

VNET Group, Inc.

Investor Presentation

May 2023

世纪互联
VNET

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1Q 2023 Highlights



Financials (in RMB)

Revenue: **1,806 million** (+9.7% YoY)

Adjusted EBITDA: **556 million** (+9.9 % YoY)



Liquidity (in RMB)

Unused Credit Line: **3,003 million** (+210 million in 1Q)

Cash Position⁽¹⁾: **3,243 million**



Retail & Wholesale Updates

RMB 9,486

Retail IDC MRR⁽²⁾ per cabinet

~431 MW

Wholesale capacity in service & under MoU
(+115 MW in 1Q)



Capacity

87,310 R total cabinets under management

49,316 R utilized cabinets

56.5%⁽³⁾ overall utilization rate

Source: Company data as of March 31, 2023.

Notes:

1. Cash position refers to cash, cash equivalents plus restricted cash.
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 Wholesale Customer Order Win



IDC Code	Capacity Contracted / Under MoU (MW)	Signing Time of Contract / MoU	Customer Sector
E-JS Campus 02	115	1Q23	Internet

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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**
- ✓ **Favorable government policies** for the IDC industry — we deploy 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 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 space, connectivity, bare-metal, and other value-added services



Financial Services



IT Services



Enterprises Digitalization



Mobility



Big Data



Manufacturing Industry

Hyperscale IDC



Interconnection 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 interconnection 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



Published our third annual **ESG Report** for 2022, which detailed the company's efforts to address ESG matters

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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 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
- ✓ 223 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 March 31, 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 March 31, 2023.
 Note: IT capacity numbers measured by megawatt are rounded.

Wholesale Capacity Under Construction

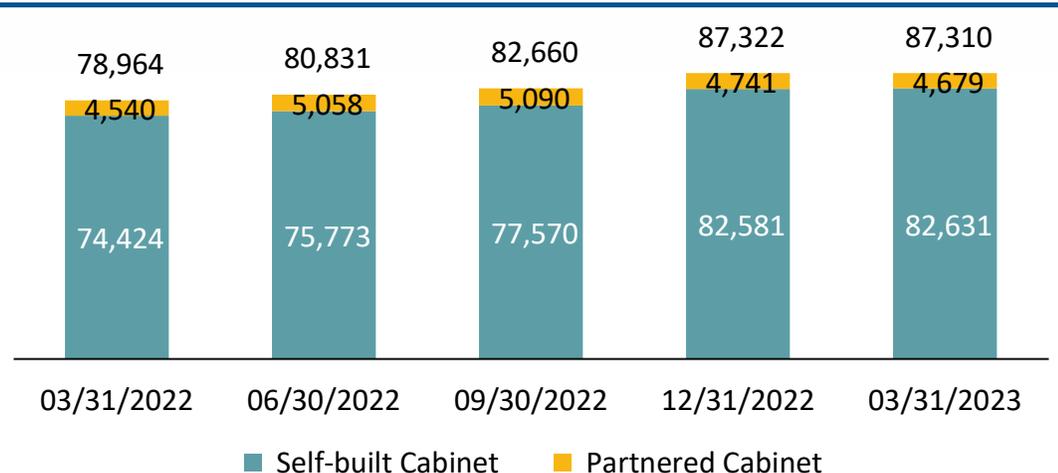


Region	IDC Code	Capacity Contracted / Under MoU (MW)
Yangtze River Delta	E-JS Campus 02	115
Other Region	W-OR03	2
	N-OR06	33
Total		150

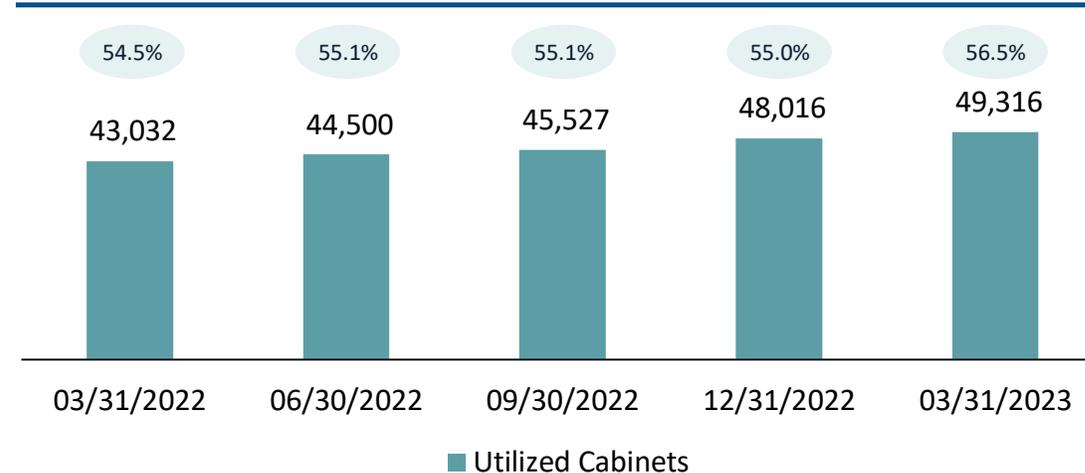
Source: Company data as of March 31, 2023.
Note: IT capacity numbers measured by megawatt are rounded.

Strategically Located Network of Premium Data Centers

Total Capacity ⁽¹⁾



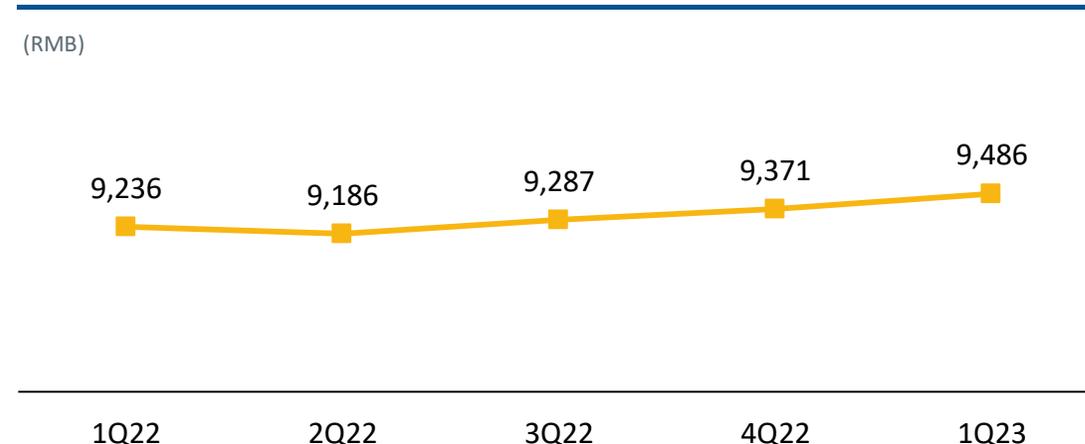
Utilized Capacity & Overall Utilization Rate ⁽²⁾



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 March 31, 2023.

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

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 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 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 41.7% of total revenues in 1Q23
- Since 2020, the Company begins to generate revenue from wholesale customers; ~431MW in service and under MoU*



Source: Company data as of March 31, 2023.

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1Q23 Financial highlights



RMB'MM	1Q22	4Q22	1Q23	YoY	QoQ
Net revenues	1,645.5	1,880.7	1,805.8	9.7%	-4.0%
Gross profit	355.5	328.4	352.4	-0.9%	7.3%
Adjusted cash gross profit ⁽¹⁾	684.8	740.1	754.3	10.1%	1.9%
<i>Adjusted cash gross margin</i>	41.6%	39.4%	41.8%	0.2 pps	2.4 pps
Adjusted EBITDA⁽²⁾	506.2	424.3	556.2	9.9%	31.1%
<i>Adjusted EBITDA margin</i>	30.8%	22.6%	30.8%	0.04 pps	8.2 pps

Source: Company data as of March 31, 2023.

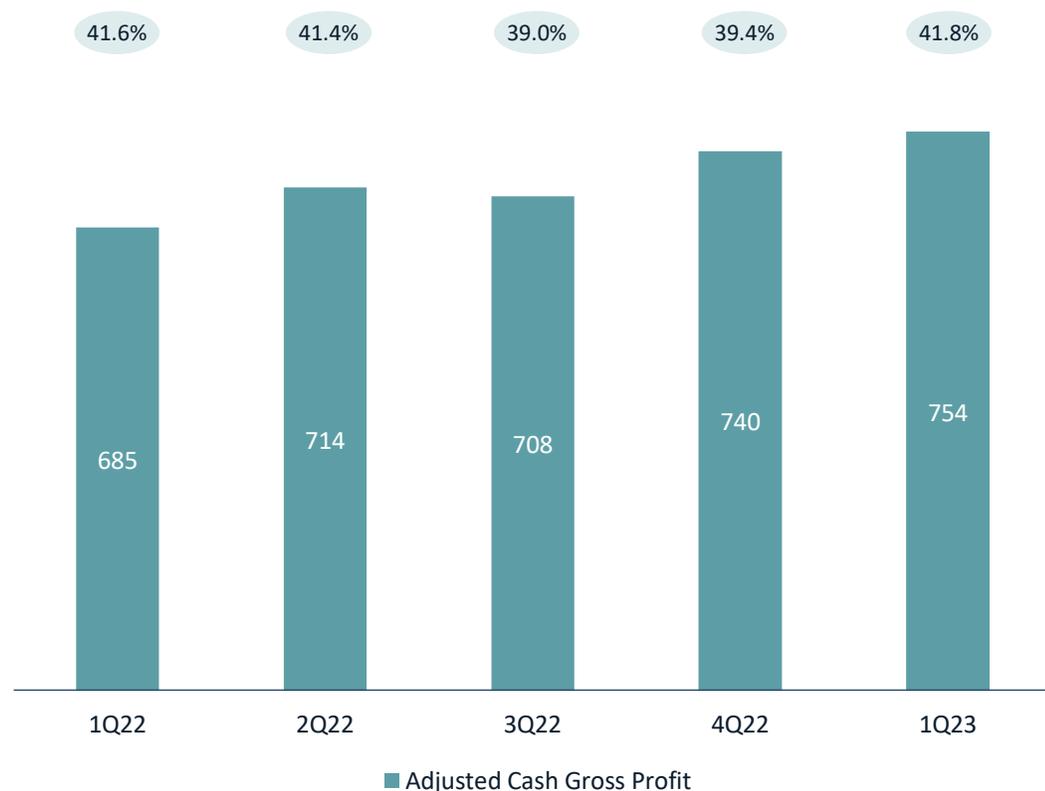
1. Adjusted cash gross profit defined as gross profit excluding depreciation, amortization and share-based compensation expenses.

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

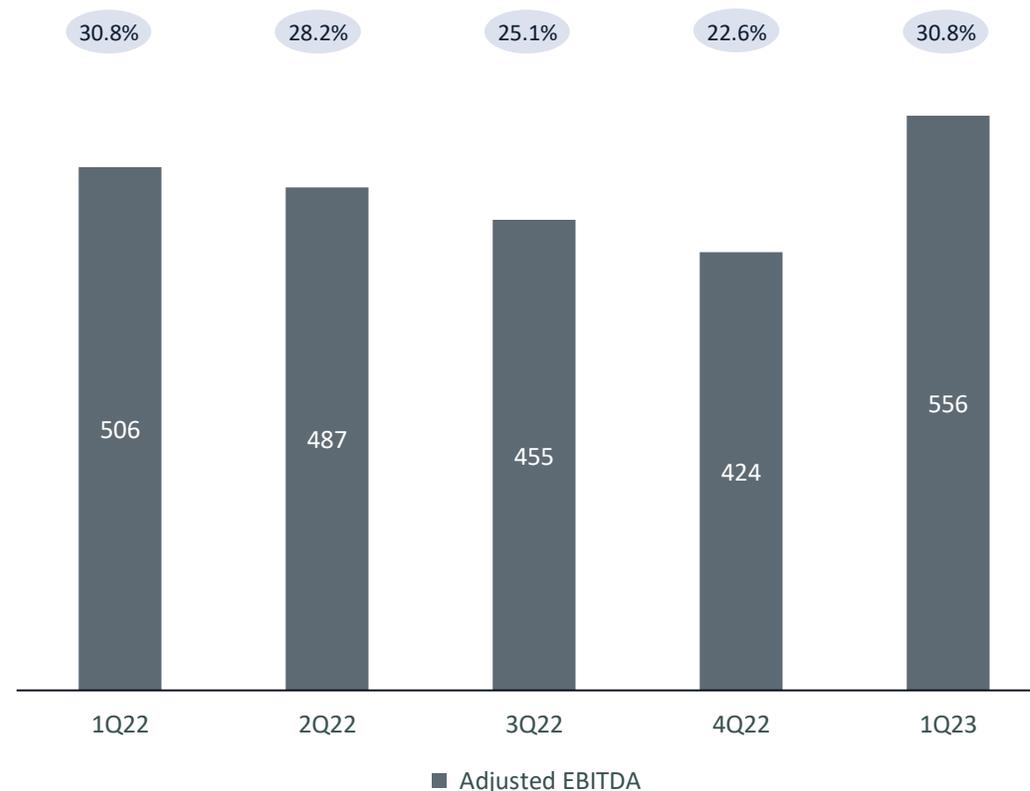
Adjusted Cash Gross Profit & Margin ⁽¹⁾

(RMB MM)



Adjusted EBITDA & Margin ⁽²⁾

(RMB MM)



Source: Company data as of March 31, 2023.

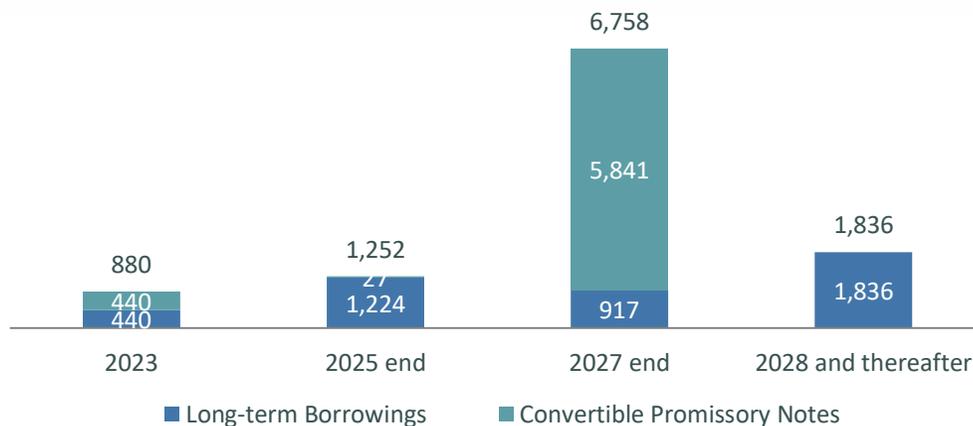
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Well Laddered Debt Profile and Strong Liquidity Position

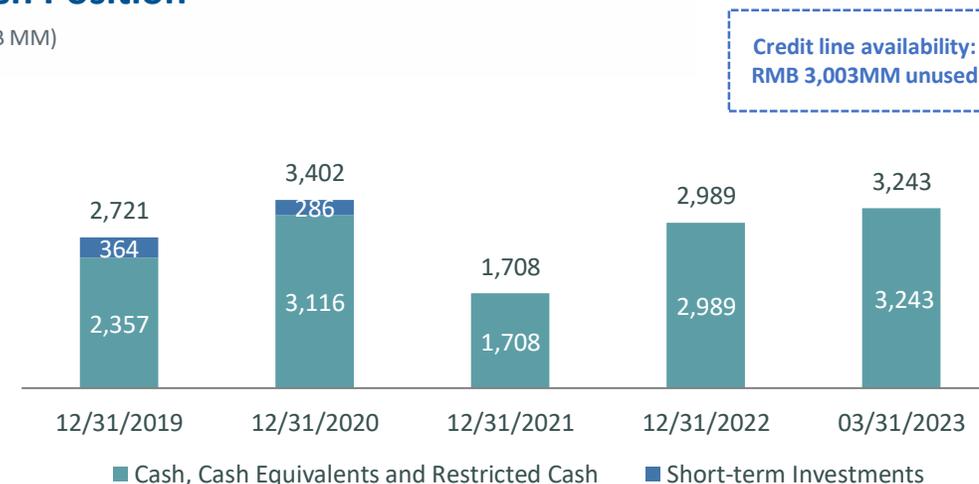
Debt Breakdown by Maturity

(RMB MM)



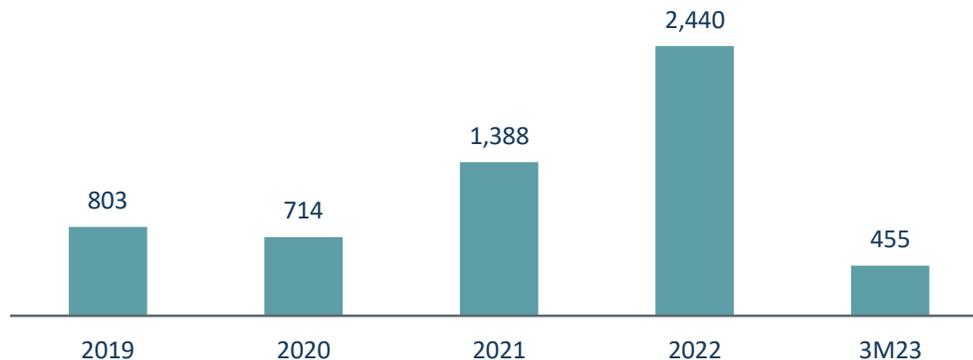
Cash Position (1)

(RMB MM)



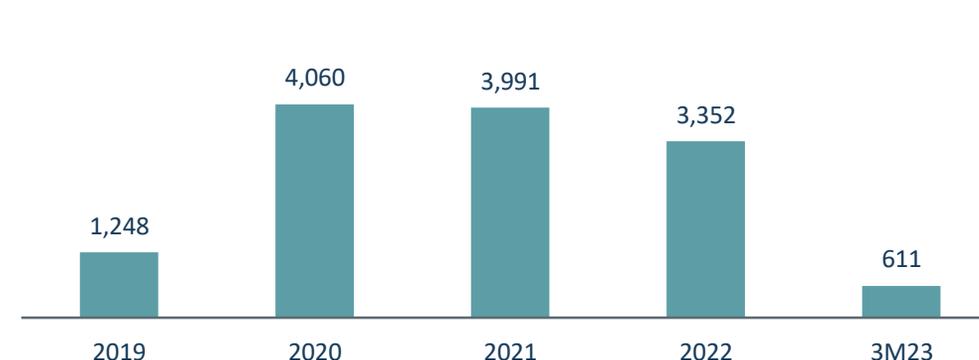
Operating Cash Flow

(RMB MM)



Capital Expenditure

(RMB MM)

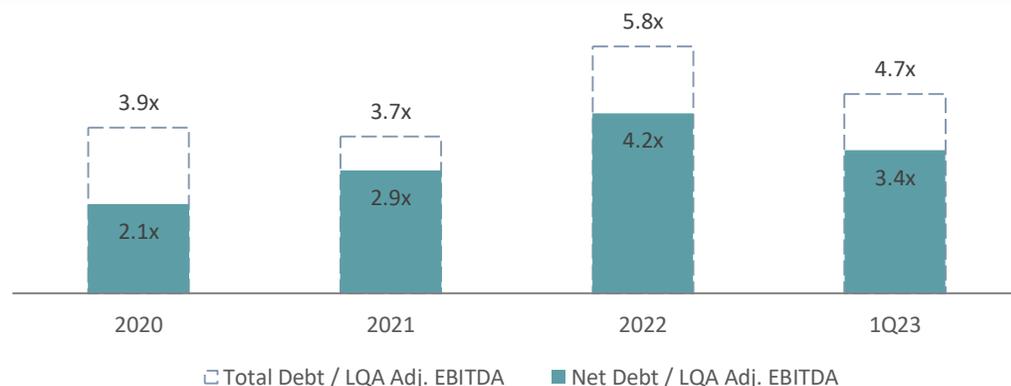


Source: Company data as of March 31, 2023.

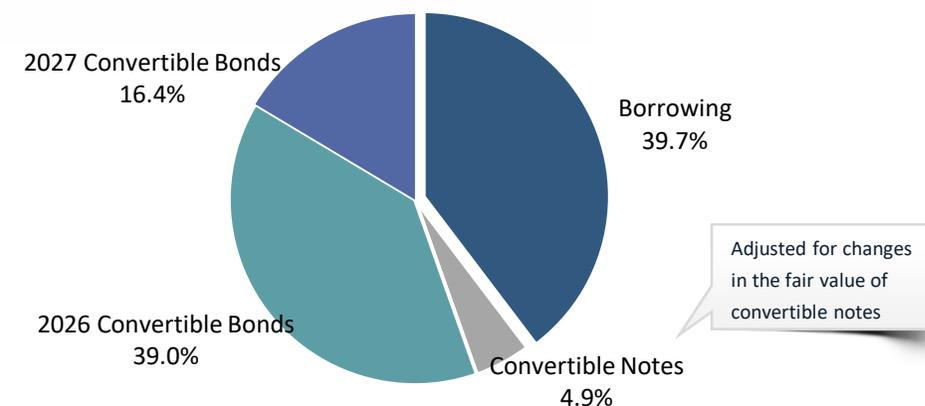
1. Cash position refers to cash, cash equivalents, restricted cash and short-term investments.

Healthy Capital Structure

Total Debt & Net Debt / LQA Adjusted EBITDA¹

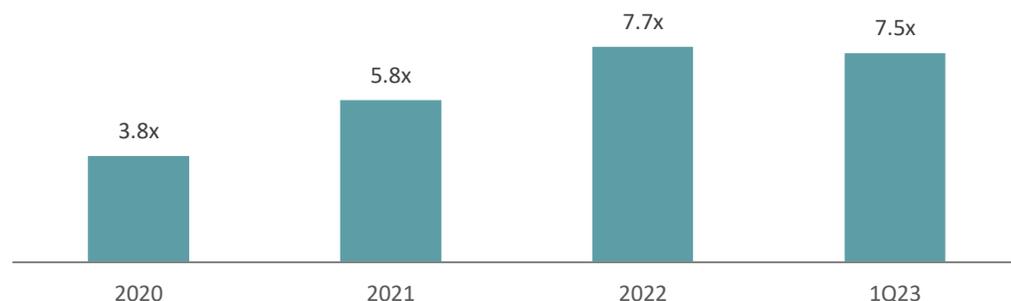


Debt Structure as of March 31, 2023



Total Debt³: RMB 10,438 MM

LTM Adjusted EBITDA Interest Coverage²



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

Source: Company data as of March 31, 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			
	March 31, 2022 RMB (Unaudited)	December 31, 2022 RMB (Unaudited)	March 31, 2023 RMB (Unaudited)	US\$ (Unaudited)
Net revenues	1,645,486	1,880,673	1,805,782	262,942
Cost of revenues	(1,289,965)	(1,552,298)	(1,453,402)	(211,632)
Gross profit	355,521	328,375	352,380	51,310
Sales and marketing	(74,941)	(76,363)	(65,776)	(9,576)
Research and development	(72,615)	(84,137)	(79,750)	(11,612)
General and administrative	(154,237)	(156,228)	(127,447)	(18,558)
Operating profit (loss)	96,058	(17,371)	115,235	16,781
Net Interest expense	(48,570)	(64,167)	(64,105)	(9,335)
Other, Net	5,039	(15,508)	(2,428)	(354)
Changes in the fair value of convertible promissory notes	60,278	(48,510)	21,298	3,101
Foreign exchange (loss) gain	24,749	89,048	78,633	11,450
Gain (loss) before income taxes and gain (loss) from equity method investments	137,554	(56,508)	148,633	21,643
Income tax expenses	(46,700)	(101)	(44,886)	(6,536)
Gain (loss) from equity method investments	2,047	(828)	(174)	(25)
Net profit (loss)	92,901	(57,437)	103,573	15,082

GAAP to Non-GAAP Reconciliations



Amount in thousands	Three months ended			
	March 31, 2022 RMB	December 31, 2022 RMB	March 31, 2023 RMB	US\$
Gross profit	355,521	328,375	352,380	51,310
Plus: depreciation and amortization*	327,393	409,825	401,877	58,518
Plus: share-based compensation expenses	1,860	1,893	-	-
Adjusted cash gross profit	684,774	740,093	754,257	109,828
<i>Adjusted cash gross margin</i>	<i>41.6%</i>	<i>39.4%</i>	<i>41.8%</i>	<i>41.8%</i>
Operating profit (loss)	96,058	(17,371)	115,235	16,781
Plus: depreciation and amortization*	349,609	449,469	432,629	62,996
Plus: share-based compensation expenses	43,245	(7,791)	8,336	1,214
Plus: compensation for postcombination employment in an acquisition	17,260	-	-	-
Adjusted EBITDA	506,172	424,307	556,200	80,991
<i>Adjusted EBITDA margin</i>	<i>30.8%</i>	<i>22.6%</i>	<i>30.8%</i>	<i>30.8%</i>

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

Key Balance Sheet Items

Amount in thousands	As of	As of	
	December 31, 2022	March 31, 2023	
	RMB	RMB	US\$
	(Audited)	(Unaudited)	(Unaudited)
Cash, cash equivalents and Restricted cash	2,989,494	3,242,842	472,194
Accounts and notes receivable, net	1,763,693	2,020,435	294,198
Property and equipment, net	11,964,498	12,134,146	1,766,868
Land use rights, net	576,020	595,378	86,694
Operating lease right-of-use assets, net	3,503,925	4,032,533	587,182
Goodwill	1,364,191	1,364,191	198,642
Total assets	26,948,405	28,668,107	4,174,403
Accounts and notes payable	713,628	710,251	103,421
Borrowings	3,533,876	4,142,592	603,208
Finance lease liabilities	1,253,900	1,287,790	187,516
Operating lease liabilities	3,579,571	4,075,724	593,472
Convertible promissory notes	6,397,037	6,295,113	916,640
Total liabilities	19,966,549	21,473,123	3,126,731
Total VNET Group, Inc. shareholders' equity	6,609,613	6,726,359	979,435
Noncontrolling interest	372,243	468,625	68,237
Total shareholders' equity	6,981,856	7,194,984	1,047,672
Total liabilities and shareholders' equity	26,948,405	28,668,107	4,174,403

Key Cash Flow Items

Amount in thousands	Three months ended			
	March 31, 2022 RMB (Unaudited)	December 31, 2022 RMB (Unaudited)	March 31, 2023 RMB (Unaudited)	US\$ (Unaudited)
Net cash generated from operating activities	482,599	407,488	455,011	66,255
Net cash used in investing activities	(1,032,758)	(1,333,383)	(701,518)	(102,149)
Net cash generated from financing activities	2,213,904	173,090	517,060	75,289
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(7,328)	(13,774)	(17,205)	(2,505)
Net increase (decrease) in cash, cash equivalents and restricted cash	1,656,417	(766,579)	253,348	36,890
Cash, cash equivalents and restricted cash at beginning of period	1,708,473	3,756,073	2,989,494	435,304
Cash, cash equivalents and restricted cash at end of period	3,364,890	2,989,494	3,242,842	472,194

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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