VNET Group, Inc. (Q4 2024 Earnings)
March 12, 2025

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
- Qi Yang; VNET Group, Inc.; Senior Vice President

Participants

- Shuyun Che; CICC; Analyst
- Sara Wang; UBS; Analyst
- Yang Liu; Morgan Stanley; Analyst
- Edison Lee; Jefferies; Analyst
- Timothy Zhao; Goldman Sachs; Analyst
- Daley Li; Bank of America Securities; Analyst

PRESENTATION

Operator

Thank you for standing by for the Fourth Quarter and Full Year 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. (Operator Instructions)

Participants from our management include Mr. Ju Ma, Rotating President; Mr. Qiyu Wang, Chief Financial Officer; Mr. Qi Yang, Senior Vice President; and 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 Fourth Quarter and Full Year 2024 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 website at 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'd like to begin with several key achievements from our fourth quarter and full year performance in 2024.

Firstly, our wholesale business has delivered remarkable growth, while our retail business has remained stable.

Secondly, our net revenue and adjusted EBITDA have significantly surpassed our previous guidance.

Thirdly, we have recently secured a total of 252.5 megawatts in orders from customers across the Internet, cloud computing and intelligent driving industries.

Looking ahead to 2025, our delivery plan and orders from customers for the next 12 months have seen substantial increases.

I will now provide a detailed overview of these achievements. Let's turn to slide 5.

We closed 2024 with a strong fourth quarter highlighted by our wholesale IDC business's remarkable performance as we identified and capitalized on emerging market opportunities, especially advanced technology-driven demand.

As of December 31, 2024, our wholesale capacity in service increased significantly, rising by 127 megawatts quarter-over-quarter to 486 megawatts.

Wholesale capacity utilized reached 353 megawatts, increasing by 73 megawatts quarter-over-quarter, thanks to strong customer demand for our wholesale data centers.

We have also observed a notable uptick in our wholesale customers move-in pace recently, accelerating to 6 to 12 months from around 24 months in the past. Meanwhile, our retail IDC business continued to progress smoothly.

As of December 31, 2024, our retail capacity in service was 52,107 cabinets, with self-built cabinets increasing by 212 year-over-year and 189 quarter-over-quarter.

We also delivered impressive financial results for the fourth quarter and full year.

Let's move on to Slide 6.

Our net revenues increased by 18.3% year-over-year to RMB2.25 billion for the fourth quarter. Notably, revenue from the wholesale business reached a record high at RMB665 million for the quarter, representing our fastest year-over-year growth rate at 125.4% for any quarter of 2024. Adjusted EBITDA for the fourth quarter also increased by 63.8% year-over-year to RMB721.3 million, mainly due to our wholesale IDC business's rapid growth.

Our adjusted EBITDA margin for the fourth quarter increased by nearly 10 percentage points year-over-year to 32.1%.

For the full year, we delivered net revenues of RMB8.26 billion, up 11.4% year-over-year and adjusted EBITDA of RMB2.43 billion, up 19.1% year-over-year, both exceeding the high end of the increased guidance we provided last quarter. Meanwhile, we achieved a full year net profit of RMB248 million, marking a turnaround from net loss in 2023 through continuous profitability improvements.

Moving on to our new order wins on Slide 7.

Our high-performance data centers outstanding delivery capabilities and premium services continued to attract quality orders.

In the fourth quarter, we secured a 32-megawatt order from an existing Internet customer for our capacity in the Yangtze River Delta, and one of our retail data centers located in the Greater Bay area, also win a 1.5-megawatt order from a new customer, an intelligent driving industry during the quarter.

Meanwhile, in Ulanqab, we signed a framework agreement with an Internet customer for 100 megawatts of capacity including a 28-megawatt order to be delivered in the fourth quarter of 2025.

Additionally, we also secured a 55-megawatt order from a leading cloud computing customer in this region, demonstrating our customers' deep and enduring trust in our high-quality services. Furthermore, we recently won a 64-megawatt wholesale order from an Internet customer for the project operate in Hebei Province with our joint venture partner, Changzhou Gaoxin Group. This joint venture enables us to serve more customers while minimizing the impact on our balance sheet, providing an efficient means of growing our customer base and optimizing our business layout.

Looking ahead, we will continue utilizing joint venture structures to further enhance our efficiency and facilitate high-quality business development.

Now moving to our full year guidance for 2025 on Slide 8.

We expect total net revenues for 2025 to be between RMB9.1 billion to RMB9.3 billion, representing year-over-year growth of 10% to 13%. Adjusted EBITDA is expected to be in the range of RMB2.7 billion to RMB2.76 billion, representing year-over-year growth of 15% to 18%. Based on our new orders and the delivery plan, our capital expenditure for 2025 is expected to be in the range of RMB10 billion to RMB12 billion, representing year-over-year growth of 101% to 141%.

Also we expect to deliver 400 to 450 megawatts in the next 12 months, an increase of 161% to 194% from 2024 total deliveries.

Moving into 2025, we are seeing persistent high demand for high-performance data centers with recent breakthroughs by DeepSeek propelling domestic AI development and driving the IDC industry's rapid growth.

As such, we are confident that the immense growth potential in China's IDC market is poised to be further unlocked.

Let's take a closer look at our recent observations on Slide 9, starting with DeepSeek’simpact. DeepSeek’s innovative achievements have significantly bolstered confidence in domestic AI development, catalyzing a surge in inference demand and enterprises enthusiasm for investing in AI including large CSP, Internet enterprises and small and medium enterprises.

DeepSeek’s innovative models and technologies are enhancing efficiency and reducing both costs and dependency on high-performance chips for training and inference.

It will become easier for companies to execute their AI strategies, triggering wider AI adoption industry-wide and a greater need to build out AI infrastructure.

In turn, lower overall barriers to entry for AI will lead greater demand for our reliable wholesale IDC services. Furthermore, as more companies integrate AI into their operations, inference demand is expected to surge.

We have already observed significant growing demand from small- and medium-sized enterprises for private deployment of DeepSeek.

We expect this positive market trend to persist for the foreseeable future, bringing exciting business opportunities for our retail IDC business.

We will seize these opportunities to effectively enhance our retail data centers' utilization rate and MRR, laying a solid foundation for our long-term business development.

Let's turn to Slide 10.

As we have shared previously the Yangtze River Delta and the Greater Beijing Area are our core business regions. The layout of our wholesale capacity in service is dynamically balanced in two regions with the proportion of capacity under construction in the Greater Beijing Area increasing.

On a related note, industry research suggests that overall utilization rates at China's data centers are set to increase steadily. Tier one cities with vibrant digital economies are expected to begin experiencing supply shortages of the high-performance data centers needed to run AI applications as AI-related businesses expand.

More specifically, as a crucial area for the development of China's AI, Internet and high-technology industry, the Greater Beijing region is experiencing steady growth in data center adoption and utilization rates.

With the deepening application of generative AI and enhancement of computing power and network infrastructure, the overall utilization rate of wholesale data centers in the Greater Beijing Area is projected to reach 85% as early as 2025, marking the first potential supply shortage in the market.

In the Yangtze River Delta region, a new wave of structural upgrades in AI technology will temporarily relieve pressure on the supply/demand imbalance in 2025. Given the sustained growth in demand, the overall utilization rate of wholesale data centers in Yangtze River Delta region is expected to reach 87% by 2026, at which point, this area will also face supply shortages.

As a leading player in the computing infrastructure industry, we have a clear growth path for our IDC business.

Our strong delivery and service capabilities position us well to capture market opportunities stemming from these shortages driving our sustainable growth.

Now let's delve into our business updates.

Starting with our wholesale business on Slide 11.

As the company's primary growth engine of wholesale business achieved outstanding fourth quarter results in terms of both revenue, which reached RMB665 million, and growth rate, which accelerated to 125.4% year-over-year. This segment is thriving as high-performance IDC services remain in high demand across the market, especially as leading Internet players continue to deepen their investments in AI, further driving demand growth. To meet this demand, we increased capacity in service during the quarter by 127 megawatts to 486 megawatts.

Meanwhile capacity utilized rose by 73 megawatts to 353 megawatts, mainly driven by high utilization and faster-than-expected move-ins at our JS campus 02.

Our wholesale business utilization rate decreased slightly to 72.6% due to our delivery of 127 megawatts concentrated in the fourth quarter of 2024.

We also delivered a mature capacity utilization rate of 95.6%, a relatively high level and a ramp up capacity utilization rate of 34%.

We have a clear growth path for our wholesale data center capacity.

Let's move on to Slide 12.

We maintained our growth trend in overall wholesale data centers capacity with 486 megawatts in service and utilized capacity increasing to 353 megawatts by the end of the fourth quarter.

Our capacity under construction was 406 megawatts in the fourth quarter with a pre-commitment rate for capacity under construction of 82.9% by the end of December.

Additionally, capacity held for short-term future development increased sequentially by 75 megawatts to 267 megawatts primarily due to an abundance of demand with high certainty.

With thriving AI development, driving greater market demand for IDC services, we will continue to press forward with our robust expansion plan for wholesale data center capacity, laying a foundation for further business growth.

Moving to our retail IDC business on Slide 13.

Our retail business remained stable and continued to progress smoothly in the fourth quarter. Retail capacity in service was 52,107 cabinets with 33,068 utilized cabinets for a utilization rate of 63.5% as of the end of December. MRR per retail cabinet increased slightly to RMB8,794 this quarter.

Turning to our delivery plan on Slide 14.

In 2024, we successfully brought a total of 153 megawatts into service, showcasing our robust and efficient delivery capabilities and a deep commitment to meeting customer demand. This include

over 127 megawatts during the fourth quarter and 26 megawatts in the first nine months, far surpassing our guidance.

For 2025, customer demand for high-performance, reliable IDC resources remains strong, and we expect our deliveries will set a new annual record.

We currently have eight data centers under construction and plan to deliver 406 megawatts of capacity over the next 12 months or around 140 megawatts during the first half of 2025 and around 266 megawatts in total during the second half of 2025 reflecting strong customer demand and our outstanding delivery capabilities.

Non-IDC business also remains a key component of our overall business growth. Notably, we continued to expand our DYX business's customer base by acquiring new customers from the medical technology, professional services and consulting industries for DYX's premium dedicated Internet services, EVPL and SD-WAN services.

In conclusion, our effective dual-core strategy and strong execution drove excellent fourth quarter and full year 2024 results. Moving into 2025 we remain confident in China's growth potential led by surging demand in the IDC industry due to the AI boom. To capitalize on these opportunities, we will continue to innovate strengthening our capabilities and expanding our high-performance data center network to offer our customers solutions designed to seamlessly address their demands in the AI era.

As always, we are committed to delivering sustainable, long-term 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 fourth quarter performance, please note that, unless otherwise stated, all the financials we present today are for the fourth quarter and the full year 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.

Let's turn to Slide 16.

We exceeded our expectations for the full year 2024, capped by a strong fourth quarter as we remained focused on high-quality revenue businesses.

In the fourth quarter, our total net revenues increased by 18.3% to RMB2.25 billion.

Our adjusted cash gross profit increased by 24.6% to RMB923.9 million, while our adjusted EBITDA also grew year-over-year by 63.8% to RMB721.3 million.

For the full year, our total net revenues were RMB8.3 billion, representing an increase of 11.4% compared to the same period last year, and adjusted EBITDA reached RMB2.4 billion reflecting an impressive 19.1% increase from the prior year, both exceeding our guidance. Furthermore, our bottom line turned profitable with net income reaching RMB248.4 million, achieving a significant improvement from net loss of RMB2.6 billion for the full year 2023.

Let's look more closely at our topline.

As we have mentioned previously 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, in the fourth quarter, our wholesale revenues remained our key revenue growth driver with strong momentum significantly increasing by 125.4% year-over-year, to RMB665.2 million mainly driven by the E-JS Campus 02.

Our retail revenues continued to account for the largest part of net revenues. Our retail revenues remained relatively stable at RMB964.8 million.

Our non-IDC business continued to progress smoothly.

During the fourth quarter, we maintained solid margins, thanks to our continuous efforts to enhance overall efficiency.

As we have shown on Slide 18, our adjusted cash gross margins remained quite stable.

Our adjusted EBITDA margin rose significantly to 32.1% compared with 23.2% in the same period of 2023.

Moving on liquidity on Slide 19.

We maintained a strong cash flow during the quarter.

Also we recorded a net operating cash flow of RMB2.01 billion for the full year of 2024.

Our cash position remained healthy, with the company's total cash equivalents and restricted cash reaching RMB2.08 billion as of December 31, 2024, stable compared to the end of the third quarter.

Next, let's take a look at debt on Slide 20.

We maintained our prudent approach to debt management with our net debt to the trailing 12 months adjusted EBITDA ratio at 4.9 and total debt to trailing twelve months adjusted EBITDA

ratio at 5.5 both remaining at healthy level and our trailing 12 months adjusted EBITDA to interest coverage ratio is 6.5 as of December 31, 2024.

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 was 56.9% to our total debt. Turning now to CapEx spending.

As you can see on Slide 21, for full year 2024, our CapEx was RMB4.98 billion with the majority allocated to the expansion of our wholesale IDC business, mainly due to leaner supply chain, expenditure management, some CapEx was deferred to 2025.

We expect our CapEx for full year 2025 to be in the range between RMB10 billion and RMB12 billion, exceeding the level of 2024. The increase is mainly to support our 400 to 450 megawatts delivery plan for 2025, which is expected to 3 times greater than that of 2024, surpassing the total delivery capacity of the past three years combined.

Before I conclude, let me share a few of our achievements in ESG. We view our commitments and responsibilities to our industry, environment and society as cornerstones of our ongoing success, and I'm proud of to report that our ESG efforts continue to win recognition from global renewed ESG-rating institutions this year. Recently, we secured a spot in the S&P Global Sustainability Yearbook 2025 with our record score of 70 in S&P's 2024 Corporate Sustainability Assessment. This is VNET's first inclusion in global edition following two consecutive years in the China edition. Notably, VNET is one of just 21 China mainland enterprises recognized in the 2025 Yearbook and the sole honoree from China’s IT services industry. Our score also landed us in the top 7% of IT services industry globally.

In addition to this recognition by S&P Global, we received an A rating from MSCI for the third consecutive year, reaffirming our leadership of China's Internet Service and Infrastructure industry.

We attained a B-grade in CDP's climate change questionnaire in 2024 with eight out of 16 categories achieving A-grade recognition. These accomplishments not only highlight our effective ESG strategy but also reflect our long-term investment value and development prospects.

In summary, we are delighted to the end of 2024 with stronger-than-anticipated results driven by impressive growth in our wholesale IDC business.

Looking ahead, we will continue to execute our high-quality development strategy and invest in future growth, particularly AI-related opportunities to propel our long-term, sustainable development. 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 Shuyun Che with CICC.

Shuyun Che ***CICC – Analyst***

Congratulations on the strong results and orders. My first question is the wholesale business order in last quarter and recently have been really strong. To deliver these orders, the CapEx outlook for 2025 have increased, so could management provide details on the arrangement of CapEx for 2025 and how much of this spending will be covered through the funds from our REITs projects.

Also according to the announcement, the retail data center won a new order from customers in intelligent driving industry. So my second question is given the strong demand from the AI computing could management provide insight into the potential impact of AI-related orders on the retail segment. Could you share with us the utilization rate trends and the pricing trends in the retail business?

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

(interpreted)

Thank you for the question. I want to take the first question to begin the answer.

We set a higher guidance for the CapEx for 2025, a 100% increase compared to that of 2024. Over 90% of the 2025 CapEx will go directly into the wholesale IDC business.

In 2025, over 400 megawatts will be delivered for our wholesale IDC business. Among them, 83% are on the determined orders as well as the capacity to deliver. We also have some potential orders that are under negotiation and are expected to be signed recently.

And for the ruminant CapEx will be go directly into the retail IDCs, for the purpose of the high-power density cabinets retrofit as well as the value-added business.

And I also wanted to add a few more comments about the questions on the REITs. I have to say that 2025 marks the starting point for asset securitization of China's data center industry. As well as it is also recognized as a starting year for different types of REITs being implemented.

In Q3 of 2024, we launched our first pre-REITs. And last week, I was so happy to see two of our peers achieved positive progress, one launched its equity ABS, also named as private REITs, and the other's public REITs have been accepted by the exchange.

And please note, our private REITs projects are also accepted by the Shanghai Stock Exchange. Our public REITs are in the key stage of being evaluated and proven.

It is estimated that in 2025, two to three of our REITs of different natures will be implemented. As a result, we're able to recover up to RMB2 billion.

Ju Ma ***VNET Group, Inc. - Rotating President***

(interpreted)

And now, let me check with you about the second question about the development of the large language model and AI application.

We are very happy to see that at the beginning of 2025, DeepSeek has driven up the demand for AI applications, and the application of DeepSeek has played down the threshold of adopting the large language models, driving the robust demand for model inference.

We are also seeing the wider private deployment of large language models and the broader development of Intelligent Agent by utilizing large language models.

You just mentioned intelligent driving. This is one of the key vertical scenarios of AI application. We have to say that intelligent driving extremely and dramatical importance. In the Q4 of 2025, our company has already made very breakthroughs in this regard. And in 2025, we will continue to see intelligent driving as a key sector for us to expand our customers as well as to offer premium services.

To be more specific, I want to share with you my understanding of the utilization rate and price trend. The trends will still be impacted by the market dynamic. Meanwhile, as we have already experienced the boost from market demand from this market, we are staying very positive about that.

In terms of the pricing trend of the single cabinet, to support those AI server deployments, the retail price per cabinet will be higher than that of a traditional one.

Operator

Your next question comes from Sara Wang with UBS.

Sara Wang ***UBS - Analyst***

Thank you for the opportunity to ask questions. And congratulations on the solid set of results.

I have two questions. First one is that I noticed that among our new order wins, there are 64 megawatts JV project with Changzhou Gaoxin Group. Would management please walk us through the framework partnership with the Changzhou partner and then how that is reflected in our revenue or CapEx guidance.

And then my second question is regarding the supply-demand dynamics. I think, from the management comments that since management is really confident in the supply-demand dynamics over the next one or two years, and even mentioned supply shortage, how should we think about this because the supply chain in China is still quite efficient? And then are there any new entrants into the market or are competitors delivering new projects into the market? How shall we think about the supply given the demand is already quite strong?

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

(interpreted)

I want to share with you a little bit of a background. And first of all, I have to say that the demand was really strong during the past year.

And two years ago, our company established a JV together with Changzhou SOE. And from that JV, we are holding 30% of the equity which won the 64-megawatt order you mentioned.

And please note, regarding the order on the 64 megawatts, the related capex of this project will not impact our balance sheet as we don't consolidate the JV's financial statement into ours.

And we have to say we are going to win considerable profit from this project of 64 megawatts through asset operation and management fee revenue and service fee revenue. The meaning of this kind of project is allowing us to run and operate a project to serve our customers, without impacting our balance sheet. In other words, we are going to drive up our capacity to use the light assets while satisfying the strong demand from the customers.

Your next question is about the trend as well as the market competition. And let me check with you about several observations. According to the latest third party institution's industry research on the supply and demand situation of the domestic market, it is estimated that in 2025, in the Greater Beijing area, the wholesale IDC business will experience the supply shortage. Well in 2026, this will also happen in the Yangtze River Delta.

This conclusion from the third-party research is in line with our expectations and insights on the market trend. We are seeing the supply-demand dynamics are experiencing significant changes.

And your next part of this question is about the general competition in this market. To be honest, most of our peers have shifted their focus overseas. For the recent bid, we encounter different rivals, and there are no particularly major peers currently competing with us on a national scale.

Operator

Your next question comes from Yang Liu with Morgan Stanley.

Yang Liu ***Morgan Stanley - Analyst***

Congratulations on the strong bookings first. I have two questions. The first one is regarding the future trend of the industry rental. As you mentioned, it is likely to see supply shortage and also the hyperscale demand is quite strong. What's your expectation of the per kilowatt rental in the next one or two years? Is it likely to see some price hike?

And my second question is regarding the unit cost or unit CapEx because of the data center upstream, like the diesel generator or other UPS, et cetera, those equipment are the key components and whether there will be enough supply from upstream and whether there will be any pricing hike to give pressure on the unit CapEx.

Ju Ma ***VNET Group, Inc. - Rotating President***

Thank you for your question. And I will share with you some of my understanding about this market. As the large language model's popularization in the market, we are seeing market demand for the wholesale IDC, have been gradually released. From the end of last year in 2024, all the way down to the first quarter of 2025,we're also seeing the trend is especially obvious.

When we are talking and discussing with the leading Internet companies in China, we noticed the supply shortage and we have to say that the resources they are going to choose and the companies they are going to work with are a little bit of limited.

As Qiyu has already briefed on you the general market situation in China, I want to add a few more comments. In China, the leading internet companies are choosing and working with different wholesale IDC suppliers in different cities and regions. We are experiencing competition from different peers in different regions.

Based on the market situation, the first factor we consider is to meet market demand when we make our price mechanism for wholesale IDC business, which means that our price is driven by the market demand. Our pricing remains quite stable.

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

And I want to add a bit more comments about your question. On the cost front, when we are discussing the diesel generator unit and equipment, we are seeing that as the construction and installments are picking up, the productivity of traditional import brands and JV brands is not adequate.

We have to check the other side of the coin. The good news is, the most part of the clients are increasingly comfortable in using the Made in China equipment instead and we're also seeing the price is even lower than import equipment.

Since we are having very large IDC scale on the market. The single building can reach a capacity of 50 to 60 megawatts, opening huge rooms to even refine the design. So generally speaking, the unit cost per kilowatt (KW), is decreasing.

Where we are seeing the general picture of the supply and demand relationship in this market. We now predict that there is an opportunity for our revenue to gradually increase in the future. Coupled with the gradual decrease in costs, the overall return is expected to improve.

Operator

Your next question comes from Edison Lee with Jefferies.

Edison Lee ***Jefferies – Analyst***

Congratulations, again, great results and very good order wins.

I have two questions. I think the number one question is still more related to supply and demand, but more on the retail side. So I totally agree with your assessment that I think SMEs can actually benefit from DeepSeek by deploying the model in private cloud or even on-premise. So based on what you saw in the first quarter of this year, do you think that your retail revenue this year can actually get back to, let's say mid-single-digit growth? Is that possible? And then 2026, do you think you will further accelerate. So that's question number one.

Question number two is about financing. Can you help us understand how you actually fund the RMB10 billion CapEx in 2025? Because your operating cash flow is somewhere around 2 billion and you can raise 2 billion from REIT and you still have RMB6 billion to finance.

Ju Ma ***VNET Group, Inc. - Rotating President***

(interpreted)

Thank you for the question. I'm very much willing to share with you my personal views on the entry of DeepSeek and what is its impact on the retail IDC sector.

First of all, through the extreme innovation of the DeepSeek, we have seen the threshold of adopting a large language model for medium and small enterprises as well as individuals has been cut dramatically.

I want to share with you my personal observation and judgment based on recent the practices on our recent practices.

We are seeing an increasing number of small- and medium-sized enterprises as well as developers show strong demand in adopting and using the high-density retail cabinets.

And I want to share with you a couple of business models these small- and medium-sized enterprises, as well as of individual developers are using. First of all, they will have 2 to 16 servers hosted in our retail IDC, coupled with the DeepSeek, whether it's V3 or R1 model.

Some of the customers have proposed that in addition to renting server, they hope that purchase some servers according to their needs, especially domestic servers. This part is classified internally as a Hybrid IT business or HIT business.

In addition to the two types I mentioned above, we also have customers using our IDC and HIT services, are also requiring us to deploy or dispatch software engineers to provide them with further value-added services for them.

I know that you must be expert in reading VNET, and we know that VNET conducts dual-core strategy with our retail and wholesale IDC business. And when we are running the retail IDC business, we have reached thousands of clients. Therefore, in this round of market demand driven by large language module applications, we can still be the first to reach out to customers' needs, and meet their demands for large language model inference and retail IDCs. Thank you for staying with me.

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

(interpreted)

We do have a much larger CapEx plan for 2025 compared with that of last year, agreed.

This is due to the strong demand from the wholesale IDC new orders. Our capital resources come from our operating cash flow as well as several REITs projects of us. I have just briefed.

And due to our shareholder structure, we are at advantage stage in securing debt financing in the domestic market.

For instance, –our LTV could reach 80% with an interest rate of less than 3.5% and a total maturity duration of 15 years for a debt financial project.

Based on our current estimates, considering our loan ratio, the convertible bonds we repaid at the beginning of the year, as well as the current CapEx guidance, we expect our total EBITDA to adjusted EBITDA ratio can be maintained at 6.5x by end of this year.

Operator

Your next question comes from Timothy Zhao with Goldman Sachs.

Timothy Zhao ***Goldman Sachs – Analyst***

Congrats on the very solid results. I have two questions here.

One is, I think about your downstream customers, I think given the rising data center demand from AI. Just wondering if management can share your observations on the customers in terms of their, I think preferences between the in-house data centers and third-party data center operators? And how is that different now versus a couple of years ago?

And secondly is on the wholesale data centers, as we are seeing faster inference demand growth. Could you please comment on how your wholesale campuses cater to the inferences versus training demand? And what is the customer requirement in terms of the power cost in terms of latency, et cetera.

Ju Ma ***VNET Group, Inc. - Rotating President***

(interpreted)

Thank you for this question. It is very important, but also a very sensitive question. I have to say that. You're raising up the questions on orders as well as which pathways customers are selecting, be it from the pathway of the rental or they are going to have their self-built data centers. And in the materials we have shared, you could check on more the details as well.

And in this year, we are seeing the boost demand from the Internet industry as they are deploying the large language models. Based on our observation and market feedback, we see the following key industries.

As of now the Internet business is still one of the most important industries we are working with. And as AI demand is driving up at the beginning of this year, we are seeing that demand from the companies in cloud computing, financing, and intelligent driving are unlocked. Additionally, those companies in the large language models are also an important industry.

And you're also trying to find out whether those clients will go directly with the self-built choices or they will collaborate and rent data centers from the third party. According to the feedback we collected about this market, as well as our observations, both scenarios are co-existing.

Generally speaking, a few clients will go with self-built data centers, and the majority of our customers will go with rental selection, which has been said, a large of our clients will go with rental choice with a complementary part of clients will go and build by themselves.

And I want to share with you a little bit of the rationale behind it. I think the market and customers have a booming demand in this regard.

I don't think it is a rationale for the customers to build their own data center by themselves. Because the resource cannot meet their business development. So the general pathway is rental plus self-

built, and these orders should never be reversed. That is what we have observed from this market. To sum up, partnering with third parties is the mainstream.

And I also want to share with to the second part of the question. So I want to start with you by analyzing a little bit of the wholesale IDC services we are offering.

We are seeing the need is booming for our wholesale IDC business. And in the beginning of 2025, the contracted orders are underway and the deliveries are also on the way.

But as of now, we are collecting two pieces for requests from the customers. The first one is to expand our capacity. And the other one is to step up our delivery pace. Also, a large language model still drives strong market demand for our services.

And I also want to add a few more comments on the inference demand. Customers choose nearby retail IDC for most of the inference scenarios, no matter it's for private deployment or application agent development because the customers will consider convenience more than the price of the tariff. In both cases, the latency is not going to be troublesome.

To wrap it up, our customers usually do not deploy several servers in the wholesale IDC to meet their inference demand. Instead, they choose to utilize retail IDC.

Operator

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

Daley Li ***Bank of America Securities – Analyst***

Congrats on the solid results and the strong new orders. Here, I have one question regarding the wholesale business. As the company has achieved a strong new orders in the past two quarters. And we also have a quite solid delivery plan for this year. And by the end of this year, our capacity in service probably will almost double compared to like the number in 2024. So how should we think about the growth outlook maybe in 2026 or even 2027 regarding the revenue or new orders pipeline?

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

(interpreted)

Thank you for this question. And I want to share with you my view on this question. The company has established a five-year plan ahead of time because we are estimating that the AI deployment is going to be really strong in this Chinese market, driving up the demand for domestic IDCs extensively.

In 2025, the total number of CapEx is approximately equivalent to the sum of the capex in the last three years. For 2026 to 2027, the company will continue to invest in large amounts CapEx to meet the requirements of our clients and customers in the market.

Our CapEx is determined by the contract signed with the customers which means that our second round of CapEx is offering strong certainty to the growth of the future business.

And I also want to release a little bit of the business models of the IDC sectors. Normally, we usually go and construct to start off, it will take us six to nine months. As customers move in and the UR reaches 90%, it will take us around 6 to 12 months. You are going to find that the growth of the EBITDA will be a little bit slower than that of the CapEx growth.

Operator

Ladies and gentlemen, that concludes our conference for today. Thank you for participating.

You may now disconnect your lines.

**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 different from the earnings call audio.*