share based compensation expenses, compensation for postcombination employment in an acquisition.

Well Laddered Debt Profile and Strong Liquidity Position

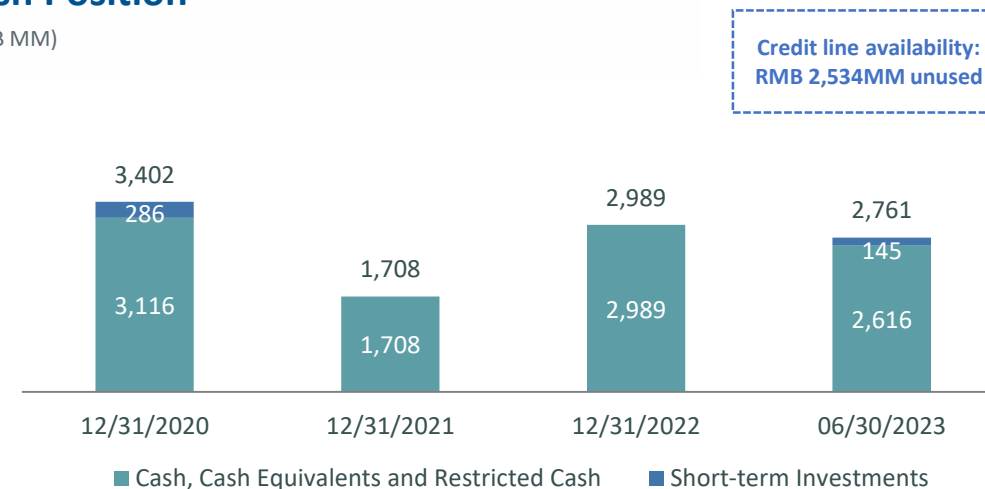
Debt Breakdown by Maturity

(RMB MM)



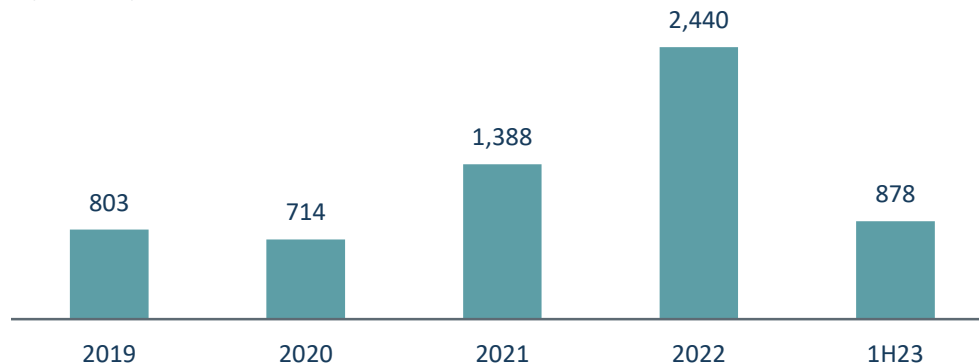
Cash Position (1)

(RMB MM)



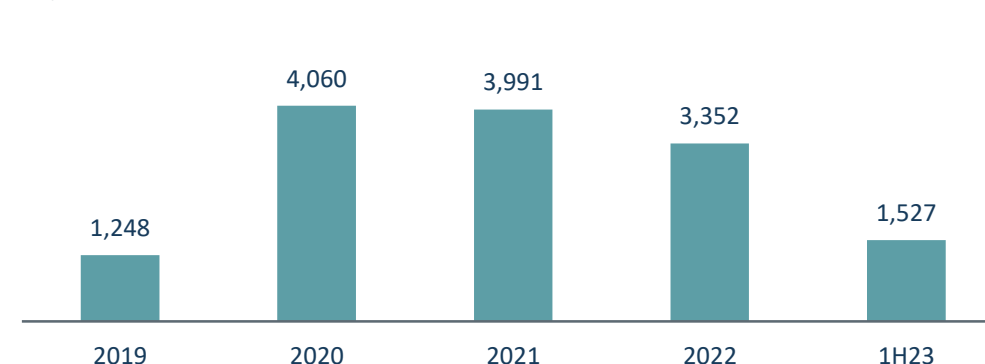
Operating Cash Flow

(RMB MM)



Capital Expenditure (2)

(RMB MM)



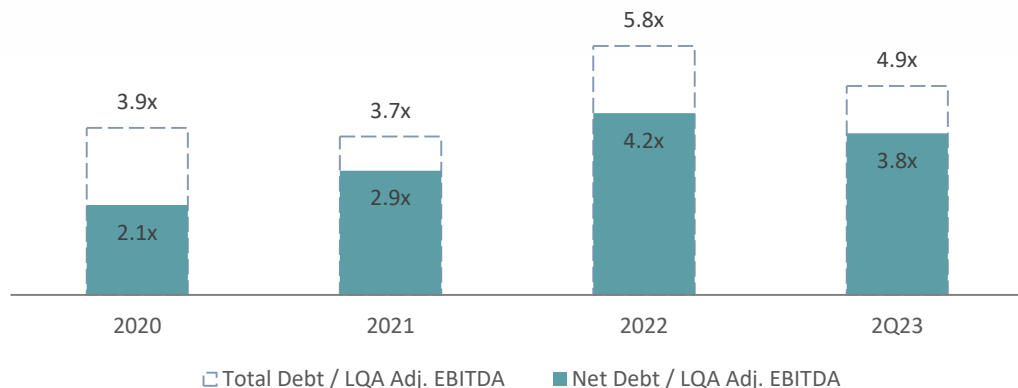
Source: Company data as of June 30, 2023.

1. Cash position refers to cash, cash equivalents, restricted cash and short-term investments.

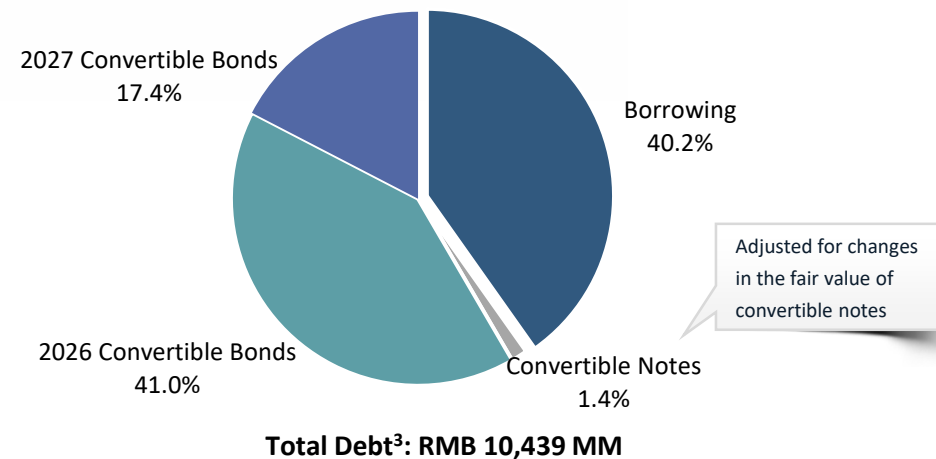
2. Capital expenditure refers to the overall outflow of funds for acquiring property and equipment, intangible assets, land use rights, engaging in mergers and acquisitions as well as long-term investments.

Healthy Capital Structure

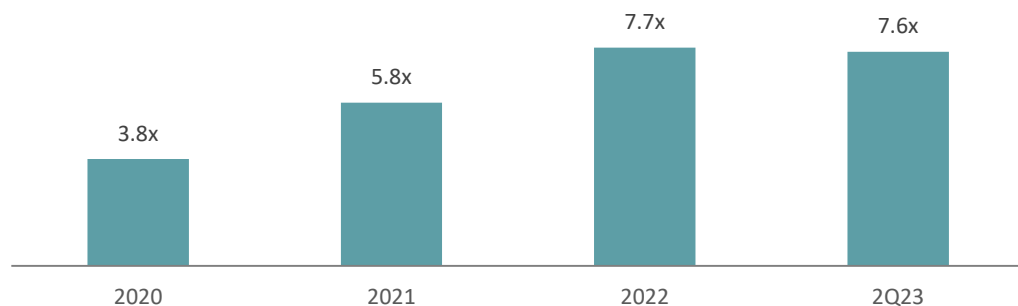
Total Debt & Net Debt / LQA Adjusted EBITDA¹



Debt Structure as of June 30, 2023



LTM Adjusted EBITDA Interest Coverage²



Diversified Financing Channels

- Diversified financing channels with current debt structure of a balanced mix of bank borrowings, bond payables and convertible notes
- Received Blackstone’s investment of US\$150 million in the form of preferred shares in June 2020
- Raised ~US\$400 million from equity follow-on offering in August 2020
- Raised ~US\$600 million from convertible note offering in January 2021
- Signed a master joint venture investment agreement with a sovereign wealth fund in December 2021
- Received Blackstone’s investment of US\$250 million in the form of convertible note in January 2022

Source: Company data as of June 30, 2023.

1. Total Debt = Short-term and long-term bank borrowings + Bond Payables + Convertible Notes; Net Debt = Total Debt – Cash and Cash Equivalent; LQA Adj. EBITDA represents the current quarter Adj. EBITDA*4 or Last Quarter Annualized; Adjusted EBITDA is defined as operating profit plus depreciation and amortization, share based compensation expenses, changes in the fair value of contingent purchase consideration payables, compensation for postcombination employment in an acquisition, impairment of long-lived assets, impairment of loan receivable to potential investee, and impairment of receivables from equity investees.

2. Adjusted EBITDA Interest Coverage = Adjusted EBITDA / Net Interest Expense (interest expense - interest income).

3. Adjusted for changes in the fair value of convertible notes.

Guidance

RMB MM	2022 Actual	2023 Guidance	Implied YoY
Revenues	7,065	7,600 - 7,900	7.6% - 11.8%
Adjusted EBITDA	1,873	2,025 - 2,125	8.1% - 13.5%

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Key P&L Items

Amount in thousands	Three months ended			
	June 30, 2022 RMB	March 31, 2023 RMB	June 30, 2023 RMB	June 30, 2023 US\$
Net revenues	1,724,863	1,805,782	1,821,744	251,230
Cost of revenues	(1,367,086)	(1,453,402)	(1,478,995)	(203,963)
Gross profit	357,777	352,380	342,749	47,267
Sales and marketing expenses	(80,368)	(65,776)	(63,068)	(8,697)
Research and development expenses	(76,740)	(79,750)	(81,126)	(11,188)
General and administrative expenses	(167,044)	(127,447)	(128,017)	(17,654)
Operating profit	36,058	115,235	93,266	12,862
Net interest expense	(59,716)	(64,105)	(61,671)	(8,505)
Other, net	2,203	(2,428)	13,872	1,913
Changes in the fair value of convertible promissory notes	(2,321)	21,298	154	21
Foreign exchange (loss) gain	(319,875)	78,633	(271,630)	(37,459)
(Loss) income before income taxes and gain (loss) from equity method investments	(343,651)	148,633	(226,009)	(31,168)
Income tax expenses	(30,946)	(44,886)	(12,545)	(1,730)
Gain (loss) from equity method investments	1,090	(174)	983	136
Net (loss) income	(373,507)	103,573	(237,571)	(32,762)

GAAP to Non-GAAP Reconciliations

Amount in thousands	Three months ended			
	June 30, 2022	March 31, 2023		June 30, 2023
	RMB	RMB	RMB	US\$
Gross profit	357,777	352,380	342,749	47,267
Plus: depreciation and amortization*	362,003	401,877	400,173	55,186
Plus: share-based compensation expenses	(6,066)	-	-	-
Adjusted cash gross profit	713,714	754,257	742,922	102,453
<i>Adjusted cash gross margin</i>	<i>41.4%</i>	<i>41.8%</i>	<i>40.8%</i>	<i>40.8%</i>
Operating profit	36,058	115,235	93,266	12,862
Plus: depreciation and amortization*	385,876	432,629	433,735	59,815
Plus: share-based compensation expenses	47,485	8,336	8,006	1,104
Plus: compensation for postcombination employment in an acquisition	17,453	-	-	-
Adjusted EBITDA	486,872	556,200	535,007	73,781
<i>Adjusted EBITDA margin</i>	<i>28.2%</i>	<i>30.8%</i>	<i>29.4%</i>	<i>29.4%</i>

Note: * Before the deduction of government grants for three months ended 31 March 2023 and June 30, 2023.

Key Balance Sheet Items

Amount in thousands	As of	As of	
	December 31, 2022	June 30, 2023	
	RMB	RMB	US\$
Cash, cash equivalents, restricted cash and short-term investments	2,989,494	2,761,485	380,826
Accounts and notes receivable, net	1,763,693	2,020,880	278,692
Property and equipment, net	11,964,498	12,396,048	1,709,493
Land use rights, net	576,020	610,195	84,150
Operating lease right-of-use assets, net	3,503,925	3,882,743	535,455
Goodwill	1,364,191	1,364,191	188,131
Total assets	26,948,405	28,816,079	3,973,922
Accounts and notes payable	713,628	743,685	102,559
Borrowings	3,533,876	4,200,531	579,280
Finance lease liabilities	1,253,900	1,326,038	182,869
Operating lease liabilities	3,579,571	3,908,041	538,944
Convertible promissory notes	6,397,037	6,238,750	860,363
Total liabilities	19,966,549	21,908,535	3,021,327
Total VNET Group, Inc. shareholders' equity	6,609,613	6,432,188	887,040
Noncontrolling interest	372,243	475,356	65,555
Total shareholders' equity	6,981,856	6,907,544	952,595
Total liabilities and shareholders' equity	26,948,405	28,816,079	3,973,922

Key Cash Flow Items

Amount in thousands	Three months ended			
	June 30, 2022 RMB	March 31, 2023 RMB	June 30, 2023 RMB	US\$
Net cash generated from operating activities	942,711	455,011	423,476	58,399
Net cash used in investing activities	(578,629)	(701,518)	(1,051,510)	(145,010)
Net cash (used in) generated from financing activities	(161,679)	517,060	(49,153)	(6,778)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	48,962	(17,205)	51,314	7,077
Net increase (decrease) in cash, cash equivalents and restricted cash	251,365	253,348	(625,873)	(86,312)
Cash, cash equivalents and restricted cash at beginning of period	3,364,890	2,989,494	3,242,842	447,208
Cash, cash equivalents and restricted cash at end of period	3,616,255	3,242,842	2,616,969	360,896

Definitions

Term	Definition
Capacity In Service	Data centers which are ready for service
Capacity Under Construction	Data centers which are actively under construction and have not yet reached the stage of being ready for service
Utilized Capacity	Capacity in service that is committed to customers and revenue generating pursuant to the terms of customer agreements remaining in effect
Overall Utilization Rate	The number of customer-utilized cabinets divided by the total cabinets under management at the end of the period
MW	Megawatt
PUE	Power usage effectiveness, a ratio of the total power usage of a data center to the power usage of the IT equipment inside a data center
VPN Services	Virtual private network provided by VNET, including Multiprotocol Label Switching (“MPLS”), software-defined wide area network (“SD-WAN”), internet access and network security solutions, and fully managed network enabling connectivity to enterprises across various industries
Cloud Services	Microsoft’s cloud services, including Azure, Microsoft 365, Dynamics 365 and Power Platform, operated by VNET as strategic partner to customers in mainland China

THANKS!

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IR Contact: Xinyuan Liu