

VNET Group, Inc. (Q2 2025 Earnings)
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Corporate Speakers

- Xinyuan Liu; VNET Group, Inc.; Head of Investor Relations
- Ju Ma; VNET Group, Inc.; Rotating President
- Qiyu Wang; VNET Group, Inc.; Chief Financial Officer

Participants

- Tom Tang; Morgan Stanley; Analyst
- Edison Lee; Jefferies; Analyst
- Daley Li; Bank of America Securities; Analyst
- Timothy Zhao; Goldman Sachs; Analyst
- Andy Yu; DBS Bank; Analyst
- Sara Wang; UBS; Analyst

PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for the Second Quarter 2025 Earnings Conference Call for VNET Group, Inc. (Operator Instructions)

Participants from our management include Mr. Ju Ma, Rotating President; Mr. Qiyu Wang, Chief Financial Officer; Ms. Xinyuan Liu, Head of Investor Relations of the company.

Please note that today's conference call is being recorded.

I will now turn the call over to the first speaker today, Ms. Xinyuan Liu. Please go ahead.

Xinyuan Liu *VNET Group, Inc. – Head of Investor Relations*

Thank you, operator. Hello everyone and welcome to our second quarter 2025 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 U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual 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 <https://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 Mr. Ju Ma, our rotating president, and Mr. Qiyu Wang, our CFO. The management team 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 <https://ir.vnet.com/>.

Now, let's get started with today's presentation. Mr. Ma, please go ahead.

Ju Ma *VNET Group, Inc – Rotating President*

Good morning and good evening, everyone. Thank you for joining our call today.

I'll start with an overview of our major accomplishments during the second quarter of 2025.

We delivered strong quarterly results thanks to continued effective strategic execution. On the operational side, our wholesale IDC business maintained its significant growth momentum, supported by our customers' fast move-in pace. As of June 30, 2025, our wholesale capacity in service grew by 17.5% quarter over quarter to 674 megawatts, an increase of around 101 megawatts. Wholesale capacity utilized by customers rose by 17% quarter over quarter to 511 megawatts, an increase of around 74 megawatts, while the utilization rate was stable at 75.9%, reflecting a fast move-in pace in our wholesale data centers. Our retail IDC business continued to progress smoothly, supported by growing AI-driven demand from customers. Both our high-quality wholesale and retail IDC services continued to attract customers from various industries in the second quarter. I'll dig into those details on the next slide.

On the financial side, both our revenues and adjusted EBITDA maintained solid growth. Specifically, our total net revenues increased by 22.1% year over year to RMB2.43 billion for the second quarter. Notably, wholesale revenues reached RMB854 million for the quarter, representing impressive year-over-year growth of 112.5%. Fueled by the rapid growth of our wholesale IDC business, our adjusted EBITDA for the second quarter also increased by 27.7% year over year to RMB732 million, with an adjusted EBITDA margin of 30.1%, up 1.3 percentage points year over year.

Moving on to our new order wins on Slide 5.

In the second quarter, driven by growing demand from customers for intelligent deployment, we secured a combined capacity of around 4 megawatts in retail orders from customers in the IT services, Internet, AIoT, and financial services sectors. These orders span multiple retail data centers in the Greater Beijing Area, the Yangtze River Delta, the Greater Bay Area, and other regions. Furthermore, we recently won a 20-megawatt wholesale order from a leading cloud services provider for the project we operate in Hebei Province with our joint venture partner.

As AI permeates every aspect of the world, new growth opportunities for data centers, the bedrock of AI infrastructure, continue to emerge. AI-driven demand remains especially robust in China, including training and inference demand from customers across multiple industries conducting intelligent deployments.

To capture these opportunities and strengthen our competitiveness, we unveiled our Hyperscale 2.0 framework for the future of our AIDC development at our Investor Day in Ulanqab in late June. We also outlined our blueprint for growing the capacity of our data center assets under management to 10 gigawatts by 2036.

Driven by the proliferation of AI, the data center industry's development has reached an inflection point, where traditional IDCs are shifting to AIDCs to meet dynamic market demand. In parallel, data centers' business model is evolving from simply providing project-based capacity delivery to serving as a platform offering comprehensive AIDC solutions. As a pioneer in AIDC development with strong fundamentals and deep industry know-how, VNET is poised to shape this trend through our Hyperscale 2.0 framework.

Our innovative technologies enable us to construct high-quality, flexible AIDCs faster, ensuring rapid deliveries to meet customer needs. For example, our Building Standardization technology utilizes standardized modules as data centers' core building units, allowing us to rapidly construct data centers tailored to diverse customer needs. This method cuts construction cycles by one-third compared to traditional construction methods. Additionally, our Modular Data Center technology integrates various functions, including power supply systems, cooling systems, etc., into separate functional modules. These modules are manufactured and pre-tested in factories and shipped to data center sites for installation, which significantly enhances our installation efficiency. They can also be swapped out, allowing us to selectively upgrade only specific modules instead of entire systems, reducing improvement costs and extending data centers' lifecycles. By leveraging these technologies, we can build quickly and combine modules with different functions flexibly to meet customers' specific requirements, ensuring fast capacity delivery to our customers. We believe these innovations position us as a frontrunner in the IDC industry going forward.

Execution of our Hyperscale 2.0 framework is already underway, starting in Inner Mongolia, Hebei Province, and Beijing, where we plan to establish datacenter hubs encompassing megawatt-scale cabinets, 100-megawatt-scale buildings, and gigawatt-scale campuses. Ultimately, as I mentioned earlier, we aim to manage a 10-gigawatt integrated

data center asset cluster by 2036 that seamlessly combines computing power and energy management across multiple campuses, empowering us to shape the future development of AIDC solutions.

Now let's delve into our business updates, starting with our wholesale business on Slide 8. Our wholesale business continued to grow rapidly, with capacity in service increasing by around 101 megawatts quarter over quarter to 674 megawatts and utilization rate remaining stable at 75.9%, mainly attributable to our strong delivery capabilities at our N-OR Campus 01, and faster-than-expected move-ins at our N-OR Campus 01 and E-JS Campus 03. Our mature capacity utilization rate also reached 94.6%, a relatively high level.

We have a clear growth path for our wholesale data center capacity. Let's move on to Slide 9. Our overall wholesale data center capacity maintained its growth trajectory in the second quarter. Our capacity under construction was around 326 megawatts, with a pre-commitment rate for capacity under construction of 55.2% as of the end of June. Capacity held for short-term future development was around 374 megawatts, and capacity held for long-term future development was around 418 megawatts, as we remain confident in the long-term growth potential of AI-driven demand.

Moving to our retail IDC business on Slide 10. Our retail business continued to progress smoothly in the second quarter. Retail capacity in-service was 52,131 cabinets, with the utilization rate increasing slightly to 63.9% as of the end of June. MRR per retail cabinet increased to RMB8,915 this quarter.

Turning to our delivery plan on Slide 11. With our robust and efficient delivery capabilities, we successfully delivered a total of around 188 megawatts in the first half of 2025. We currently have eight data centers under construction, with six in the Greater Beijing Area and two in the Yangtze River Delta. We plan to deliver around 326 megawatts of capacity over the next 12 months, or around 227 megawatts during the second half of 2025, and around 99 megawatts during the first half of 2026. This ambitious delivery plan reflects strong demand from our customers and our outstanding delivery prowess.

Now turning to our Non-IDC business, a key component of our business. DYX further expanded its customer base by winning new customers in the consulting and intelligent driving industries for its premium dedicated internet services, VPN services, IDC services, and cloud services.

In conclusion, our robust second quarter results further validate our core strengths and effective strategic execution. Looking ahead, we will continue to sharpen our competitive advantages with faster deliveries and consistently reliable IDC services as we embark on our ambitious Hyperscale 2.0 framework to build greener, more intelligent data centers for the AI era. And as always, we will remain committed to driving innovation and fostering industry development as we grow, delivering value to all of our stakeholders.

Now, I will turn the call over to our CFO, Qiyu, for further discussion of our operating and financial performance. Thank you, everyone.

Qiyu Wang *VNET Group, Inc. - Chief Financial Officer*

Good morning and good evening, everyone.

Before we start the detailed discussion of our second quarter performance, please note that, unless otherwise stated, all the financials we present today are for the second quarter of 2025 and are in Renminbi terms. Furthermore, unless otherwise specified, all the growth rates I am reviewing are on a year-over-year basis.

Let's turn to Slide 13. In the second quarter, we continued to pursue high-quality, high-margin business. Our total net revenues increased by 22.1% to RMB2.43 billion, mainly driven by the rapid growth of our wholesale business. Our adjusted cash gross profit rose by 34.9% to RMB1.06 billion, while our adjusted EBITDA also grew year over year by 27.7% to RMB732.5 million.

Let's look more closely at our topline. As you can see on Slide 14, in the second quarter, wholesale revenues, our key revenue growth driver, increased significantly by 112.5% to RMB854.1 million, mainly attributable to sales at the N-OR Campus 01 and E-JS Campus 03. Retail revenues continued to account for the largest part of our total net revenues, reaching RMB959 million for the second quarter. Our non-IDC business revenues were RMB621 million for the second quarter.

During the second quarter, we maintained solid margins thanks to our continuous efforts to enhance overall efficiency. As shown on Slide 15, our adjusted cash gross margins improved to 43.6% from 39.5% in the same period last year. Our Adjusted EBITDA margin rose to 30.1%, compared with 28.8% in the same period last year.

Moving on to liquidity on Slide 16. We maintained robust and healthy liquidity, bolstered by a net operating cash inflow of RMB366.6 million during the second quarter, bringing the net operating cash flow for the first half of the year to RMB562.3 million. Our cash positions remained solid, with total cash and cash equivalents, restricted cash, and short-term investments reaching RMB4.66 billion as of June 30, 2025.

Next, let's take a look at our debt structure on Slide 17. We maintained our prudent approach to debt management. As of June 30, 2025, our net debt to the trailing twelve months adjusted EBITDA ratio was 5.3 and total debt to the trailing twelve months adjusted EBITDA ratio was 6.4, both remaining at healthy levels. Also, our trailing twelve months adjusted EBITDA to interest coverage ratio was 6.9. We prioritize long-term debt maturity planning in our debt and strategic management to ensure the security of debt repayment. Additionally, the Company's short- and medium-term debt maturing in 2025 to 2027 comprises 44.1% of our total debt.

Turning now to CapEx spending. As you can see on Slide 18, for the first half of 2025, our capex was RMB3.89 billion, with the majority allocated to the expansion of our wholesale

IDC business. We still expect our capex for the full year 2025 to be in the range of RMB10 billion and RMB12 billion. The increase is mainly to support our planned delivery of 400 to 450 megawatts in 2025, or approximately three times 2024's total deliveries and surpassing our total deliveries in the past three years combined.

Furthermore, in late June, our Board authorized a buyback program, under which we may repurchase up to US\$50 million from time to time on the open market over the ensuing 12 months. The buyback program underscores our deep commitment to delivering value to shareholders and our confidence in VNET's future development and growth prospects.

Now moving to our full-year guidance for 2025 on Slide 19. As we announced in a press release in late June, we have increased our full-year revenue and adjusted EBITDA guidance, fueled by faster-than-anticipated move-ins among wholesale IDC customers and ongoing operational efficiency gains. We now expect total net revenues to be in the range of RMB9.15 billion to RMB9.35 billion, a year-over-year increase of 11% to 13%, and adjusted EBITDA to be in the range of RMB2.76 billion to RMB2.82 billion, representing a year-over-year increase of 14% to 16%. If the RMB87.7 million on disposal gain of E-JS02 data center were excluded from the adjusted EBITDA calculation for 2024, the year-over-year growth would be 18% to 20%.

Before I conclude, I'd like to briefly update you on our ESG efforts. We were pleased to receive an "A" grade, the highest rating, in the 2024 Supplier Engagement Assessment by the Carbon Disclosure Project. We were also recognized as a "Supplier Engagement Leader" for our collaboration with supply chain partners on low-carbon technology R&D, enhancing our IDC operational energy efficiency and empowering our partners to save energy and reduce emissions. Looking ahead, we will remain steadfast in our pursuit of ESG excellence, embracing and promoting a green future.

In summary, we maintained our business's vibrant momentum with strong financial results during the second quarter. Supported by our effective dual-core strategy and new Hyperscale 2.0 framework, we're well-positioned to lead the AIDC transformation, capturing surging AI-driven opportunities and delivering sustainable, long-term value for all stakeholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Tom Tang with Morgan Stanley.

Tom Tang *Morgan Stanley - Analyst*

Thanks, management, for the opportunity to ask questions. First of all, congratulations on very strong quarterly results, especially on the wholesale business.

So my question is mainly about the future demand and orders. So we noticed that NVIDIA has regained its permission to ship their new chipsets to China again last month. So just wondering, based on our communication with our big customers, what is our current expectation of their future demand and the pattern of their order tendering? Thank you.

(Speaking in Foreign Language).

Ju Ma *VNET Group, Inc – Rotating President*

(Interpreted)

Thank you for your questions.

And now the market is relatively active. And according to the report of the third-party institutions, we find that in the regions where the digital economy is relatively active, for example, in the Greater Beijing Area and in the Yangtze River Delta, I think the AI demand is relatively strong, and also the relation between supply and demand has improved a lot.

And your question also mentioned the bidding and the demand for the big client. Since you have also noticed that this year, our delivery plan is over 400 megawatts, it is relatively large. And also, the new orders should be delivered in six months. So we will pay more attention to the demand released in the second half of the year, especially around September. And we will try our best to secure as many of these orders as possible.

So in addition to the 20-megawatt wholesale order, I think we are also paying a lot of attention to the potential demand. And we are also communicating about these potential demands. I think most of them are highly relevant to AI.

Operator

Your next question comes from Edison Lee with Jefferies.

Edison Lee *Jefferies – Analyst*

Thank you for taking my questions. I have two questions. Number one, can you update us on the build-out of wind power in Ulanqab? And when they will actually come into effect, and how that's going to impact the revenue and also the margin of the company?

Number two, can you comment on your MSR on wholesale? Because it seems that your MSR or your MRR on the wholesale in the second quarter is actually up on a year-on-year

basis. So maybe if you can explain a little bit what is driving that unit price, that will be great.

(Speaking in Foreign Language).

Qiyu Wang *VNET Group, Inc. - Chief Financial Officer*

(Interpreted)

I think now the wind power project in Ulanqab is well underway. I think by the end of this year or in the beginning of next year, it will going to deliver power.

I think this is a relatively new trial for us, so currently we cannot expect specific impacts on our P&L. However, I think it will mainly deliver positive impacts on our IRR. So I think the details, the statistics and the figures will be offered when it begins to deliver power.

And so for the second question, I think it has two factors. The first one is, I think the wholesale price is relatively very stable. And you also mentioned that the improvement in the MSR, I think it's mainly due to the seasonal factors because of the increase in the revenue from the electricity bills. And also in this quarter, we have a one-off income.

Operator

Your next question comes from Daley Li with Bank of America Securities.

Daley Li *Bank of America Securities - Analyst*

Thanks for taking my questions. I have two questions here.

The first one is regarding our gross margin. Our adjusted gross margin was quite a healthy growth and improvement. And for our GAAP level gross margin, if we look at quarter-on-quarter, it seems dropped a little bit and what's the reason behind this? And how do you think the future normalized gross profit margin?

My second question is about the new financing channel, the REITs. Could you please update us on the progress of the private REITs and the C-REITs going forward?

(Speaking in Foreign Language).

Qiyu Wang *VNET Group, Inc. - Chief Financial Officer*

(Interpreted)

Thank you for your questions.

For the changes in the GP (Gross Profit) margin, I think it's affected by the timing of turning the CIP (Construction In Progress) into PPE (Property, Plant and Equipment), and also the depreciation. So there can be some seasonal factors that lead to the fluctuation. But if we only consider the cash GP margin, which excludes the seasonal factors, I think it's still on a healthy and steady increase.

And also for the REITs project, we have been actively promoting the REITs projects. We have 4 to 5 projects, including the public and also the private REITs, as well as some other similar projects that are in progress. And also, as mentioned, this year, through the REITs project, we plan to gain net proceeds of RMB 2 billion. This goal remains unchanged. We hope to bring some good news to the market soon.

Operator

Your next question comes from Timothy Zhao with Goldman Sachs.

Timothy Zhao *Goldman Sachs - Analyst*

Great. Thank you, management, for taking my questions, and congrats on the very strong results. Two questions here as well.

First is regarding your full-year guidance, pretty glad to see that you raised guidance actually two months ago. But after the very strong first-half results, just wondering how management thinks about the second-half outlook? So if my calculation is correct, I think towards the high end of your guidance, I think the second-half growth implies only around single-digit growth. Just wondering how do we think about the second-half outlook?

Secondly is regarding the retail IDC business. As I see, there is some revenue decline in this retail IDC revenue in the second quarter of this year, versus a stronger first quarter. Just wondering what is the reason behind?

(Speaking in Foreign Language).

Qiyu Wang *VNET Group, Inc. - Chief Financial Officer*

(Interpreted)

Thank you for your question.

As mentioned, in spite of the upgrading in the guidance, I think the guidance for the second half of this year is still relatively conservative. So our consideration is that we need to watch and see, and if the move-in pace of our customers or clients is not affected by the chip supply, and our wholesale business can maintain its move-in pace, I think we will consider a further raise in the guidance for the second half of the year.

And your second question is relatively to the IDC revenue for the retail business. Yes, there was a very slight quarter-over-quarter decline, but I think it's still within a reasonable range. And I think the revenue for the retail IDC business maintains relatively stable and we expect there will be even some increase for this segment going forward.

Operator

Your next question comes from Andy Yu with DBS.

Andy Yu DBS - Analyst

Hi. Thank you for taking my question. Congratulations on the solid results.

I have a question regarding the second-half outlook. Could management share some color on whether the rapid momentum of our client movement can be sustained? Also, do we expect that the impact of AI chip supply constraints could affect new orders or customer movements in the second half of 2025?

Let me translate the question.

(Speaking in Foreign Language).

Ju Ma VNET Group, Inc – Rotating President

(Interpreted)

So, as for the outlook for the second half of this year, I think if we compare the second half with the first half of this year, I think I am relatively optimistic about the second half's demand development. Based on our deliveries in the first half of this year, we analyze and learn about the patterns of the new orders unleashed by our clients. We will closely follow the patterns and try to secure these orders. So we will be very optimistic generally about the second half of this year. Furthermore, according to our rich practices, once the order has been confirmed, the customers usually have a very fast move-in pace.

And also as for the supply of the AI chips, we are watching closely on both NVIDIA's chips and also the domestic chips, and I think the outlook will soon become much clearer. As also according to our experiences of serving our clients or customers, I think once the

order is confirmed, the move-in pace will be very fast. And also, as for the wholesale business, we have confirmed with the core clients that the move-in pace of most orders on hand will not be affected.

Operator

Your next question comes from Sara Wang with UBS.

Sara Wang *UBS - Analyst*

Thank you for the opportunity to ask a question. And again, congratulations on the very solid results.

I only have one question is that management just mentioned that there could be potential new tenders from the customers. Do we expect similar customers and similar workload going forward? Or there could be some change?

(Speaking in Foreign Language).

Ju Ma *VNET Group, Inc – Rotating President*

(Interpreted)

So thank you for your question. I think our clients will unleash their demand gradually. And from the demand side, I think in terms of the business, the demand for AI remains unchanged.

Operator

That does conclude our call and conference for today. Thank you for participating. You may now disconnect.

**Please kindly note some content for Q&A session are revised by the company after the call to accurately reflect the company's information. So it may differ from the earnings call audio.*