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PRESENTATION

Operator

Good morning and good evening, ladies and gentlemen. Thank you and welcome to VNET Group, Inc.'s Third Quarter 2021 Earnings Conference Call. (Operator Instructions) With us today are Mr. Samuel Shen, Chief Executive Officer and Executive Chairman of Retail IDC; Mr. Tim Chen, Chief Financial Officer; and Ms. Xinyuan Liu, Investor Relations Director of the Company.

I now turn the call over to the first speaker today, Ms. Liu, IR Director of VNET Group, Inc. Please go ahead, ma'am.

Xinyuan Liu ***VNET Group, Inc. - Investor Relations Director***

Hello everyone. Welcome to our third quarter 2021 Earnings Conference Call. Our earnings release was distributed earlier today, and you can find a copy on our website, as well as on newswire services. Please note that the discussion today will contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Report 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. As a reminder, this conference is being recorded. In addition, a webcast of this conference call will also be available on our IR website at ir.vnet.com.

I will now turn the call over to our CEO, Samuel.

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

Thank you, Xinyuan. Good morning and good evening everyone. Thank you all for joining us on our earnings call today. Despite regulatory uncertainties, we delivered a milestone financial performance this quarter, achieving historical highs for both revenue and adjusted EBITDA, with both figures exceeding the high-end of our guidance.

Our results demonstrates the strong momentum we have generated through the execution of our dual-core strategy. By leveraging our integrated strength in both wholesale and retail IDC services, we were able to unlock additional demand from the ongoing market migration towards digitalization and capitalize on more growth opportunities across diverse industry sectors.

Since 2019, we have implemented our dual-core growth engine strategy, utilizing our foresight on market trends and our competitive edge, in providing carrier-neutral and cloud-neutral IDC services. By executing the strategy, we have continuously expanded our market reach and diversified our customer base to better position ourselves for managing the regulatory changes, spanning across various industry sectors.

We successfully expanded capacity while driving significant improvement in utilization rate for our ramp-up and newly built cabinets. We added 2,388 cabinets on a net basis during the third quarter. Utilization rate for our ramp-up and newly built cabinets increased by 5.5 percentage points to 34.7%, and the compound utilization rate remained stable at around 60%.

With our track record of success over the last three quarters, we are confident in our ability to continue delivering strong operating results and expect to achieve our full year target of delivering 25,000 standard cabinets and a compound utilization rate of 60% in 2021.

And now let me provide more detailed business updates for the third quarter. As companies across the nation continue their migration towards digitalization, we have seen growth in overall demand for IT infrastructure from both existing and new customers across all of our business segments.

For our wholesale business, we achieved healthy momentum as some of our Internet and cloud service customers ramp up cabinet utilization to serve their increasing data processing needs. Meanwhile, we also saw some new add-on orders from these customers for their business expansion.

In terms of our retail business, we continue to expand our client base across diverse industry sectors. We forged several notable new customer relationships during the quarter, augmenting their industry leadership and deepening their reach in their respective markets.

For instance, in the third quarter, we began providing IDC services for China Chengxin Credit Rating Group, a leading credit rating agency in China and Real AI, a leading enterprise level AI security platform in China. At the same time, we continue to secure add on orders from many of our existing customers. This includes Shiseido, the Japanese multinational cosmetic company; Liepin, a leading talent service platform in China; and Meiyou, a health and beauty information sharing platform, just to name a few.

Our customer base has become far more diverse. Encompassing the cutting-edge technology companies, as well as companies from traditional industries, such as financial services, consumer goods, automotive, manufacturing, home decoration and many more. As we further diversify the customer base and industry verticals we serve, we not only actualize continuous service improvements, but also better insulate ourselves from sector-specific market fluctuations and macro risks.

Turning to our cloud business. We have started to generate additional interest beyond our cooperation with Microsoft. Cegid, a global unified commerce and POS platform for specialty and luxury retailers engaged us to assist with its Cloud Landing in China initiative. Going forward, we will continue to expand our cloud operations service offerings to attract more customers.

Finally, I'd like to provide some updates on the progress we're making with our ESG initiatives. Sustainable development has always been at the core of what we do. As a result, our plans generally align with the recent regulatory announcements, driving progress in energy efficiency.

During the quarter, our Boxing data center in Beijing and Nantong data center in Jiangsu province were awarded the 5A Green Data Center rating at the 2021 Open Data Center Summit, hosted by Open Data Center Committee. This is the highest rating for environmental sustainability performance of data centers in China.

At the Summit Ceremony, our Foshan Data Center was also recognized with the Innovative Data Center for Carbon Emission Reduction Award. We plan to remain at the forefront of green development through our continued effort and investment in energy efficiency, energy saving technology, green management and green innovation.

In conclusion, by persistently executing our dual-core growth engine strategy, we were able to unlock additional demand from ongoing business digitalization, capitalize on more growth opportunities across diverse industry sectors and achieved another quarter of solid financial performance.

Going forward, we will further deepen our market penetration, diversify our sector coverage, broaden our customer base and augment our technological prowess, to capture the tremendous growth opportunity born out of the rising tide of digital transformation, by maintaining precision focus on our dual-core strategy execution, we should be able to further expand our market share and augment our leadership position in the carrier and cloud-neutral IDC sector.

With that, I will now turn the call over to Tim Chen, our CFO, who will discuss our financial results for the quarter and his thoughts on our future growth. Tim?

Tim Chen ***VNET Group, Inc. - CFO***

Thank you, Samuel. Good morning, and good evening, everyone. Before we start our detailed financial discussion, please note that we will present non-GAAP measures today. Our non-GAAP results exclude certain non-cash expenses, which are not part of our core operations. The details of these expenses may be found in the reconciliation tables included in our press release. Please also note that unless otherwise stated, all the financial numbers we present today are for the third quarter of 2021 and in renminbi terms, while percentage changes are on a year-over-year basis.

We delivered stellar revenue growth and improving operating margins in the third quarter, driven by our organic business development, dual-core growth engine, diversified customer base and a strong IDC market demand. Our net revenues and adjusted EBITDA rose by 25.3% and 22.2%, respectively, both exceeding the high-end of our previously announced guidance range.

Net revenues in the third quarter of 2021 increased by 25.3% to RMB 1.56 billion from RMB 1.25 billion in the third quarter of 2020. This increase was mainly due to increased customer demand for our highly scalable carrier and cloud-neutral IDC solutions from both wholesale and retail IDC customers, as well as the notable growth of our cloud business.

Gross profit in the third quarter of 2021 was RMB 375.2 million, representing a year-over-year increase of 36.4% from RMB 275.1 million in the same period of 2020. Gross margin in the third quarter of 2021 was 24% as compared to 22.1% in the same period of 2020. The year-over-year increase in gross margin was primarily attributable to our continued efforts in optimizing our operating efficiency.

Adjusted cash gross profit, which excludes depreciation, amortization and share-based compensation expenses, was RMB 674.5 million in the third quarter of 2021 compared to RMB 526.2 million in the same period of 2020. Adjusted cash gross margin in the third quarter of 2021 was 43.2% compared to 42.2% in the same period of 2020.

Adjusted operating expenses, which exclude share-based compensation expenses and compensation for post-combination employment in an acquisition, and impairment of loan receivables to potential investee were RMB 244 million in the third quarter of 2021 compared to RMB 180.5 million in the same period of 2020. As a percentage of net revenues, adjusted operating expenses in the third quarter of 2021 were 15.6% compared to 14.5% in the same period of 2020.

Adjusted EBITDA in the third quarter of 2021 was RMB 450.4 million, representing an increase of 22.2% from RMB 368.5 million in the same period of 2020. Adjusted EBITDA in the third quarter of 2021 excluded share-based compensation expenses of RMB 4.6 million and adjusted EBITDA margin in the third quarter of 2021 was 28.9% as compared to 29.6% in the same period of 2020.

Our net profit attributable to ordinary shareholders in the third quarter of 2021 was RMB 156.2 million compared to a net profit of RMB 97.1 million in the same period of 2020. The basic profit and diluted loss was RMB 0.18 and RMB 0.03 per ordinary share, respectively, and RMB 1.08 and RMB 0.18 per ADS, respectively. Each ADS represents six Class A ordinary shares.

As for our balance sheet, the aggregate amount of the Company's cash and cash equivalents, restricted cash and short-term investments as of September 30, 2021, was RMB 3.94 billion, increasing by RMB 0.54 billion from December 31, 2020. Meanwhile, net cash generated from operating activities in the third quarter of 2021 was RMB 134.7 million compared to RMB 210 million in the same period of 2020.

Looking forward, we will continue to execute our dual-core growth strategy and further diversify our customer base to capitalize on growing IDC market demand. We are confident in our ability to build on our leading position in the IDC market to deliver continued growth for our shareholders.

For the fourth quarter of 2021, we expect net revenues to be in the range of RMB 1.75 billion to RMB 1.77 billion and adjusted EBITDA to be in the range of RMB 450 million to RMB 470 million. For the full year of 2021, we anticipate net revenues to be in the range of RMB 6.19 billion to RMB 6.21 billion and adjusted EBITDA to be in the range of RMB 1.74 billion to RMB 1.76 billion.

The midpoints of the Company's updated estimates imply year-over-year increases of 28.5% and 32.2% in net revenues and adjusted EBITDA, respectively. This forecast reflects the Company's current and preliminary views on the market and its operational conditions, which do not factor any of the potential future impacts caused by the COVID-19 pandemic and are subject to change.

This concludes our prepared remarks for today. So operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Yang Liu from Morgan Stanley.

Yang Liu ***Morgan Stanley, Research Division - Research Associate***

First, congratulations on the good results. I have two questions here. The first one is regarding the customer demand, because we see quite unfavorable regulation towards most of your customers, especially on the wholesale side. Could you please share with us the demand outlook going into fourth quarter and next year? Especially we see the overall wholesale under MoU or in service numbers stay at 230 megawatts this quarter. So I would like to hear what is your expectation in the wholesale sales momentum going into next quarter and the next year?

The second question is, do you see any risk on margin from the utility cost because with the liberalization of the industrial electricity in October, whether it will have some margin -- bring some margin pressure to VNET?

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

Okay, Yang, thanks so much. This is Samuel. I may just take the first question and see whether, Tim you want to chime in to provide the comments for the second question. So first of all, from the high-level perspective, there are, I would say, several trends for the investors and analysts to pay attention to.

Number one, I would say the data sets. The data sets continue to be generated, I would say, doubling in 18 months period. At the same time, I think the COVID-19 basically accelerated the enterprise digital transformation. So in short, more and more businesses or even their business model are moving from the pure physical world to both physical and digital world. So that's number one.

Number two, the cloud adoption is going to be a very standard infra practice for most enterprises. Unlike the rest of the world, which was predominantly by three different cloud service providers. But in China, we have more than a dozen cloud service providers providing the services and so on and so forth. So in China, what happened is, we're seeing a lot of a dedicated cloud adoption, both from the on-prem and off-prem opportunities.

And then so the trend, basically is, given the fact of the number of clouds in China, government policies, data sovereignty is concerned and even total cost of ownership. So a lot of the customers, when they started to adopt the public cloud services, they will consider when they grow their business, will consider about the dedicated cloud.

And the third thing is about the regulatory impact, as Yang mentioned earlier, first of all, the Chinese economy is highly regulated. Therefore, all the way from the government policy regulations on the platform and company concern, and also some of the vertical impact or even the power tariffs. And those will become, I would say, general concern for most of the investors and analysts.

From our point of view, again, kudos to our dual-core because we already have a very long track records from operation point of view. We also have a very comprehensive service offering and plus our diversified customer base. So from our point of view, we are bullish about the demand in the quarters to come. That being said, we also want to be cautiously paying attention on the potential regulatory impact.

But the net-net, I would say, we're bullish about the quarters to come, and we'll be ready to meet the customers' needs.

For the second question, Tim, do you want to chime in with your input?

Tim Chen ***VNET Group, Inc. - CFO***

Yes, sure. Samuel. Yang, thanks for the second question. I think second question is related to power tariffs. To-date, there have been no increases in power tariffs. There have been some power control measures. But as you correctly point out, there is expectation that some tariffs will increase in 2022.

In terms of the impact to the overall business, I think I would say impact to the wholesale side of the business will actually be rather limited. These are mainly passed through or the utilities are paid directly by the customer. And for our retail customers, actually, a number of our contracts there have automatic adjustment clauses.

For the rest, we expect during the normal course of business that will have those discussions and the adjustments passed through upon renewal. These are shorter contracts and just like an increase in tax or any of the other sort of basic costs of providing a service. These are things that we fully expect will be passed through. So again, we're expecting a very limited impact to our margins as in relation to potential sort of tariff increases in China.

Operator

[Edison Lee] (corrected by company after the call) from Jefferies.

Edison Lee ***Jefferies Group - Analyst***

Hi, actually this is Edison. Congratulations on the results. I have two questions. Number one is, on your CapEx. So you're guiding 2021 CapEx of RMB 1.8 billion, roughly. I think previously, you were talking about potentially RMB 5.5 billion. So can you explain why it has come down so much from your previous soft guidance?

And my second question is on your retail MRR. Can you explain why it has been going up? Because I think the year-on-year and Q-on-Q growth in 3Q was actually pretty big. So if you can talk about the trend and what investors should expect to see in 4Q and 2023, that would be great.

Tim Chen ***VNET Group, Inc. - CFO***

Sure. Why don't I take the first one, and then maybe, Samuel, if you want to comment on the MRR part. So Edison, in terms of the CapEx, the question about what is the sort of key drivers of the CapEx. And look, for us, really, there's two parts, right. There's the delivery of the cabinets as we deliver our data centers, there is CapEx related expenses there.

And then there's also another portion, which I would put in the securing resources for future years, whether that's 2022, 2023 or even beyond that, the land and the power resources related to those, including the power infrastructure and the build-out of that. So I would say for this year, as the investors well know, we had a more concentrated delivery schedule in the second quarter and in the fourth quarter.

And so we expect, obviously, that those were the two areas where there would be a more substantial increase in the Capex. We did guide sort of a general soft guide in terms of overall CapEx. But frankly that at the end of the day boils down to especially the second part, which is on the future resources, 2023, 2024 and beyond. There have not been as many of those that have popped up.

And also, the other point that we try to factor in is opportunistic M& A. And again, there has not been anything in the first three quarters of the year. So we'll keep the investor base closely informed. But again, I think we would expect that we would end up somewhere close to where we were last year in terms of the total amount of CapEx for the year. But again, some of this could slip into January and then be counted as first quarter of next year.

So I hope that helps, Edison. I'll pass to Samuel on the MRR question. But before that I'll probably say that, we've kind of had the related questions in the previous quarters, why did it go up, why did it come down quarter-to-quarter? I think some of it is product mix, that Samuel will give you a little bit more. But I would say, trend-wise, is something that we would encourage investors to really focus on rather than, let's say, quarter-to-quarter fluctuation.

So I'll pass that to Samuel now.

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

Yes, Thank you, Tim. Yes, thank you, Charlie, for the question. I think that's a very excellent question. As Tim pointed out, when investors and analysts look at our retail MRR, we wouldn't recommend to look at that quarter-by-quarter, but half year over half year or year-over-year, you're going to see that number continue trending up for sure. Part of the reason because we're not just providing customers the colocation services. We have a lot of the value added services on top of that, including the networking bandwidth, value added services and bare-metals, hybrid and multi clouds.

Especially today, I would say, hybrid and multi cloud become a new norm. So a lot of the customers, not just from the Internet sectors, but also from a different vertical industry coming to us, requiring a full stack services. And then -- so that give us great opportunities because we have a large customer base, and then we have a full stack service. And then we have a very strong ecosystem. And most of the ecosystem when they provide the hardware solutions, software solutions or even management type of services, majority happened to be a reside in the data center.

And then so we can basically kind of glue them together and provide it to the customers, of course, with the operation and maintenance on top of that and making sure customers would have a piece of mind. They can just forget about the infrastructure pieces and focus on their business innovation, so become a greater win-win-win situation. So a part of the value-added services adopted by the customers contribute quite a bit to our retail MRR this quarter. So hopefully that addresses your question, Charlie?

Operator

Tina Hou from Goldman Sachs.

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

So I have two questions. The first one is that, actually in the third quarter of last year's earnings call, management laid out a plan to add 25,000 cabinets each year in 2021, 2022 and 2023. So wondering if we are at this point, still maintaining that guidance? And if yes, maybe because we're at the end of this year now. So I think we have probably already have some insight into the type of resources that we have secured next year. So wondering if you could share some of that information with us?

And then the second question is a follow-up to a previous analyst question. So looking at your 4Q guidance, implied EBITDA margin is around 26%, which is lower by about 2 percentage points Y-o-Y and Q-o-Q. So wondering why is that?

Tim Chen ***VNET Group, Inc. - CFO***

Sure. Thanks for the question, Tina. Let me take these two questions. First would be in terms of your question on the 25,000 standard cabinet guidance. I would say that we provided that number. And I would say, going forward, that number would change a little bit, but that's really a matter of projects being finalized, and then you look at our mix of wholesale and retail customer, they are different power density requirements, so you'll end up with different numbers of cabinets.

However, I would say that we maintain the 25,000 for next year as well. And for 2022, your question around kind of how much of the resources was secured? As of now, we've secured about 80% of the resources towards the 25,000 cabinet target for next year.

In terms of margin and the reason for the reduction in margin in fourth quarter. Frankly, that's really with the cabinet deliveries that we have in fourth quarter. So you will have naturally the scale-up of costs to support the delivery of the cabinets, and then that will then be mitigated over time as those cabinets ramp up. So we do have a lot of cabinets as you can sort of reverse calculate delivering in fourth quarter. So that's the main reason.

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

So does that mean that our utilization rate in 4Q would likely trend down as well?

Tim Chen ***VNET Group, Inc. - CFO***

I would say that we would still keep to the, around 60%, but there may be a small trend down, you're correct.

Operator

Ethan Zhang from Nomura.

Ethan Zhang ***Nomura Securities Co. Ltd., Research Division - Analyst***

My question is also around the utility cost. So I just wondered what's the impact of the power restriction to our margin during the third quarter and what's our outlook for the power supply situation for the fourth quarter and next year? And also, just we want management to give us more view on our outlook for migrating to green power and our current penetration rate of the green power utilization?

Tim Chen ***VNET Group, Inc. - CFO***

Hi Ethan, let me take the first question, and then I'll take a stab at a second and see if Samuel has anything to add as well. In terms of the power control, those were some of the power control measures throughout parts of China and the impact actually to our IDCs or IDCs in general is that the IDCs had to burn diesel in the areas that were impacted. To VNET, the impact was actually rather limited. And as of now, no long-lasting impact to us.

The second, I guess, in terms of looking forward, what do we expect? Similar to the general market, we actually expect that these power control measures to be largely eased as the government actually has been actively tackling these issues around thermal coal supply and around thermal coal pricing. So again, we don't expect this to be sort of a continuing trend or a problem in terms of power control.

As I mentioned before, yes, overall market does expect that there will be some power tariff increases in 2022. But as I mentioned earlier on, the impact in terms of margins should be rather limited, just given how the IDC business is running and our contracts with our customers.

Green power, maybe I'll open with the fact that, as of today, the ability to increase the proportion of green power is constrained by the fact that we purchase power from the grid. And so that's one sort of constraining factor. We are actively addressing, obviously, the overall country's goals, 2030, 2060.

And again, at this point, we have not gone down the road of necessarily building our own power generation. We do not believe that that is a core competency for VNET to be builders and developers of power generation. But it is something that we look to find partners where we can actually then be able to help towards the overall goals of the country.

Samuel, I don't know if there's anything else you want to add to that?

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

Yes. So a couple of things. Again, Ethan, thanks for the questions. I think everybody knows that China will strive to peak carbon dioxide emission before 2030 and achieve carbon neutrality before 2060. So from the renewable energy usage point of view, Tim, did well, we will generally increase the usage of the renewable energy and ensure to comply with the local requirements. But as of now, because the operators are limited to purchasing electricity from the grid. Therefore, the percentage of renewable energy will vary based upon the province and the grid's own sourcing of renewable energy.

For example, for our Shanghai data centers, now we have 30% renewable energy usage. Again, that was basically due to the Shanghai, great energy mix. Having said that, we do have our own efforts from a PUE improvement point of view. Because the energy consumption in data center is on the rise. So no doubt of that. So due to the fact that the spread of cloud computing and society is paying a lot of great attention to the environmental performance of data centers.

So that being said, we will continue to optimize our IT power, optimize the data center space, optimize the data center cooling, eliminating the data center power and cooling inefficiency, utilizing the DCIM tools, which is data center infrastructure management tools and also using the AI control, the air conditioning to control the cooling and making it to be more efficient. So while we will partner with the grid to adopt the renewable energy, but we will continue emphasizing on our PUE efforts.

So hopefully, that address your question, Ethan.

Operator

Arthur Lai from Citi.

Arthur Lai ***Citigroup Inc. - Analyst***

Good morning, Samuel and Tim. Congrats VNET and the whole team to deliver the strong result even in quarter three. We know that quarter three has a lot of hiccup from the power side. So I have two questions. And first question, I want to quantify the impact from the power supply. So we are seeing your competitors meeting a power slide, there is around RMB 19 million to use the backup power. And I wonder if we also have the similar one-off cost? That's my first question.

Tim Chen ***VNET Group, Inc. - CFO***

Hi, Arthur, yes, I would say that the power control did have impact in terms of data centers having to burn diesel. But it actually was extremely varied region to region and even data center to data center. So it's not something that I would say it was a one-off, but not enough to move the sort of EBITDA margin needle.

And again, thankfully, we do not expect that these power control measures will be continued as the government seems to have tackled the underlying problem around thermal coal. So yes, I didn't see the similar remarks from some of our peers, but it was not something that impacted us, not enough to move the needle on our side in third quarter.

Arthur Lai ***Citigroup Inc. - Analyst***

And secondly you mentioned that we should invest in the AI control, AC and try to improve the PUE. Can you also let us know how much or how big the scale of this CapEx or OpEx we need to invest and how we can see the results? When we can see the results?

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

Okay. I can probably tackle the question Arthur. So basically, as I said earlier, because energy consumption in data center is on the rise. It is a big topic. And then today, we have more than 32 data center around the countries. And then the beauty of the AI control, it is about more like data-driven, machine learning type of technologies. Because in the past, we tend to rely on the labor, to managing, I would say, air cooling, air conditioning control and so on and so forth. But now we have to use the tools and the systems. So this, for example, is something that we invested.

DCIM is something which is industry referred to a data center infrastructure management. It is basically combining the operational needs of the physical IT equipment and also the physical facilities, namely building environment controls, combining together. So we will be able to use the data-driven to control the air conditioning.

That being said, we started with the four data centers in our pilot, we have 32. So hopefully, we can go through a fewer iteration to see the improvements. And we started to rollout to all the data centers countrywide. We're seeing some promising impact, which I could share with you more updates in the coming quarters.

Arthur Lai ***Citigroup Inc. - Analyst***

I do have some chain questions, but I will stand by the queue, maybe ask later.

Operator

Mingran Li from CICC.

Mingran Li ***CICC - Analyst***

My question is regarding the acquisition of TenxCloud. So how is the development and its cloud service business? And can you share the revenue and growth breakdown of your cloud and IDC business?

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

I can probably take the questions and definitely welcome Tim to chime in with additional input. Yes, I think early July we announced that we acquired one of the leading cloud-native companies in China, the TenxCloud. And then the TenxCloud move in and also working with the usage team, providing the customers a better solutions from the cloud-native point of view. Today, we look at the whole industry, as I said earlier, cloud adoption has now become a standard procedures for every single enterprise when they want to go through the digital transformation.

And then based upon the Frost trend analysis. It shows 30% of the enterprises, when they go through the digital transformation, they will be applying and adopt cloud-native technology, namely Container based, Microservices or even Serverless. We're seeing the trend pumping up as well. And then ever since TenxCloud joining us, we're seeing a great synergy in between because what happened in the past, we have a very good cloud migration solutions, which is primarily virtual machine based. And -- but now we have a TenxCloud coming in, basically provide additional puzzle to resolve the issue for a cloud-native.

Unlike the cloud migration, which is more lift and shift, not much architecture or re-architecture efforts have to be done by the customer side, but the cloud-native will be a different animals, meaning the customer has to go through rearchitecture of their solutions in order to embrace the beauty of the cloud-native.

And then so, we're seeing a great synergy in between. Based upon the latest internal reviews, the revenues is pretty much on the target to achieve by the end of the year. But because we don't provide the breakdown numbers. So, I don't have the detailed numbers that I could share with you.

I'm not sure, Tim, you have additional input you want to say?

Tim Chen ***VNET Group, Inc. - CFO***

Yes. No, Samuel, I'd say, your last point, we don't provide the breakdowns of each of the value-added services within the retail enterprise piece. But what I can sort of add to Samuel's is that, obviously, this is a relatively recent acquisition. It is additive to our overall business, and we expect that it will become an increasing part of the value-added service solution set to our customers. So again, it will be a driver of MRR growth and helping to make our business even stickier for our end customers.

Operator

Clive Cheung from Credit Suisse.

Clive Cheung ***Credit Suisse - Analyst***

My question is also on the power. I think Tim mentioned that, earlier, we have a portion of the future utility costs that can be passed through to the customers. Can I get a sense that what portion of current existing contracts have these kind of pass-through clauses? That's number one.

And number two, for those that does not have these pass-through clauses. What is our strategy? Obviously, the price hike uncertainty for next year, are we looking to renegotiate with these customers? Or at what certain point will we evaluate kind of resigning and renegotiating with them?

Tim Chen ***VNET Group, Inc. - CFO***

Sure. Let me take the first part, and I know that Samuel has some sort of live examples in terms of the customer strategy as well. I think, look, overall, you can safely assume that all of the wholesale contracts have either a pass-through mechanism or they're paying the utilities directly, as I mentioned earlier on. For our retail enterprise customers, as I mentioned, it does vary quite a bit.

But again, I would say, in general, the longer contracts will have adjustment mechanism clauses built into those contracts, whereas our shorter contracts, those are the ones where they don't have an automatic adjustment, but those are things that also were upon renewal, we would fully expect it will be part of the discussions. Ultimately, just like tax, just like power tariff, I mean these are non-discretionary. And it's a cost that we face in providing that service, and it's a cost that must be borne by the customer.

In terms of how that discussion is in terms of the -- if you call the renegotiation or the renewal, I guess I'll leave Samuel to give you some color on that part.

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

Yes. I think as Tim pointed out, because if we breakdown by the customer taxonomy for the wholesale, that's a pass-through for the scale retail because it tend to be a one to three years contract that we already have built in the clauses. So negotiate with customers is at zero problem. And therefore, I would say, for the long-tail retail, even within the contract for the year one, we're still putting down some clauses, basically, for some unforeseeable reasons. We will be able to sit down with the customer to renegotiate.

So I think the net-net is, because we're going to balance. There's a part -- on one hand, we have a customer experience. On the other hand, we also have the margin, right. And then so if that's kind of marginal, and we're probably going to satisfy the customer experience and reopen the door when the contract due. Or if that becomes immaterial, we're going to sit down with the customers. And the conversation will be fairly easy because, as Tim pointed out, the cost element in a sense is non-discretionary. So it is fairly, fairly transparent. So for us, we haven't seen any impact to sit down with these customers and open the dialogue.

Operator

Albert Hung from JPMorgan.

Albert Hung ***JPMorgan Chase & Co. - Analyst***

My first question is your peers commented that it is getting more difficult to get power quotas for new data center field. I'm wondering whether you see the similar trend, if yes, what will be the alternative way to grow the top line in the future?

My second question is follow-up on the 25,000 cabinet addition commentary next year. I wonder if there is any slowdown in moving rates, how fast could VNET change to the expansion plan and mitigate the margin impact?

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

Okay. I might take the power quota one and then having...

Tim Chen ***VNET Group, Inc. - CFO***

I'll take the second one, Samuel.

Samuel Shen ***VNET Group, Inc. - CEO & Executive Chairman of Retail IDC Business Group***

All right. Okay, it sounds good. For the power quota one, I think it is true. I think the overarching statement, I keep saying that, the Chinese economy is highly regulated. And then given the fact that the government has the national policy to strive the peak carbon dioxide emissions before 2030 and achieve a carbon neutrality before 2060. Therefore, the power quota, I would say, case-by-case, location-by-location will be different.

The good thing is, I think, because we have been in the industry for so long, literally over 25 years. And within our data centers, we have a very credible customers with a very serious workloads. And because -- again, kudos to our dual-core. So other than the Internet giants or cloud service providers, we actually have a lot of very serious enterprise customers in our data centers.

And then in government policy, on one hand, is to drive a very healthy industry ecosystem, harness the ecosystem and so on and so forth. But on the other hand, they also want to reward long-term players like us. So albeit, I would say, getting power quarter is going to be challenged. But we're confident in a way to continue moving down the road to get what we need. So again, we have our high hope, and we're going to continue working our butt off to get the power quota on the location that we have resources.

So that will be my answer to you. Excellent question. Tim, do you want to take on the part two?

Tim Chen ***VNET Group, Inc. - CFO***

Sure, sure. In terms of part two and 25,000 cabinets for next year. And I guess the question is around the ability to slow down? Is it to sort of match, if there's any slowdown in customer ramp up, then how do we sort of slow down?

And I would say, yes, look, the ability is there to the extent that we have the visibility from the customers where their demand needs change. And I would say that's both speeding up and slowing down. Within sort of fiscal possibilities, if a customer tells us, look, we need it a month or two months earlier? Absolutely, we can factor that in. And if the customer says, look, I need it a quarter later or two quarters later, there is fully that capability to shift.

And so that will -- again, we look to our guiding kind of overall 60% utilization rate, and we monitor that to make sure that we're not just building cabinets. We're also making sure that those IDCs are then filled. And so that's something we keep a close eye on, and we manage to that. So we're not just stuck on one variable. I think there's a number of different operational variables that we manage too, and making sure that what we build and the money that we spend does then generate the correct returns to us and our stakeholders.

So I hope that answers that question.

Operator

Guohan Wang from Daiwa.

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

I'm Guohan Wang from Daiwa Capital. We noted that -- for the expanded ramp up for mature IDC cabinets build before 2019 and 2019. So I want to know the reason for the expected ramp-ups. And also, we know that given the tightening supply of power quota in Beijing and Guangdong. And from management's views, do we have any additional acquisition for high-quality access in some Tier 1 cities maybe in 2021 or maybe 2022 because we noted that you reduced capacity, the CapEx outlook for this year significantly. So want to have a better understanding on our competition strategy, maybe in Amazon's fierce competition and also the weaker demand?

Tim Chen ***VNET Group, Inc. - CFO***

Let me, I guess, Samuel, let me take the first part. I guess the question was around ramp-up of the mature cabinets utilization rate. Yes. I mean, I would say, look, we continued to deliver cabinets and obviously as IDCs click passed into these sort of two years and older, you will see some small fluctuation. But no, we have not seen necessarily a very large difference in terms of the ramp-up of our customers for these mature data centers.

Sorry, what was the second part of that question? Something about Beijing, Guangdong power quota?

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

Yes. Just about our allocation of our CapEx result is because we have a reduced CapEx this year significantly. So we want to reserve for the maybe future development maybe in the second half of next year or 2023 due to the fierce compensation and maybe some oversupply in some regions due to more interest of new players in 2020 and 2021? Yes. So that's my question.

Tim Chen ***VNET Group, Inc. - CFO***

Okay. If I understand correctly, sort of impact or relationship between CapEx and then competition, is that correct?

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

Yes.

Tim Chen ***VNET Group, Inc. - CFO***

Okay. Well, look, I would say, we had, I guess, a short discussion earlier on the CapEx side. For us, again, there's two parts of that CapEx. One is actually the building of the data center and a large part of that actually is the power infrastructure to connect to data center to the power source. So that part of it is related to our overall rollout of our plan.

Two, that second part is going to be related to the acquisition of land and power resources for the future. And like I said, what we're building out and developing today largely was acquired years ago. And so if you're saying that have we sort of slowed down? Or have we not spent as much in relation to 2023, 2024 land and resources, I'd say that it is not necessarily related to competition, but rather actually making sure that we're acquiring the land and other resources in the right places to meet our customers' demands, and the customer demand does change.

So what we don't want to do is actually go out and buy a bunch of land that we won't be building for another three, four years in a wrong place, because that would just be idle land and trap capital. So I think that's the kind of the main point I would make there.

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

Thank you.

Tim Chen ***VNET Group, Inc. - CFO***

Was there a third part? Or was that also linked to, I guess, overall competition? Okay.

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

Yes. Yes.

Operator

Thank you.

Tim Chen ***VNET Group, Inc. - CFO***

Sorry, I was asking, was there a third part of the question? I wasn't sure if that was linked also then to the overall competition point that I was making earlier on.

Guohan Wang ***Daiwa Securities Co. Ltd., Research Division - Research Analyst***

Yes. I just have of understanding our longer-term, yes, competition and the development strategy. So yes, you just mentioned the point, yes, that's okay. Okay, no issues.

Operator

Thank you so much. Ladies and gentlemen, this will conclude our conference for today. Thank you all for participating. You may now disconnect.