

VNET Group, Inc.

Investor Presentation

March 2023

世纪互联
VNET

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4Q 2022 Highlights



Financials (in RMB)

Revenue: **1,881 million** (+7.7% YoY)

Adjusted EBITDA: **424 million** (-8.3% YoY)



Unused Credit Line

RMB 3,164 million (+1,679 million in 4Q)



Retail & Wholesale Updates

RMB 9,371

Retail IDC MRR⁽¹⁾ per cabinet

~316 MW

Wholesale capacity in service & under MoU
(+33 MW in 4Q)



Capacity

87,322 R total capacity

48,016 R utilized cabinets

55.0%⁽²⁾ for overall utilization rate

Source: Company data as of December 31, 2022.

Notes:

1. Retail IDC MRR refers to Monthly Recurring Revenues for the retail IDC business.

2. 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) ⁽¹⁾	Signing Time of Contract / MoU	Project Type	Customer Sector
Other Region	N-OR06	33	4Q22	Wholesale	Internet
Greater Beijing Area	N-HB01	4	4Q22	Retail	Local Service
Yangtze River Delta	E-JS Campus 02	>100	1Q23	Wholesale	Internet



Source: Company data.

1. Capacity Contracted / Under MoU are rounded.

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

Pioneer and Leader

- ✓ A **leading carrier-neutral and cloud-neutral data center services provider in China** with 26 years of experience
- ✓ **~11%⁽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**
- ✓ **Favorable government policies** for the IDC industry — we deploying our data centers in 5 out of 8 National Computing Hubs to embrace the Eastern Data, Western Computing initiatives
- ✓ 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 2020 report issued in September 2021.

2. Company data as of December 31, 2022.

Dual-Core Growth Strategy

Retail

Retail Colocation



Full-stack Services

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



Financial Services



IT Services



Enterprises Digitalization



Mobility



Big Data



Manufacturing Industry

Our Strengths:

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

Wholesale

Hyperscale IDC



Interconnection Services

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



Our Strengths:

- ✓ Dedicated team with 26 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



Published the first **Carbon Neutrality Action Report**, which details the company's carbon neutrality-related efforts

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Differentiated Business Model with Comprehensive Offerings

Managed Hosting Services (IDC)

Cloud Services

VPN Services¹



Services

- Co-location
- Inter-connectivity
- 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 for customer needs**
- ✓ **Long track record of outstanding operation performance**

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

- ✓ **Best-in-class, enterprise-grade network services**
- ✓ **194 POPs² across Asia**
- ✓ **Customized VPN solutions for enterprise customers across various industry 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 December 31, 2022.

2022 Cabinet Delivery

Region	IDC Code	Tenure	Status	Cabinet Delivered in 2022
Greater Beijing Area	BJ13 (Extension)	Leased	In-Service	500
	N-HB03	Leased	In-Service	1,300
Yangtze River Delta	E-JS03	Leased	In-Service	1,900
	SH04 (Extension)	Owned	In-Service	300
Other Region	N-OR03	Owned	In-Service	1,300
	N-OR04	Leased	In-Service	1,500
	N-OR05	Leased	In-Service	1,550
Secured Resources				8,350
Total Cabinet Delivered				8,438

Source: Company data.

Note: Cabinet delivery numbers including blank space are rounded.

2023 Resource Pipeline to Support IDC Growth



Region	IDC Code	Tenure	Status	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 Projects 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 December 31, 2022.
 Note: IT capacity numbers measured by megawatt are rounded.

Wholesale Projects Under Construction

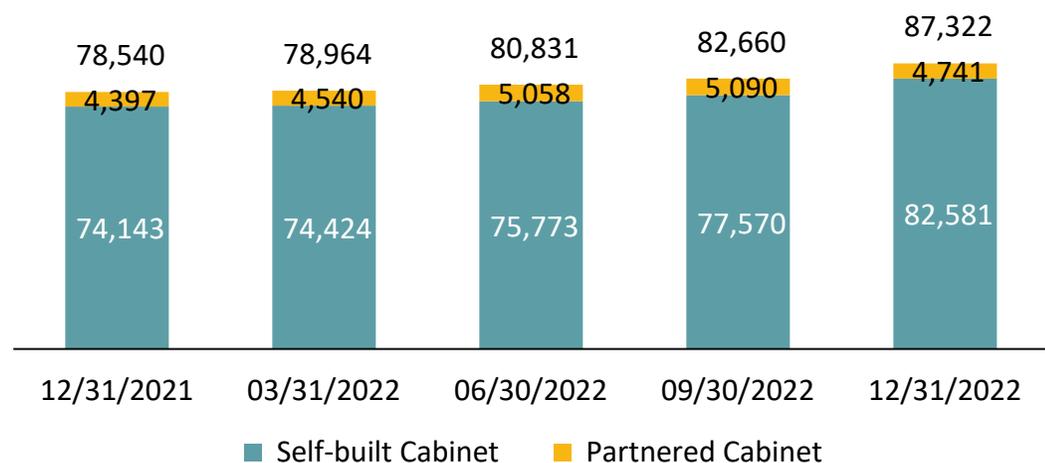


Region	IDC Code	Capacity Contracted / Under MoU (MW)
Other Region	W-OR03	2
	N-OR06	33
Total		35

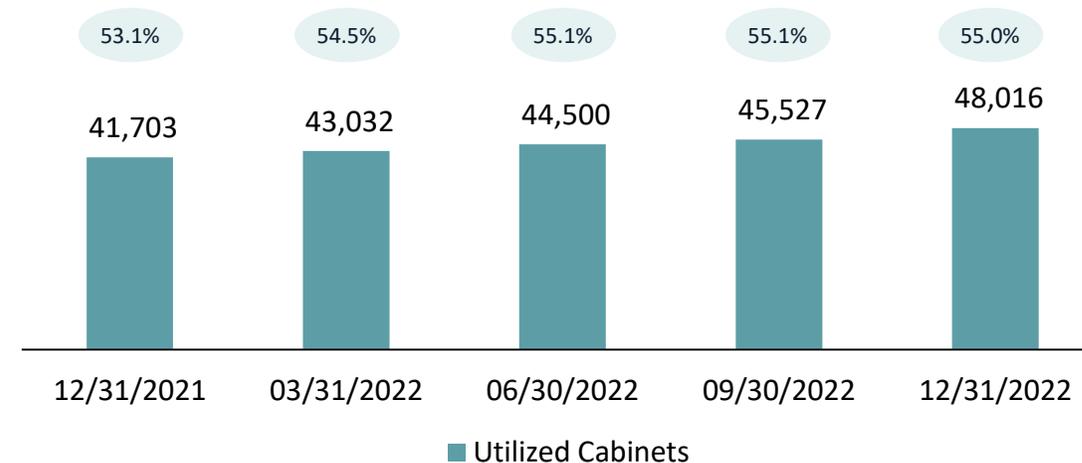
Source: Company data as of December 31, 2022.
Note: IT capacity numbers measured by megawatt are rounded.

Strategically Located Network of Premium Data Centers

Total Capacity ⁽¹⁾



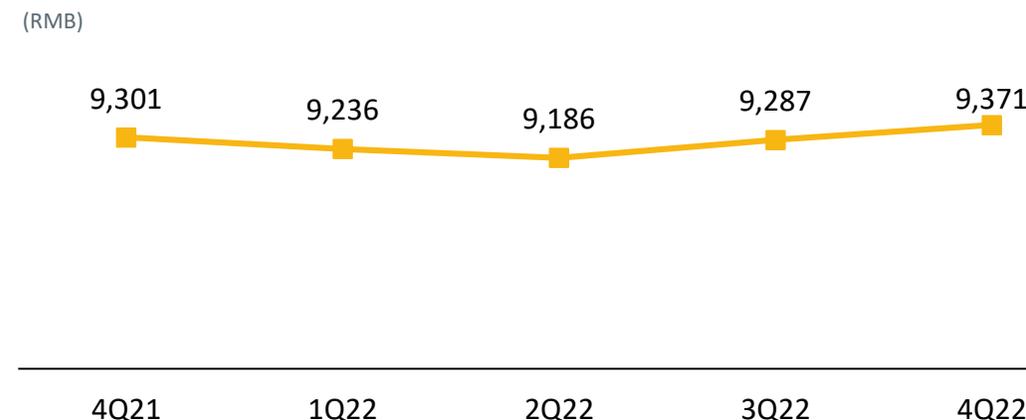
Utilized Capacity & Overall Utilization Rate ⁽²⁾



Capacity by Region ⁽³⁾

	# of Self-built Cabinets	% Contribution
Greater Beijing Area	39,000	47.3%
Yangtze River Delta	23,500	28.5%
Greater Bay Area	9,300	11.2%
Others	10,700	13.0%
Total	82,500	100.0%

Retail IDC MRR per Cabinet ⁽⁴⁾



Source: Company data as of December 31, 2022.

1. Cabinet numbers are measured by the actual numbers at the end of each quarter.

2. 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.

3. Regional cabinet numbers including blank space are rounded.

4. MRR refers to Monthly Recurring Revenues, and is based on the Company's retail IDC business.

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 average quarterly hosting churn rate for core IDC business, consistently **below 1%** demonstrating our high customer retention
- Maintain low concentration of risk with top 20 customers contributing **35.3%** of total revenues in 4Q22
- Since 2020, the Company begins to generate revenue from **wholesale** customers; **~316MW** in service and under MoU*



Source: Company data as of December 31, 2022.

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4Q22 and FY2022 Financial highlights

RMB'MM	4Q21	3Q22	4Q22	YoY	QoQ	FY2021	FY2022	YoY
Net revenues	1,745	1,814	1,881	7.7%	3.7%	6,190	7,065	14.1%
Gross profit	380	317	328	-13.6%	3.7%	1,438	1,358	-5.5%
Adjusted cash gross profit ⁽¹⁾	714	708	740	3.7%	4.6%	2,634	2,846	8.1%
<i>Adjusted cash gross margin</i>	<i>40.9%</i>	<i>39.0%</i>	<i>39.4%</i>	<i>-1.5pps</i>	<i>0.3pps</i>	<i>42.6%</i>	<i>40.3%</i>	<i>-2.3pps</i>
Adjusted EBITDA⁽²⁾	463	455	424	-8.3%	-6.8%	1,754	1,873	6.8%
<i>Adjusted EBITDA margin</i>	<i>26.5%</i>	<i>25.1%</i>	<i>22.6%</i>	<i>-4.0pps</i>	<i>-2.5pps</i>	<i>28.3%</i>	<i>26.5%</i>	<i>-1.8pps</i>

Source: Company data as of December 31, 2022.

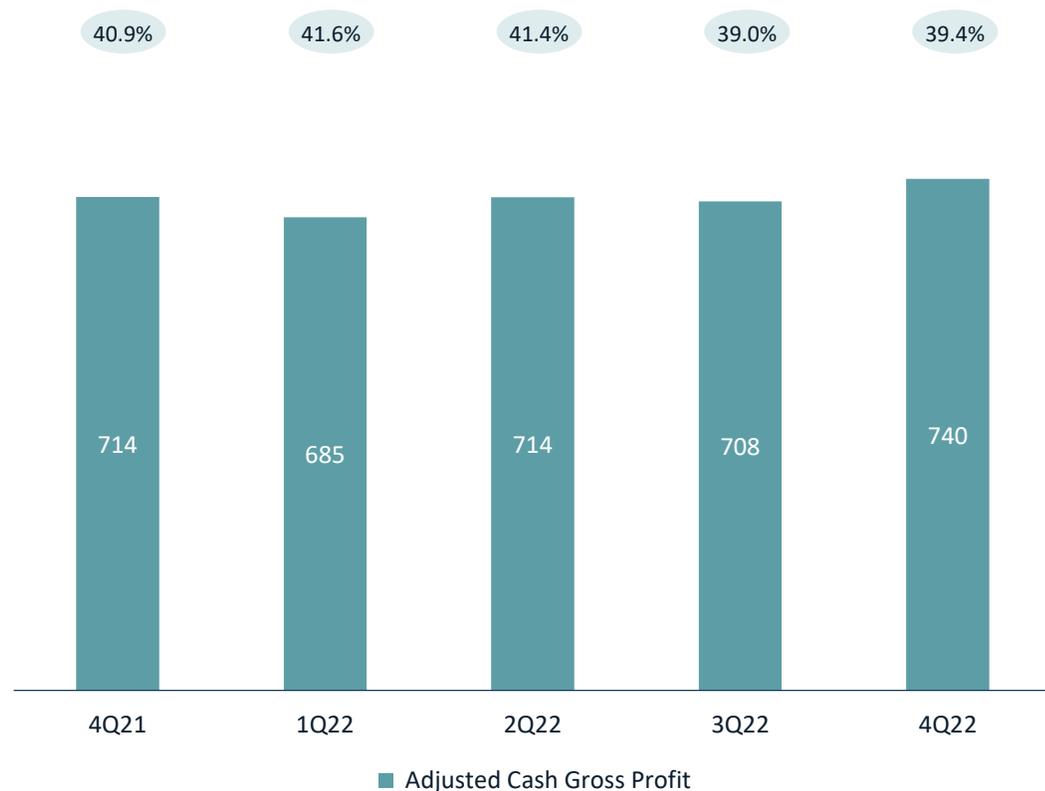
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

2. Adjusted EBITDA defined as EBITDA excluding share-based compensation expenses, impairment of receivables from equity investees, and impairment of long-lived assets.

Healthy Margins Through Efficiency Enhancement

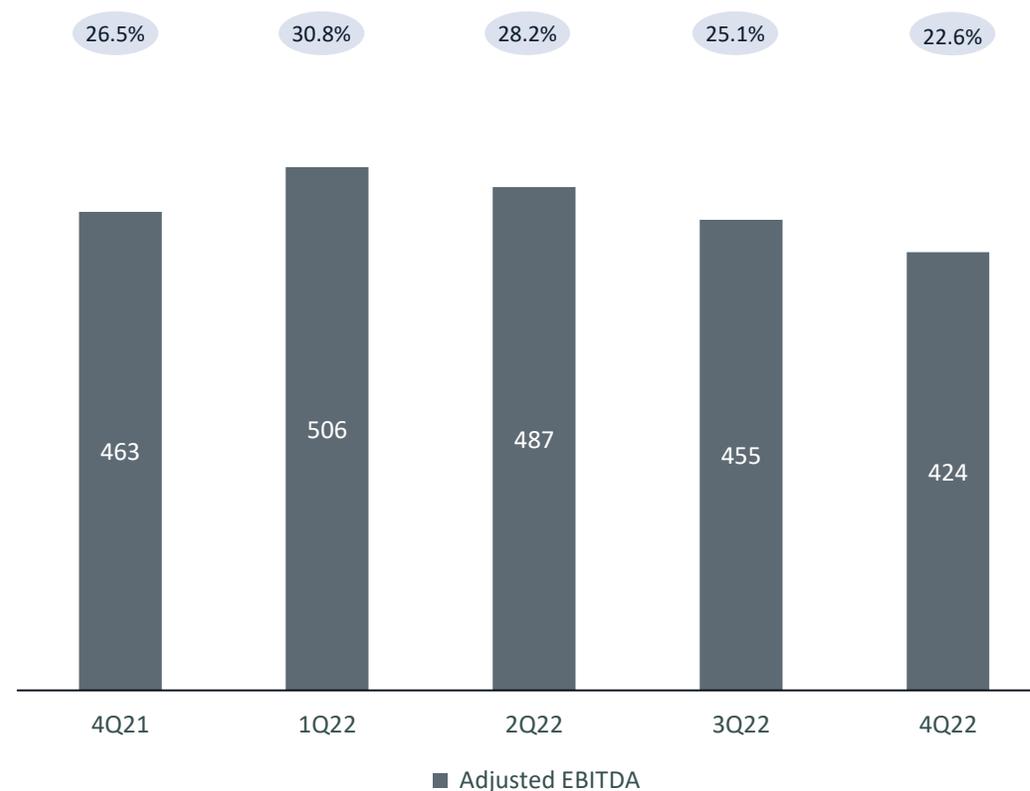
Adjusted Cash Gross Profit & Margin ⁽¹⁾

(RMB mm)



Adjusted EBITDA & Margin ⁽²⁾

(RMB mm)



Source: Company data as of December 31, 2022.

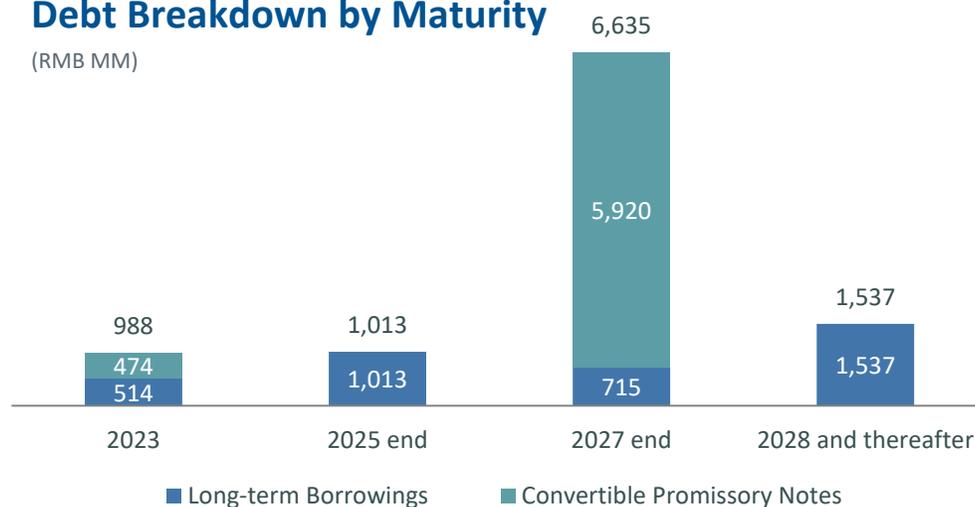
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Well Laddered Debt Profile and Strong Liquidity Position

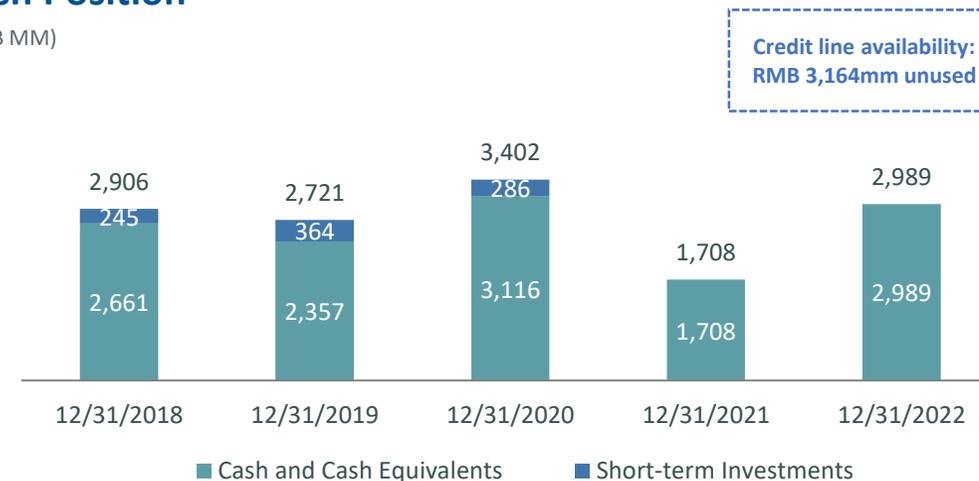
Debt Breakdown by Maturity

(RMB MM)



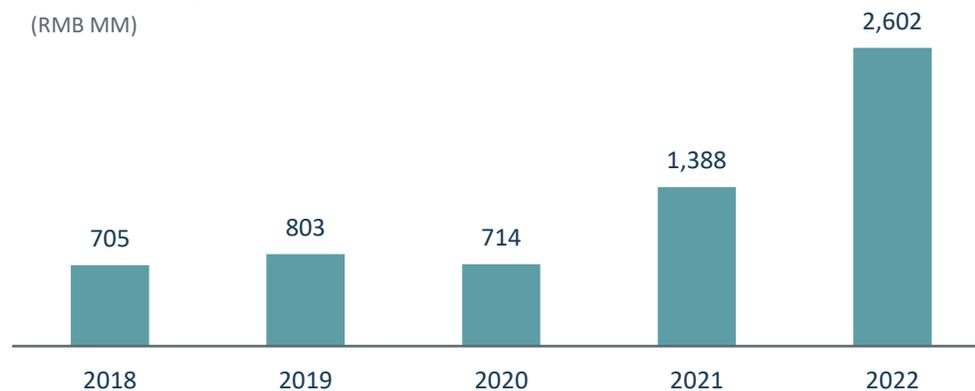
Cash Position (1)

(RMB MM)



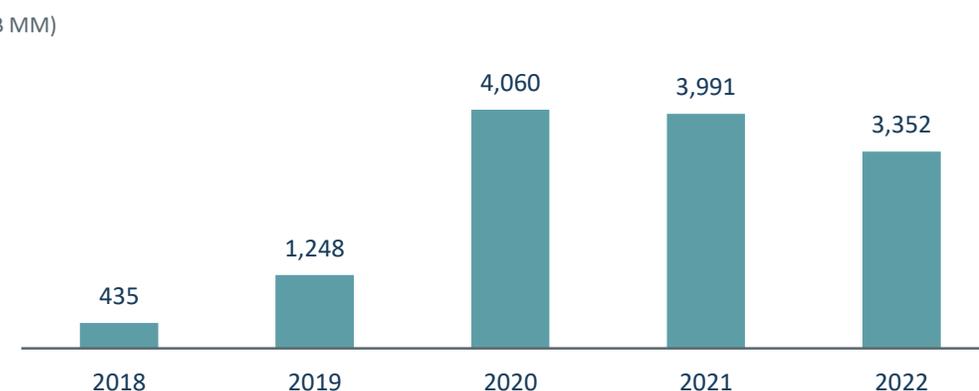
Operating Cash Flow

(RMB MM)



Capital Expenditure

(RMB MM)

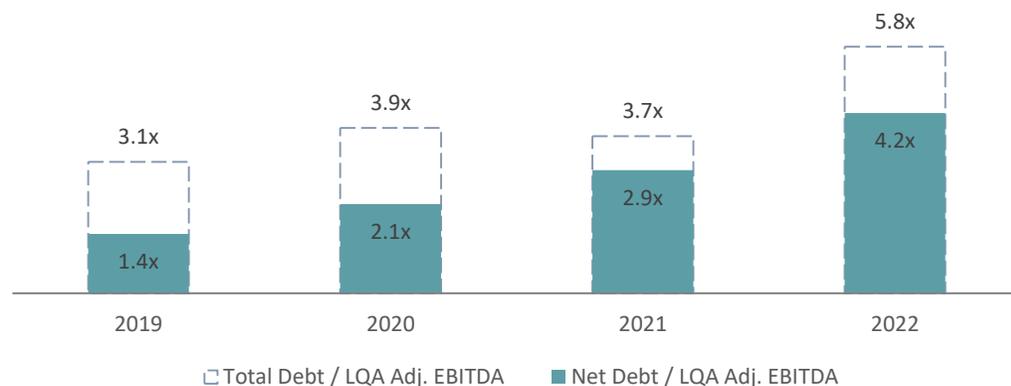


Source: Company data as of December 31, 2022.

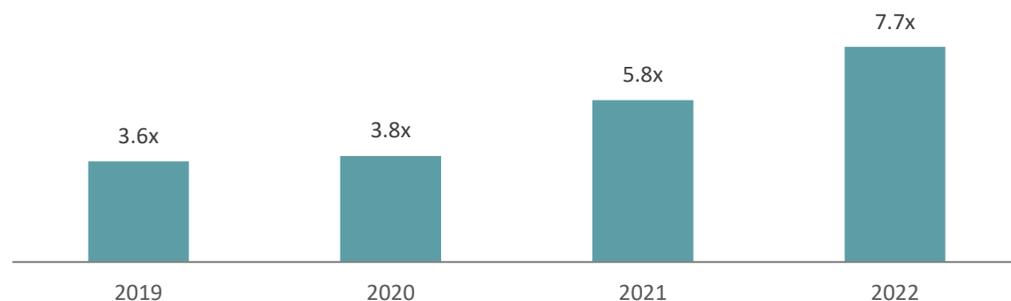
1. Cash Position refers to cash & cash equivalents + restricted cash + short-term investments

Healthy Capital Structure

Total Debt & Net Debt / LQA Adjusted EBITDA¹



LTM Adjusted EBITDA Interest Coverage²



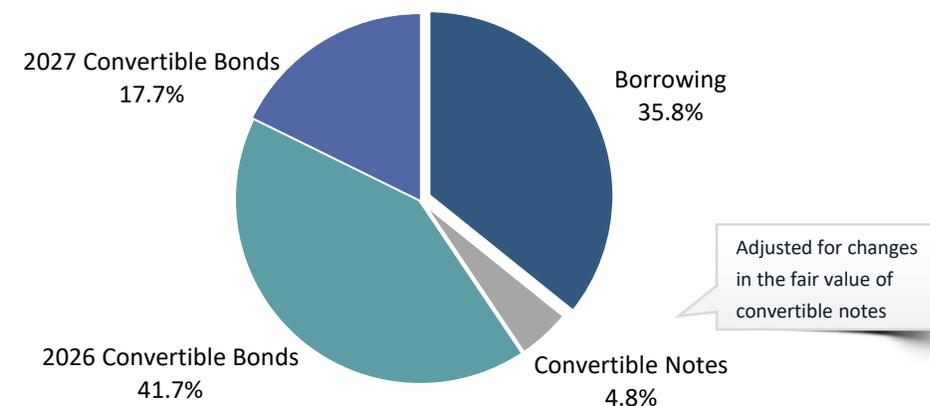
Source: Company data as of December 31, 2022.

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, 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.

Debt Structure as of December 31, 2022



Total Debt³: RMB 9,867 MM

Prudent Financial Policies and Various Financing Channels

- Stable financial policies prudently utilizing debt financing based on business needs
- 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

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				Twelve months ended		
	December 31, 2021	September 30, 2022	December 31, 2022		December 31, 2021	December 31, 2022	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
Net revenues	1,745,440	1,814,210	1,880,673	272,672	6,189,801	7,065,232	1,024,362
Cost of revenues	(1,365,472)	(1,497,627)	(1,552,298)	(225,062)	(4,751,771)	(5,706,976)	(827,434)
Gross profit	379,968	316,583	328,375	47,610	1,438,030	1,358,256	196,928
Sales and marketing	(85,474)	(80,245)	(76,363)	(11,072)	(255,400)	(311,917)	(45,224)
Research and development	(63,037)	(73,350)	(84,137)	(12,199)	(188,489)	(306,842)	(44,488)
General and administrative	(390,935)	(165,436)	(156,228)	(22,651)	(842,354)	(642,945)	(93,218)
Operating (loss) profit	(269,764)	6,411	(17,371)	(2,519)	21,314	121,156	17,565
Net Interest expense	(66,426)	(69,278)	(64,167)	(9,303)	(303,053)	(241,731)	(35,048)
Impairment of long-term investment	-	-	-	-	(3,495)	-	-
Other, Net	18,639	(1,005)	(15,508)	(2,249)	11,223	(9,271)	(1,344)
Changes in the fair value of convertible promissory notes	227,843	13,179	(48,510)	(7,033)	829,149	22,626	3,280
Foreign exchange (loss) gain	82,444	(317,157)	89,048	12,911	110,036	(523,235)	(75,862)
(Loss) gain before income taxes and (loss) gain from equity method investments	(7,264)	(367,850)	(56,508)	(8,193)	665,174	(630,455)	(91,409)
Income tax expenses	(15,549)	(55,717)	(101)	(15)	(111,407)	(133,464)	(19,350)
(Loss) gain from equity method investments	(1,729)	(384)	(828)	(120)	(38,666)	1,925	279
Net (loss) profit	(24,542)	(423,951)	(57,437)	(8,328)	515,101	(761,994)	(110,480)

GAAP to Non-GAAP Reconciliations

Amount in thousands	Three months ended				Twelve months ended		
	December 31, 2021	September 30, 2022	December 31, 2022		December 31, 2021	December 31, 2022	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
Gross profit	379,968	316,583	328,375	47,610	1,438,030	1,358,256	196,929
Plus: depreciation and amortization	329,929	388,217	409,825	59,419	1,182,114	1,487,438	215,658
Plus: share-based compensation expenses	3,932	2,876	1,893	274	13,713	563	82
Adjusted cash gross profit	713,829	707,676	740,093	107,303	2,633,857	2,846,257	412,669
Adjusted cash gross margin	40.9%	39.0%	39.4%	39.4%	42.6%	40.3%	40.3%
Operating (loss) profit	(269,764)	6,411	(17,371)	(2,519)	21,314	121,156	17,566
Plus: depreciation and amortization	352,784	410,988	449,469	65,167	1,267,578	1,595,942	231,390
Plus: share-based compensation expenses	253,040	35,231	(7,791)	(1,130)	320,010	118,170	17,133
Plus: compensation for postcombination employment in an acquisition	17,644	2,685	-	-	32,603	37,398	5,422
Plus: impairment of loan receivable to potential investee	(9)	-	-	-	2,807	-	-
Plus: impairment of long-lived assets	109,267	-	-	-	109,267	-	-
Adjusted EBITDA	462,962	455,315	424,307	61,518	1,753,579	1,872,666	271,511
Adjusted EBITDA margin	26.5%	25.1%	22.6%	22.6%	28.3%	26.5%	26.5%

Key Balance Sheet Items

Amount in thousands, As of	December 31, 2021		December 31, 2022	
		RMB	RMB	US\$
Cash, cash equivalents and Restricted cash		1,708,473	2,989,494	433,435
Accounts and notes receivable, net		1,405,997	1,763,693	255,711
Property and equipment, net		10,092,419	11,964,498	1,734,689
Land use rights, net		337,235	576,020	83,515
Operating lease right-of-use assets, net		2,869,338	3,503,925	508,021
Goodwill		1,339,657	1,364,191	197,789
Total assets		23,095,039	26,948,405	3,907,153
Accounts and notes payable		493,506	713,628	103,466
Borrowings		2,599,173	3,533,876	512,364
Finance lease liabilities		1,363,783	1,253,900	181,799
Operating lease liabilities		2,892,052	3,579,571	518,989
Convertible promissory notes		4,266,951	6,397,037	927,483
Total liabilities		15,494,038	19,966,550	2,894,879
Total VNET Group, Inc. shareholders' equity		7,242,229	6,609,612	958,304
Noncontrolling interest		358,772	372,243	53,970
Total shareholders' equity		7,601,001	6,981,855	1,012,274
Total liabilities and shareholders' equity		23,095,039	26,948,405	3,907,153

Key Cash Flow Items

Amount in thousands	Three months ended			
	December 31, 2021	September 30, 2022	December 31, 2022	
	RMB	RMB	RMB	US\$
Net cash generated from operating activities	663,991	607,417	569,567	82,578
Net cash used in investing activities	(1,136,844)	(614,482)	(1,333,383)	(193,322)
Net cash (used in) generated from financing activities	(1,742,907)	72,765	11,011	1,596
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(7,255)	74,119	(13,774)	(1,996)
Net increase (decrease) in cash, cash equivalents and restricted cash	(2,223,015)	139,818	(766,579)	(111,144)
Cash, cash equivalents and restricted cash at beginning of period	3,931,488	3,616,255	3,756,073	544,579
Cash, cash equivalents and restricted cash at end of period	1,708,473	3,756,073	2,989,494	433,435

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, preliminary through Dermot Holdings Limited and its subsidiaries, or Dermot Entities
Cloud Services	The Microsoft's cloud services, including Azure, Office 365, Dynamics 365 and Power Platform, to customers in mainland China by entering into service agreements with the end customers.

THANKS!

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