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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for the second-quarter 2024 earnings conference call for VNET Group Inc. After the management's prepared remarks, there will be a question-and-answer session. Please note the Chinese line is in listen-only mode. If you wish to ask questions, please dial in through English line. Participants from our management include Mr. Gavin Shen, Rotating President; Mr. Qiyu Wang, Chief Financial Officer; Ms. Xinyuan Liu, Investor Relations Director of the company. Please note that today's conference call is being recorded. I will now turn the call over to your first speaker today, Ms. Xinyuan Liu. Please go ahead.

Xinyuan Liu *VNET Group Inc - Investor Relations Director*

Thank you, operator. Hello, everyone, and welcome to our second-quarter 2024 earnings conference call. Our earnings release was distributed earlier today and you can find a copy on our IR site, 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 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 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. We are excited to showcase just one of the many innovative ways in which VNET is embracing AI trends and maximizing AI's value. 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.

Gavin Chenggang Shen *VNET Group Inc - Rotating President*

Good morning, and good evening, everyone. Thank you for joining our call today. I will start with an overview of our second-quarter results. Let's turn to slide 4. We delivered another solid quarter thanks to continued strong strategic execution. Our net revenues increased by 9.4% year over year to RMB1.99 billion, and adjusted EBITDA increased by 7.3% year over year to RMB574 million.

As we mentioned on our last call, we are now reporting our net revenues and operational metrics for our wholesale and retail IDC businesses separately. Our wholesale business remained our key revenue growth driver, with net revenues from this segment increasing by 81% year over year to RMB402 million.

Capacity in service for the wholesale business was steady at 332 megawatts. Capacity utilized for the wholesale business increased by 16 megawatts from the first quarter to 252 megawatts, with the utilization rate rising by 4.9 percentage points quarter over quarter to 75.9%. Our retail IDC business maintained its smooth development, with capacity in service increasing to 52,177 cabinets and a stable utilization rate of 63.7% as of the end of June.

Furthermore, our fundamentals remain robust with a healthy unused credit line and cash position, providing ample support for our current business operations and investments in future development. Our reliable high-quality IDC services continued to win customers' trust and support in the second quarter.

As you can see on slide 5, following the large orders we won for our flagship campus in Jiangsu Province in the past year, which totaled around 206 megawatts, we recently achieved another breakthrough with 3 additional order wins totaling 235 megawatts for our wholesale data center in the Greater Beijing Area, the Ulanqab IDC Campus. Specifically, we secured a significant 200 megawatt order from an existing customer in the internet industry during the second quarter, along with 2 new IT services orders for 19 megawatts and 16 megawatts, respectively recently.

We are confident in Ulanqab's growth potential and expect this cutting-edge facility to break the historical growth record set by our flagship campus in Jiangsu Province. I will introduce our Ulanqab IDC Campus in detail later.

Next, I'd like to briefly review our differentiated business model and diverse service offerings before moving on to demand trends and detailed business updates. Let's turn to slide 6, with comprehensive offerings across IDC cloud and VPN services, we can create tailored, holistic data and computing solutions to comprehensively meet customers' mission-critical needs.

While IDC is our core business, our non-IDC businesses, including cloud and VPN services, are important contributors to revenue and critical components of our overall growth. We made significant progress in our non-IDC business during the second quarter. For VPN services, DYX expanded its customer base by acquiring new customers in the semiconductor, retail, and IT manufacturing industries, as well as a large SOE customer.

Regarding our Blue Cloud business, our efforts to maintain and expand Microsoft's global account base in China continue to yield positive results. During the second quarter, we won new customers in derivative finance, manufacturing, and finance. Looking ahead, we are confident of achieving further growth.

Our IDC business is driven by an effective dual-core growth strategy divided into wholesale and retail segments as outlined here on slide 7. By offering a broad variety of services across our wholesale and retail IDC businesses, we can serve enterprises of any size, from hyperscale with massive power and space needs to small and medium enterprises that require a full-service, hands-on approach.

We have built a broad, diverse customer base with low dependency on any single large customer, serving over 7,500 enterprise customers, of which more than 1,500 enjoy our IDC services. Since our IPO, approximately 90% of our total net revenues have been recurring revenues, demonstrating the solid sustainability of our overall revenue growth.

The churn rate for our core IDC business has consistently remained below 1%, reflecting our high level of customer satisfaction. Additionally, in the second quarter of 2024, our top 20 customers contributed 45.7% of our revenue, further highlighting the risk diversification and revenue stability within our customer structure.

Now let's turn to slide 8 for a closer look at the demand trends that shaped our development during the second quarter. AI has definitively entered the mainstream in the digital economy era, with almost every industry seeking AI tech and applications to streamline processes and improve results.

As the leading IDC service provider in the new infrastructure industry, we offer state-of-the-art IDC services and premium value-added services to our customers. With the AI boom, particularly the surging demand for high-performance computing power for large language model training, we see unprecedented new opportunities in our industry.

To capitalize on this rising AI-driven demand, we are planning to strategically invest in AI computing power. By expanding our AI-related business and deepening our understanding of customers' AI needs. We are well positioned to unleash our potential and create a new growth engine for the company.

We currently cater to AI-driven demand primarily from leading Internet clients and industry leaders in cloud services, short video, and local services, and financial tech sectors. Recently, we successfully secured several orders totaling 235 megawatts of capacity, the vast majority of which is set to facilitate AI deployment for our customers.

As an industry-leading player, we provide customers with tailored high-performance computing solutions while remaining at the forefront of AI trends. For instance, we're conducting research and development on advanced 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.

Furthermore, during the second quarter, we continued to upgrade our data centers with innovative designs, high-density cabinet deployments, and cutting-edge cooling technology. Currently, over 95% of our wholesale capacity in service is capable of meeting high-performance computing power requirements, positioning us to seamlessly accommodate future AI-driven demand.

Moving to slide 9, we are hard at work on the Ulanqab IDC Campus I mentioned earlier, a state-of-the-art facility, boasting a total planned construction land area exceeding 638 square kilometers and total planned IT power exceeding 1.2 gigawatts. As of now, we have secured orders for over 200 megawatts. This campus will support large language model training demand, especially from customers in the internet, autonomous driving, and financial services sectors.

We have utilized numerous innovative technologies for the Ulanqab IDC Campus, including Building Standardization, Modular Data Centers, and Bus-based Electrical Systems. For our first order, we expect the timeline from construction to delivery to take six months, which represents the leading turnaround speed in the industry and showcases our excellent execution capabilities. We also plan to implement standardized construction and operational management to reduce the costs associated with the project lifecycle.

Meanwhile, we are proactively working to optimize the Ulanqab campus’s power utilization. Large language model training in the AI era entails massive power consumption. In line with our commitment to ESG best practices, we are collaborating with our customers to explore power innovations that provide sufficient, stable, green, and more cost-effective power supply to meet AI computing power needs and support our customers' ESG goals.

Our Ulanqab IDC Campus benefits from a host of regional advantages. Ulanqab' exceptional geographic location offers abundant land resources and a stable geological structure. The site’s natural cooling capabilities are available for up to 10 months per year, providing significant energy savings. Furthermore, as a computing power hub in the ‘East Data and West Computing’ initiative, Ulanqab enjoys optimal electricity prices and preferential policies and has a high proportion of clean energy cabinets, making it ideal for large-scale deployment of computing power.

Finally, Ulanqab's direct optical cable connection to Beijing ensures high transmission efficiency, enabling us to fulfill enterprises requirements for high speed, high quality data transmission services. In addition to Ulanqab, our broad network of data centers not only covers major cities nationwide but also connects carriers and service providers in far-flung locations through a robust domestic data transmission network.

As you can see on slide 10, the layout of our wholesale capacity in service is well balanced, with the Yangtze River Delta accounting for 52% and the Greater Beijing Area accounting for 48%. For wholesale capacity under construction, the Yangtze River Delta accounts for 45.8%, while the Greater Beijing Area accounts for 54.2%.

82.6% of our wholesale capacity, on hold for future development, is in the Greater Beijing Area, mainly due to the region's geographical advantages: convenient transportation, abundant green energy resources, and lower utility costs compared with other regions. Notably, the majority of AI-related demand is coming from the Greater Beijing Area.

For our retail data centers, our self-built capacity in service was 48,516 cabinets as of the end of June. Specifically, 58.4% of capacity in service is in the Greater Beijing Area, 19.2% is in the Yangtze River Delta, and the rest is distributed among the Greater Bay Area and other regions, in line with demand.

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 81% year-over-year increase in revenue this quarter. Our capacity in service remained robust and stable quarter over quarter at 332 megawatts as of the end of June, an increase of 108 megawatts from the end of June of last year.

Utilization rate increased to 75.9% with mature capacity utilization rate of 94.9% and ramp-up capacity utilization rate of 45.7%. These utilization rate improvements reflect our ability to facilitate quick customer move-ins during the quarter.

We have also established a clear growth path for our wholesale data center capacity. Slide 12 depicts our progress across various aspects of the wholesale business in the second quarter. Notably, our utilized capacity increased by 16 megawatts from 236 megawatts in the first quarter to 252 megawatts in the second quarter, primarily driven by strong customer demand from E-JS Campus 02 C.

We also began ramping up construction in the second quarter in anticipation of future rising demand, increasing capacity under construction by 140 megawatts to a total of 279 megawatts. This increase is mainly attributed to the large order for our N-OR Campus 01 project, which will be developed and constructed in several phases based on customer demand.

By the end of June, the pre-commitment rate for capacity under construction had risen to 85.5%. Given this 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. This segment continued to operate smoothly in the second quarter. Capacity increased to 52,177 cabinets. The utilization rate was stable quarter over quarter at 63.7% as of the end of June, with mature capacity utilization rate holding steady at 72.5% and ramp-up capacity utilization rate of 12.7%.

Our MRR per retail cabinet increased slightly quarter over quarter to RMB8,753. In addition to our solid capacity in service, our new capacity pipeline for our wholesale business is robust.

Slide 14 depicts our resource pipeline for the next 12 months. Currently, we have eight data centers under construction. We plan to deliver IT capacity in a range of approximately 210 to 290 megawatts over the next 12 months, vastly increasing our total capacity by the end of the second quarter of 2025.

Our capacity in service for the wholesale business was 332 megawatts as of the end of the second quarter, meaning that our expected new capacity is equivalent to approximately 63% to 87% of our current capacity in service. In term of the delivery timeline, we are maintaining our delivery target of approximately 100 to 140 megawatts for 2024 and we anticipate delivering approximately 110 to 150 megawatts in the first half of next year.

Specifically, in the Yangtze River Delta, we have four data centers under construction with 98 megawatts expected to be delivered this year and 30 megawatts in the first half of 2025. In the Greater Beijing Area, we have four data centers under construction with 27 megawatts expected to be delivered this year and 124 megawatts in the first half of 2025.

In summary, our solid second-quarter results reflect our core strengths and strategic and execution excellence. These assets have positioned VNET as a frontrunner in the AI era. Going forward, our innovative IDC services, vast high-power density resources, and diverse AI-related capabilities will continue to empower sustainable high-quality growth. We will remain committed to driving innovation and advancing industry development as we grow, delivering value to all of our stakeholders. Thank you, everyone. I'll now turn the call over to Qiyu to discuss more about our operating and financial performance.

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 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 second quarter, we remained focused on high-quality revenue businesses, a tactic that continued to yield positive outcomes. Our total net revenues increased by 9.4% to RMB1.99 billion. Our adjusted EBITDA also grew year over year by 7.3% to RMB574 million. In addition, our efforts to improve operational efficiency paid off, with operating expenses decreasing by 7.7% year over year and 36.8% quarter over quarter to RMB230 million for the second quarter.

Going forward, we will continue to refine cost control measures and optimize our working capital to maintain our solid financial position. Additionally, the company has deepened its emphasis on profitability. By controlling costs and increasing efficiencies through high-quality investments and development, we significantly improved our profitability with a quarterly turnaround in net profit while maintaining solid cash flows.

In the second quarter of 2024, the company recorded a net profit of RMB71.8 million, a significant improvement from the net loss of RMB159 million in the first quarter of 2024, representing a quarter-over-quarter increase of RMB230.9 million. In the first quarter, the company recognized a one-time loss of RMB155.8 million due to stock option grants and the repayment of the Convertible Senior Notes due 2026.

Excluding the impact of the above one-off items, the adjusted net loss for the first quarter of 2024 was RMB3.2 million and the adjusted net profit for the second quarter was RMB56.7 million, representing a quarter-over-quarter increase of RMB59.9 million, primarily due to the company's consistent operational improvements.

Let's look more closely at our topline. As we mentioned on our last call, 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, wholesale revenues remained our key revenue growth driver, increasing by 81% year over year to RMB402 million, mainly driven by the E-JS Campus 02 A, E-JS Campus 02 B, E-JS 02 C, and N-HB04 data centers. Our retail revenues continued to account for the largest part of net revenues.

Our retail revenues increased sequentially by 4.4% to RMB965 million, thanks to the increase in MRR per cabinet and some one-off revenues. Our non-IDC business continued to progress smoothly, with revenues increasing by 4% year over year to RMB627 million.

We continued to improve overall efficiency and maintained solid margins as we have shown on slide 18. Adjusted cash gross margins and EBITDA margins remained quite stable.

Moving on to liquidity on slide 19, we maintained a strong liquidity position during the quarter. We recorded net operating cash inflow for the first half of 2024 of RMB673 million, primarily due to steady payment collection from customers and measured expenditures.

The company's net cash inflow from operations in the first half of 2024 was slightly lower than that of the same period for the previous two years, mainly due to the time lag of one-off cash inflows, such as tax rebates. Our cash position remained healthy. After repaying RMB600 million in convertible bonds at the end of the quarter. The company's total cash equivalents, restricted cash, and short-term investments reached RMB2.22 billion, an increase of approximately [23%] compared to the February 1, 2024.

Next, let's take a look at debt on slide 20. This quarter's metrics showcase the effectiveness of our prudent approach to debt management. Our net debt to the trailing 12 months adjusted EBITDA ratio was 4.6, while total debt to the trailing 12 months adjusted EBITDA ratio was 5.5, 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 at between RMB3 billion and RMB4 billion. In the first half of 2024, our CapEx was RMB1.88 billion, of which RMB1.48 billion was used for wholesale business expansion.

Our previous full-year CapEx guidance was from RMB3.7 billion to RMB4.2 billion. However, as Gavin mentioned, we have consistently invested in wholesale data centers over the past several years, gaining vast experience and customer recognition.

As such, we are steadily winning customers for our hyper-scale wholesale data centers in Eastern and Northern China amid recovering market demand as well as the mitigating competing situation. We recently won several new orders, totaling over 200 megawatts of capacity.

Due to the tight time requirement for deliveries, most of the orders are already under construction or will begin construction in the near future. As such, we are raising our full-year CapEx guidance to RMB5 billion to RMB5.5 billion with CapEx for the second half of the year expected to be RMB3.1 billion to RMB3.6 billion.

The company consistently upholds stringent requirements for payback when selecting new projects to ensure the internal rate of return of new investment remains at a reasonable level after the allocation of corporate overhead expenses. This, in turn, enables us to drive sustainable shareholder value through effective high-quality scalability. Leveraging our healthy balance sheet and solid cash flow, we have sufficient capital to support the CapEx plan for the second half of this year and the near future while maintaining a reasonable leverage position. Moreover, as previously mentioned, we are proactively accelerating the capitalization for our wholesale IDC projects. If this progresses well as planned, we will be able to further strengthen our cash reserves and reduce the company's debt ratio, which will efficiently support our healthy and sustainable development in the long run.

Now moving to our full-year guidance for 2024 on slide 22, we expect total net revenues to be in the range of RMB7.8 billion to RMB8 billion, a year-over-year increase of 5.2% to 7.9% and adjusted EBITDA to be in the range of RMB2.22 billion to RMB2.28 billion, representing a year-over-year increase of 8.9% to 11.8%. This is unchanged from our previous guidance.

CapEx is expected to be in the range of RMB5 billion to RMB5.5 billion. The expanded range from previous estimates is mainly due to new orders and the increase in projects under construction as I just mentioned.

Before I conclude, I would like to share a brief update on our achievements in ESG. We recently received a score of 53 in the 2023 S&P Corporate Sustainability Assessment, ranking the highest among China's IT services industry and in the top 11% in the industry globally.

Our exceptional ESG performance was also recognized by S&P Global, with inclusion in their Sustainability Yearbook 2024, China Edition, our second consecutive year of inclusion. Notably, VNET is the industry's only participant to be included in the yearbook’s China edition for two consecutive years.

As a standout among the thousands of companies assessed, our recognition in the Yearbook further affirms the strength and effectiveness of our ESG efforts. Going forward, we will further deepen our commitment to ESG, advancing our goal of bringing green, direct current electricity from AIDC to millions of households, nurturing a high-quality, low-carbon digital future and delivering sustainable value to all stakeholders.

In summary, we delivered another solid quarter highlighted by continued revenue growth and profitability enhancement through strong execution of our effective dual-core strategy. With our robust business fundamentals and healthy cash position, we are well positioned to continue capturing AI-driven opportunities and driving high-quality, sustainable growth. This concludes our prepared remarks for today. We are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Yang Liu, Morgan Stanley.

Yang Liu *Morgan Stanley Asia Ltd - Analyst*

Thanks for the opportunity to ask questions, two questions from my side. First, congratulations on the big order win. My question is related with that, it's quite encouraging to see that you have three very sizable orders booked in the past quarter and quarter to date. Actually, could you please update us in terms of the underlying demand in China? We saw that your wholesale business booked a high double-digit growth. The retail side is largely flattish. And the wholesale side, you keep winning new sizable orders. Can we expect that, in the foreseeable future, wholesale business will continue to be almost the only driver of the core business?

And the second question is related with AI. Could management update us in terms of what the preparation VNET has done to get ready for the potential AI demand? Especially, what we care most is, what will be the expected ROIC or IRR for AI-related data center compared with non-AI.

(spoken in foreign language)

Gavin Chenggang Shen *VNET Group Inc - Rotating President*

(spoken in foreign language)

(interpreted) Thank you for your question. I am Gavin, so I'll take your first question. As we can see that for the whole-year 2024, there is increasingly more orders from the market. From the wholesale perspective, it's actually more than what we've seen in the previous two [years] (corrected by company after the call), and it's been increasing significantly.

And as we have shown in our presentations that we have won orders from two major clients, and they are specifically a large order of [200 megawatts] (corrected by company after the call), and another two of 19 megawatts and 16 megawatts. These new orders totaling capacity is around 235 megawatts. And we are planning to deliver [about 200MW] (added by company after the call) of them within a year's time.

So as you can see that we have strong customer demand and as well as increasing amount of new orders, so these are very robust. And these types of clients for our capacity in Ulanqab [is mainly for AI related business]. As you can see that our wholesale business [yields and increased customer orders will continue to grow](added by company after the call). And I'm glad that you also mentioned about retail business. Our retail business is growing stably. And with regard to your second question, we'll definitely increase the proportion of value-added services when it comes to AI [for our retail business]. So gradually, we'll [increase our investment in AI related value-added service, and we expect to] (added by company after the call) ramp up our proportion of that type of service in our service offerings in our total service portfolio.

(spoken in foreign language)

(interpreted) So just a quick add on what I've just said, so for us, VNET, we grew from a business that's mainly targeted towards the retail IDC business in the past, and that's been a core business for us. We have clear advantages in this regard. We have a very established customer base and we offer very diversified, value-added services in this regard. So we are going to continue to increase the proportion of [AI-related service] so as to increase the [customer loyalty as well as MRR per retail cabinet] (corrected by company after the call).

(spoken in foreign language)

(interpreted) And with regard to your second question, our corporate strategy, has been fully embracing AI and all in AI. As you can see that majority of orders are AI-related. So we are going to actively explore for innovations and upgrades in these AIDC regard, [including wind-liquid compatible dual-source system as we mentioned in our last call. Additionally, I want to mention that we are proactively develop business on AI] (corrected by company after the call) computing. And particularly, I want to mention that for today's quarterly financial result presentation, the prepared remarks of me and Qiyu has been synthesized and generated by our Neolink.ai, which is a product that's going to be released soon to the market.

Qiyu Wang *VNET Group Inc - Chief Financial Officer*

(spoken in foreign language)

(interpreted) I'll make an add on the AI data centers and AI projects. So you are asking about the IRR and [ROIC] on these types of projects. So I would say, according to our observations, the cost for constructing these AI-based or oriented data centers is not significantly different from those non-AI data centers.

So overall, the [ROIC] is pretty much consistent from those cost of traditional data centers. And as we scale up our projects in this regard, we are able to bring the overall cost down, [which is also impacted by the overall business scale of the company] (added by company after the call). And as you can see, most of these types of AI-oriented data centers are deployed in Ulanqab, where it enjoys the natural advantages when it comes to utilities. As we continue to seek innovation on , and we expect the project's ROIC will further enhance.

Operator

Edison Lee, Jefferies.

Edison Lee *Jefferies LLC - Analyst*

Thank you for the question and congratulations on the order wins and the good results. I have two questions. Number one is on the Ulanqab project. Can you give us an idea on the CapEx cost per megawatt? And also, what kind of EBITDA margin you're expecting on those projects? And then on that 1.2 gigawatt IT capacity that you are talking about, what do you think is the time frame that you can actually ramp that up to 1.2 gigawatt? So that's question number one.

Question number two is, in your first half CapEx of RMB1.8 billion, you said roughly RMB1.4 billion is for wholesale. So does it mean that you spent RMB400 million on retail? But the retail revenue will start growing. So I want to know what your CapEx plan is for your retail and how do you decide how much CapEx you would allocate to retail?

(spoken in foreign language)

Gavin Chenggang Shen *VNET Group Inc - Rotating President*

(spoken in foreign language)

(interpreted) Thank you for your question. As you can see that majority of the orders for Ulanqab is AI-oriented. [The power density per cabinet of AI data center is higher than that of traditional data center] (added by company after the call). And the average construction cost per [kilowatt] (corrected by company after the call) is lower than the construction cost for traditional data centers. That's because we are leveraging some innovative technologies in the underlying technological architecture as well as some other aspects.

Right now, predominantly, we're adopting air cooling solution (wind energy?) for these AI-oriented data centers. But as we continue to seek innovations in the underlying technologies, as well as our advantages in scale of economies, we are going to be able to keep the construction costs per [kilowatt] (corrected by company after the call) at a lower level.

And with regard to the delivery time line for the 1.2 gigawatt capacity in Ulanqab, we're planning to deliver them in five years' time. So on average, we'll be delivering 200 megawatts per year.

Qiyu Wang *VNET Group Inc - Chief Financial Officer*

(spoken in foreign language)

(interpreted) I'll take your second question. This is Qiyu. Yes, you are right , so majority of our CapEx is for wholesale capacity. And we have dedicated RMB550 million for retail capacity. And among them, RMB100 million is used for the maintenance expenses, replacing some of the legacy devices. And another RMB400 million is to scaling up or repurposing some of the existing devices, changing them to high-power density cabinets. And additionally, there are some [balance payment for previous projects] (corrected by company after the call), all these totaling RMB550 million. And for this year, we don't plan to offer a lot of CapEx for retail capacity.

And also, I have to point one point, that is we reserve a small portion from our wholesale capacity for retail services. However, it's a little bit hard to single this part of expenses out. So we would just include it, put it under our wholesale expenses.

Edison Lee *Jefferies LLC - Analyst*

Okay. Thank you very much.

Operator

Daley Li, Bank of America.

Daley Li *BofA Global Research - Analyst*

Hey, good morning, management. Thanks for taking my question. Congrats on the strong results and the strong orders, and especially for the AI. I have one question here regarding our future financing plan. As we have raised the CapEx guidance for this year, maybe next year, it should be like high level because we have more spending for the AI. Could management update us the financing plan and the progress? For example, like the asset sale and REITs in China.

(spoken in foreign language)

Qiyu Wang *VNET Group Inc - Chief Financial Officer*

(spoken in foreign language)

(interpreted) Thank you for your question. You are right. We have raised our CapEx guidance for this year, and we raised that by about RMB1.2 billion. And that's because we have won a large order from our clients. So naturally, the CapEx will increase.

And so in terms of the sourcing of our financing channels, so to give you a background, earlier this year, in the first half of the year, we have repaid around a large amount of convertible debt. And under that backdrop, the current total debt to TTM EBITDA ratio is around 5.5x. So if we were to fully finance all the upcoming CapEx for this year through debt, we are still able to manage or keep the total debt, to EBITDA below 6.5x, and that's the red line that we have predetermined or defined within the company. So that's something that I would like to share with you.

And plus, we have won strong support from our shareholders and our capability to raise or to secure funding or financing onshore is actually getting a lot more friendly or more favorable for us. And also, the cost for these financing instruments are also at a lower level or coming down.

(spoken in foreign language)

(interpreted) On the REITs front, the company is actively engaged in the exploration of C-REITs, private REITs, and the Pre-REITs. We are actively negotiating with the terms and conditions with our trade partners. However, the company maintains a very prudent attitude towards these options. And we will update the market once we have any further progress. We look forward to having good news in the second half of the year.

(spoken in foreign language)

(interpreted) I would like to reiterate that, to meet our raised CapEx for this year, we are able to manage or keep the total debt to EBITDA below 6.5x, even if we fully finance these CapEx through onshore debt if the asset disposal plan failed to materialize. So we could guarantee we could meet these CapEx requirement by fully financing them through debt while we are unable to materialize those asset disposal plans. So that's a point I would like to reiterate.

Operator

Timothy Zhao, Goldman Sachs.

Timothy Zhao *Goldman Sachs Pte - Analyst*

Great. Thank you, management, for taking my question and congrats on the very solid results. My question is regarding the pricing trend. Just wondering if you could share with us what is the latest pricing trend for the wholesale business, including by different regions? And also on your retail business, I noticed that the pricing appears to be more stabilized. Just wondering, if we look at the second half of this year, are we expecting the retail business revenue to resume year-on-year growth?

(spoken in foreign language)

Gavin Chenggang Shen *VNET Group Inc - Rotating President*

(spoken in foreign language)

(interpreted) Thank you for the question. This is Gavin. I will take your question. With regard to the wholesale business, I'm pretty sure that the analysts and all the stakeholders in this business knows clearly that, for the past two years, especially in the Yangtze River Delta area as well as the [Greater] Beijing areas, the competitiveness of the IDC business, [especially the wholesale business], is fairly strong. And [for this year,] (added by company after the call) we are actually seeing the pricing for these types of capacity is actually gradually stabilizing and started to pick up.

That's evidenced by the new orders that we have received as well as the bids that we have won. So we could say that these unfriendly or aggressive marketing undercutting behaviors are diminishing in the market. So that's why we are confident that the pricing for these IDC capacity has the potential to grow in the near future.

(spoken in foreign language)

(interpreted) With regard to your second question, our retail business is relatively stable with minor fluctuations. As we have mentioned in our last quarter's conference call, we are actually repurposing a portion of our retail's cabinets to high-power density ones.

Coupled with that, we are actively deploying for the computing [power] business. Together with the upcoming Neolink.ai business, that's going to be released, we [expected] (corrected by company after the call) that we can have a more and more stable retail business [which will gradually regain momentum] (added by company after the call) in the upcoming [futures].

Timothy Zhao *Goldman Sachs Pte - Analyst*

Thank you.

Operator

Ethan Zhang, Nomura.

Ethan Zhang *Nomura International Ltd - Analyst*

Okay. Thanks, Management. So I have two quick questions. The first one is regarding your utilization rates. How do you expect our utilization rate for the wholesale business for the second half or maybe next year?

Secondly, a quick follow-up on our CapEx, so I saw we raised our guidance for CapEx for full year. How do we expect the CapEx intensity for the next few years? As we have this 1.2 gigawatt planned IT power for our Ulanqab base, how should we see our future CapEx trends?

(spoken in foreign language)

Qiyu Wang *VNET Group Inc - Chief Financial Officer*

(spoken in foreign language)

(interpreted) Thank you for the question. As Gavin mentioned, so [we saw fast move-ins for our wholesale data centers] (corrected by company after the call). Normally, we expect [a stable operation with] (added by company after the call) the utilization rate to be at around 90% in 6 months' to 12 months' time once they are delivered.

(spoken in foreign language)

(interpreted) And a quick one, so in the future disclosures, you may find that at a certain time point, the utilization rate for our wholesale capacity may come down slightly. That's made partly because we will do consolidated delivery in that specific time window. So that would bring down the utilization rate slightly [for corresponding quarter] (added by company after the call). However, we would provide more details as we have more visibility into these deliveries so that you can have a clear gauge on the trend of utilization rate for our wholesale business.

(spoken in foreign language)

(interpreted) On the CapEx outlook for the upcoming few years, as you can see that, for this year, the demand for AI-based and traditional type of IDC is quite strong and it's growing significantly. Also, we are noticing some dynamic shifts in the supply of IDC capacities in China.

So for 70% of our [increased] CapEx planned for this year, that's actually used for the deliveries scheduled for next year. [Regarding the company's internal planning of capex in the next two years to come, the management will prioritize two aspects] . Firstly, the ROIC of such type of projects, especially given the natural geographical advantages of Ulanqab. If the [ROIC] level of the Ulanqab products could [meet or exceed] (corrected by company after the call) our expectations, we are likely to increase the CapEx in this region.

And the second point I want to mention is that, we are actively exploring asset disposal options. In tandem, we are seeking some collaboration partnership model to co-build or build these capacities. So that means we are able to [enhance] our [CapEx capabilities through asset sales, while build some projects by cooperate with partners] (corrected by company after the call) without actually using our on-balance sheet cash reserves or credit lines [but the partners. These initiatives will impact our on-balance sheet CapEx] (added by company after the call). So these have been things ongoing and we will update the market once we have more information.

Xinyuan Liu *VNET Group Inc - Investor Relations Director*

Operator, we can conclude the call if there is no more questions.

Operator

Thank you. There are no further questions at this time. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now disconnect your lines.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring this event.

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