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PRESENTATION

Operator

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to VNET Group, Inc.'s Fourth 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 will 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 fourth quarter 2021 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 the discussion today 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.

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***

All right. Thank you, Xinyuan. Good morning, and good evening, everyone. Thank you for joining our fourth quarter 2021 earnings conference call.

We concluded 2021 with strong operating and financial results. Operationally, we successfully achieved this year's delivery target by adding approximately 25,000 cabinets in the full year of 2021, including 13,276 cabinets that were delivered in the fourth quarter. Financially, for the full year of 2021, we grew our revenue by 28% and our adjusted EBITDA by 32%. We attribute our achievements to favorable government policies, robust market demand, persistent strategy execution and methodical service expansion.

First, we are pleased to see the favorable government policies continue to provide a strong tailwind to our industry development. Last month, the Eastern Data, Western Computing plan was jointly released by China's National Development and Reform Commission together with 3 other central regulatory departments. Of the 8 national computing hubs, we have already deployed our data centers in the Beijing-Tianjin-Hebei region, Yangtze River Delta, Greater Bay Area, Chengdu-Chongqing economic circle and Inner Mongolia Autonomous region. In addition, this January, the State Council of China unveiled the first 5-year growth plan for the digital economy, highlighting the sector's role in reshaping global economic structure and rolling out development targets through 2025. The plan laid out measures for upgrading national infrastructure, bolstering the role of data as a production element and promoting digital transformation. The plan also gives priority to the development of digital infrastructure, a pillar of achieving digital economic prosperity that will also spur investment and drive overall economic growth.

During the fourth quarter, we received orders not only from bellwether technology companies in the Internet sector but also traditional companies in brick-and-mortar industries that are transforming through digitalization. In addition, we're seeing growing demand in both the wholesale and retail segments.

In order to seize this burgeoning market demand, we maintain a laser-sharp focus on executing our dual-core strategy to offer both wholesale and retail IDC services, enabling us to achieve solid operating results.

On the cabinet delivery front, we added 13,276 cabinets on a net basis in the fourth quarter to 78,540 cabinets as of December 31, 2021, despite a myriad of challenges, including equipment delivery delays caused by the COVID resurgence in certain regions of China, global chip shortages and construction difficulties due to excessively cold weather. To meet our annual delivery targets against all odds is a strong testament to our solid execution capabilities developed on the foundation of our extensive experience in the IDC sector. This achievement demonstrates our superior capabilities in project management, logistics as well as suppliers and government relations. In addition, successfully leveraged our extensive technological expertise to explore extension resources.

Turning to our monthly recurring revenue. Our Retail IDC MRR reached a new high of CNY 9,301 in the fourth quarter, representing 2% year-over-year growth. Our continued growth in MRR is a manifestation of the increasing endorsement from our existing customers. As we continued to improve our service capabilities and enrich our one-stop solution offerings, our existing customers expanded their contract scopes accordingly to include more value-added services, such as interconnectivity, bare metal services, hybrid cloud services, O&M and more.

We're also making good progress on our utilization rate. Our compound utilization rate increased to 61.6% in the fourth quarter compared to 59.8% in the previous one. This increase was mainly driven by consistently strong demand from the Internet sector and the digitalization trend in the traditional industries, such as financial services, automobile manufacturing, and local services.

The utilization rate for mature cabinets, which consisted of cabinet deliveries prior to and during 2019, was 76.7% compared to 75.5% in the previous quarter. The utilization rate for ramp-up and newly built cabinets, which consisted of cabinet deliveries in 2020 and 2021, was 39.6% compared to 34.7% in the previous quarter. That being said, we do expect to see some seasonal fluctuations in the utilization rate in the first quarter. This is because each year, we reclassify mature, ramp-up and newly-built cabinets in the first quarter, and we delivered a large amount of newly-built cabinets in the fourth quarter of last year.

On the resource front, we have recently secured new resources, exceeding 20 megawatts in capacity at a premium location in Beijing, and we expect to deliver the cabinets over the next 2 years in multiple phases. Additionally, we continue to secure more resources in other Tier-1 cities and surrounding areas.

On the wholesale business side, while maintaining our ramp-up speed, we continue to securing more orders from existing and new customers. Our customers in the Internet sector and cloud computing industry maintain a healthy pace of development and ramped up fast to meet their increasing data processing needs.

In the fourth quarter, we won a pre-committed order of approximately 7 megawatts in capacity from existing Internet customer. Recently, the same customer awarded us a further pre-committed order of approximately 11 megawatts in capacity. And we also secured 3 other orders, totaling approximately 5 megawatts in capacity. Two of them were multiyear contracts from our existing customers in the Internet and technology sectors, respectively, while the third one was a multiyear contract with a state-owned cloud enterprise in the

Southern region -- Southern, Western region of China. We continue to see the increasing demand in our wholesale business and are confident about our future prospects in this segment.

Turning to our retail business. The digital transformation trend further fueled our business growth across multiple verticals. We continue to see strong demand from several industries, including financial services, automobile manufacturing, local services and IT services. In addition, we also saw increased demand from traditional industries such as logistics, manufacturing and construction. For example, several globally renowned companies partnered with us to expand their business in China during the quarter, demonstrating our strong customer recognition, exceptional operating track record and superior IDC technologies. These customers include a leading global investment bank, the world-leading credit rating service provider and a global leader in the premium and luxury car industry.

We have now reached over 1,400 IDC customers in total, and they operate in a wide variety of industries. This growth and diversification of our customer base will help us to mitigate any potential adverse regulatory changes and also serves as a secure foundation for the future development of our dual-core strategy.

For our Blue Cloud business, we continued to grow the business by providing industry-specific solutions to help our customers improve their operational efficiency and reduce costs. Witnessing the unprecedented supply chain disruption caused by the COVID-19 pandemic, we decided to proactively develop a solution to help our clients resolve acute pain in their logistics management and shorten their product to market time.

We recently initiated a logistics execution system, one of our key SaaS offerings to IDC customers in the automotive industry. The SaaS offering improved support for lean manufacturing with the aim of minimizing lead time and increasing customer satisfaction by fulfilling tailored requirements. The system also provides better warehouse management by synchronizing online and offline orders. Enabling direct ordering from manufacturers eliminates the need for intermediate distributors, allowing manufacturers to produce goods based on the actual needs of customers.

During the quarter, Niutron, a new local EV manufacturer, began using our logistics execution system and provided excellent initial feedback. Utilizing our successful execution experience and product development capabilities, we expect to expand our product reach to serve more upstream and downstream industry participants in the automotive industry and expand into various other sectors going forward.

Beyond the execution of our strategy, we further explored options to diversify our financing solutions and enhancing the resilience of our business. In January, we reached an agreement with Blackstone, the world's largest alternative investment firm, pursuant to which Blackstone made an additional investment in VNET by purchasing USD 250 million of our convertible notes. Last December, we signed a master joint venture investment agreement with a sovereign wealth fund. Together, we will form joint ventures to pursue development and investment opportunities in multiple build-to-suit hyperscale data center projects in China.

As a leading data center service providers in the industry, we have always considered sustainable development as a core part of our mission since inception, and ESG strategy is an integral part of our long-term business success. We aim to achieve both carbon neutrality and 100% renewable energy by 2030. And we have also committed to a number of ESG initiatives. First of all, we strive to contribute to a sustainable future. We became a signatory of the UN Global Compact in November 2021 and now pledged to consider all 17 UN sustainable development goals in our comprehensive business development.

Similarly, in the pursuit of increasing renewable energy ratio in our energy consumption, we successfully signed a strategic cooperation agreement with China Huadian Corporation, Shanghai Electric Wind Power Group and China Southern Power Grid Energy Efficiency & Clean Energy Co.

In addition, as a response to the international initiatives and domestic callings against climate change, we're now examining climate-related risks and opportunities concerning the industry and have recently committed to supporting the Task Force on Climate-Related Financial Disclosures, aka TCFD.

Last but not least, we continue striving to decrease the PUE of our data centers. The average PUE of our stabilized data center was 1.37 in 2021, notably lower than the industry average.

Turning to our capital market initiatives. I would like to take the opportunity to share with you that we are planning a secondary listing on the Hong Kong Stock Exchange. We believe a secondary listing in Hong Kong will provide our shareholders with an additional trading venue while offering them greater protection amid an evolving regulatory environment. The timing of our contemplated secondary listing is subject to market conditions and regulatory approvals, however.

In summary, 2021 was a rewarding year. We maintained consistent execution of our dual-core strategy to achieve sustained growth, and we also succeeded in meeting our annual target for 2021 by delivering approximately 25,000 cabinets. In consideration of the uncertainties in the macroeconomic environment, we would like to revise our annual cabinet delivery target from 25,000 cabinets to a range of 14,400 to 17,400 cabinets for the year of 2022.

With that, I would now turn the call over to Tim. He will discuss our financial results for the quarter and his thoughts on our future growth. Hi, 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 noncash 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 fourth quarter of 2021 and in renminbi terms, while percentage changes are on a year-over-year basis.

As Samuel mentioned, our performance in 2021 was characterized by healthy revenue growth and margin expansion, improved operational efficiency, augmented utilization rates and consistent cabinet capacity deliveries, which proceeded according to schedule despite macro uncertainties.

Net revenue in the fourth quarter of 2021 increased to CNY 1.75 billion, a 29.4% year-over-year increase from the fourth 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 in our cloud business.

Gross profit in the fourth quarter of 2021 was CNY 380 million, representing a year-over-year increase of 29.1% and a sequential increase of 1.3%. Gross margin in the fourth quarter of 2021 was 21.8% compared to 21.8% in the fourth quarter of 2020 and 24% in the third quarter of 2021. The [sequential] (corrected by company after the call) decrease in gross margin was primarily attributable to the massive delivery of new cabinets, which usually have a ramp-up phase to reach the expected profit level.

Adjusted cash gross profit, which excludes depreciation, amortization and share-based compensation expenses, was CNY 713.8 million in the fourth quarter of 2021, an increase of 22.7% from the fourth quarter of 2020 and 5.8% from the third quarter of 2021. Adjusted cash gross margin in the fourth quarter of 2021 was 40.9% compared to 43.2% in both the fourth quarter of 2020 and third quarter of 2021.

Adjusted operating expenses, which excludes share-based compensation expenses, compensation for post-combination employment and acquisition, impairment of loan receivables to potential investee and impairment of long-lived assets, were CNY 273.7 million in the fourth quarter of 2021, representing an increase of 27% from the fourth quarter of 2020 and 12.2% from the third quarter of 2021. As a percentage of net revenues, adjusted operating expenses in the fourth quarter of 2021 were 15.7% compared to 16% in the same period of 2020 and 15.6% in the third quarter of 2021.

Adjusted EBITDA in the fourth quarter of 2021 was CNY 463 million, representing an increase of 18.8% year-over-year from the fourth quarter of 2020 and an increase of 2.8% sequentially from the third quarter of 2021. Adjusted EBITDA in the fourth quarter of 2021 excluded share-based compensation expenses of CNY 253 million. Adjusted EBITDA margin in the fourth quarter of 2021 was 26.5%

compared to 28.9% in both the fourth quarter of 2020 and the third quarter of 2021.

Our net loss attributable to ordinary shareholders in the fourth quarter of 2021 was CNY 27.3 million compared to a net loss of CNY 1.02 billion in the fourth quarter of 2020 and a net profit of CNY 156.2 million in the third quarter of 2021. Basic and diluted loss were CNY 0.03 and CNY 0.28 per ordinary share, respectively; and CNY 0.18 and CNY 1.68 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 December 31, 2021, was CNY 1.71 billion, a decrease of 49.8% from December 31, 2020.

Meanwhile, net cash generated from operating activities in the fourth quarter of 2021 was CNY 664 million compared to CNY 283.8 million in the fourth quarter of 2020 and CNY 134.7 million in the third quarter of 2021.

Our CapEx in the fourth quarter of 2021 was CNY 2.2 billion, and the total CapEx for the full year 2021 was CNY 4 billion. We expect to invest CNY 4 billion to CNY 5 billion in CapEx for both our data center constructions and M&A considerations for the full year of 2022.

Looking forward, we will continue to explore various financing solutions, execute diligently on our dual core growth strategy, increase our customer diversification to cultivate resilience and further consolidate our position as a leading data center services provider in China.

Now moving to outlook. For the full year of 2022, we anticipate net revenues to be in the range of CNY 7,450 million to CNY 7,750 million; and adjusted EBITDA to be in the range of CNY 1,975 million to CNY 2,125 million. The midpoint of the company's updated estimates imply year-over-year increases of 22.8% and 16.9% in net revenues and adjusted EBITDA, respectively. This forecast reflects the company's current and preliminary views on the market and its operational conditions and does not factor in any potential future impacts caused by the COVID pandemic and is subject to change.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Yang Liu from Morgan Stanley.

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

Two questions from my side. The first one is on the demand. We see a downward revision of the full year new capacity delivery plan for 2022. Could you please update us in terms of the wholesale and retail split? And if I remember correctly, previously, 25,000 actually is 80% for wholesale and scale retail and 20% for traditional retail business. So what is the new split? And where do we see the downward revision of the demand?

And the second is for the 2022 margin. We see the new 2022 guidance, revenue growth rate is pretty strong, but EBITDA under-grow the revenue. What is the reason for that? Is this mainly because of the higher utility costs? Or is there any other reason behind that?

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

Okay. Tim, do you want to take that question first? And then I can chime in later.

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

Absolutely. So in terms of the demand outlook, we are looking at a roughly 60-40 split wholesale versus retail. And so the retail does comprise a component of the scale retail. So actually, the downward guide on the cabinets was actually a pro rata guide. So we're not necessarily saying that there's the one segment versus the other segment.

And then I guess in terms of the question on the EBITDA versus the revenue growth. We are, as you know, steadily ramping up the wholesale side of the engine, but we also have other business segments. And so some of the other business segments are not EBITDA types of businesses, or they have lower margins. And so that actually is increasing the sort of cost related to those. More importantly, as we also, in our guidance, have factored in the increase in utility costs, and that accounts for, let's say, around just under 1% of the decline in margins as well. So I think that's the main driver, Yang, to your question.

I guess in terms of the overall demand outlook in terms of the details, Samuel, I don't know if you wanted to add some color for Yang on the wholesale and retail demand that we've been seeing.

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

Yes, definitely. Again, thanks, Yang, for the questions. I think overall, given the favorable government policy and also the rise of data sovereignty and plus the digital transformation momentum, so overall, we're still very bullish about our long range of outlook in general. But we also have to understand that there is macro issues that we have to be careful about. Industry-wise and market-wise, there's also a kind of different, I would say, different climate compared to about the last year. And therefore, company-wise, we want to be a little bit cautious.

On one hand, there's a business priority. On the other hand, there's a resource needs that we want to balance. So that's the reason overall business outlook, fantastic. And we're very bullish, but we're taking a cautious approach step by step. So I think that's the additional color, which I want to add on top of what Tim mentioned earlier. Thank you, Yang.

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

Yang, sorry, one more point on the question you had on EBITDA. I think one of the other factors that you want to take into consideration as well is the fact that we added 13,000 cabinets at the end of 2021. And so we are also factoring a drag on the EBITDA when it will take then for these cabinets to slowly ramp up during the course of 2022. So there will be more costs, obviously, in the first part of the year until they start ramping up, and these are fixed costs with the delivery of cabinets.

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

May I follow up in terms of the other low-margin business, is it the concentrate for Microsoft and also the VPN growing faster and also other IT service business or something else have some dragging impact on the margin?

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

I can probably comment on that one. So first of all, again, precisely, it is not a low-margin business. I would say it's not like pure IDC wholesale play, which is EBITDA type of business. Cloud business or value-added services, they are not much related to EBITDA, but it is a very healthy business, again, from a gross margin point of view.

But assuming you're also interested to know about the Microsoft cloud growth and also VPN growth. I think from a market perspective, the Microsoft Cloud, which basically includes the Azure, Office 365, Dynamics 365 and Power Platform is highly welcomed in the enterprise space. And then, of course, we're benefiting from their growth by being the Microsoft's closest operating partners in China. From a number perspective, I would say we continue enjoying a very healthy double-digit growth year-over-year.

And then switch to the VPN that you mentioned about, which is the MPLS-VPN, it is still highly regarded as one of the highest-quality options for enterprise connections. But we're seeing some of the customers having the need to balance their price performance. Some of them would continue to go for MPLS-VPN, and then some of them will try to go with the SD-WAN. Luckily, because we do provide both routes and options for customers to choose, we're seeing the SD-WAN business pick up very, very fast, high double-digit growth year-over-year. So I think combined together, it is still very healthy and great business for us.

Hopefully, that addressed your question, Yang.

Operator

(Operator Instructions) Next question will come from the line of Edison Lee of Jefferies.

Edison Lee ***Jefferies LLC, Research Division - Equity Analyst***

I want to focus on your target for 2022. You gave a range of 14,400 to 17,400 cabinets. I want to know how comparable this number is versus the previous guidance of 25,000 cabinets because obviously, wholesale build-out is not based on cabinets but based on megawatts, right? So could you maybe help us understand how we should actually look at this new guidance range versus the previous 25,000?

And number two is that, at the moment, do you have any thoughts about 2023? Because previously, it was a 3-year target. And how should investors think about the 2023 situation based on your understanding of demand right now?

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

Okay. Let me take a crack at this, Edison. Thanks for the questions. In terms of the comparability between the cabinets provided, I would say it's on a similar basis. So we've not changed the basis in terms of disclosing the number of cabinets. You're absolutely correct that the projects which are wholesale based, these are higher-density cabinets, and so naturally, there are less cabinets.

Now in terms of the 2023 and looking beyond, I would sort of go back to end of 2020. When we provided the 3-year forward look in terms of cabinets, it was at the completion of what was an extremely successful year for the industry and for us and our peers in 2020. And clearly, with a lot of the regulatory headwinds that we saw in 2021 that changed dramatically and has not fully turned around yet here as we start 2022. So I would say and echo Samuel's earlier comments, we are extremely bullish on the sector or extremely bullish on the customers' requirements. And if you look at it, there is no reduction in terms of the end users like ourselves using data, storing data, analyzing data. And so the demand is there. But again, we've taken a more cautious approach for 2022 just given the large number of uncertainties in the macroeconomic environment.

We also look to the market and do see slower-than-expected move-in rates. And so for '22, we've guided down all of these projects to a certain extent. Some of these projects could be accelerated, so moved from a '23 timetable and moved up into '22. And similarly, if we see the pickup during the course of this year, then we would start the '23 projects, and therefore, that would lead to a higher number for '23.

But frankly, at sort of March of '22, again, based on the outlook, I would say that '23 should be higher than '22. But whether we're going back to 25,000, again, I would take 25,000 as an end of 2020 what the market condition was at that time. And we're taking a more cautious approach given the current market conditions and probably don't want to push a number out this early in the year for something that there is [no full] (corrected by company after the call) visibility on. But again, we can turn on and off the CapEx. And therefore, we do expect that we can be quite nimble with regards to '23.

Edison Lee ***Jefferies LLC, Research Division - Equity Analyst***

Can I follow up on two other issues? Number one is that I think you disclosed a 16-megawatt of new wholesale projects that you signed in 1Q this year and the 11-megawatt you signed in 4Q last year. Is it true that these are all from existing wholesale customers and you did not sign up any brand-new customers in 4Q and 1Q?

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

Samuel, do you want to take a first crack at that?

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

Yes. Again, thank you, Edison for the questions. For the 4Q, from a wholesale perspective, we share about 7 megawatts. That was indeed from the existing customers. But something we haven't really say out loud is our scale retail. We also have big wins from scale retail customers in Q4, that was actually 4 megawatts in addition to their previous kind of allocation and contract.

For the 1Q, because some of the orders coming from existing customers, but we do have the orders coming from new customers, public cloud providers and also the e-commerce platform companies and also state-owned dedicated cloud and so on and so forth. Again, we still have a few more -- I would say a few more discussions going on. So hopefully, probably in May time frame, when we talk about our Q1 earning release, we could share additional color for our Q1 performance.

Edison Lee ***Jefferies LLC, Research Division - Equity Analyst***

Okay. So the state-owned company, state-owned enterprise cloud service provider, is that a brand-new customer? Is that right?

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

Yes.

Edison Lee ***Jefferies LLC, Research Division - Equity Analyst***

Okay. Sorry, just one follow-up for Tim on the power cost. You said that there will be 1 percentage point impact. From my understanding, is that for all the wholesale contracts, you do not include power costs, so that's why there's a pass-through? So is that 1 percentage point impact coming from retail customers? Because you have a 1- to 3-year contract, so that's why you have a time lag in terms of passing on power costs?

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

Yes. So as of the end of '21, Edison, the large majority of our billable capacity was actually bundled with power. And a big portion of that is, yes, the wholesale business is still ramping up, so it's a very small percentage. We do expect that by the end of this year, the sort of unbundled or pass-through proportion will probably increase to, let's say, circa around 30%. And it is the ramp-up of the wholesale which is one portion. But the second one is the extra power costs are being included in the quotation of the renewals as well as the new retail contracts that we're signing. So I think the answer to the question is actually yes to both. It is a rollover of new contracts but also a ramp up of the wholesale.

Edison Lee ***Jefferies LLC, Research Division - Equity Analyst***

So for power costs, are you assuming a 20% increase year-on-year just on the unit power cost? Okay, I'm not talking about overall power cost.

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

Yes. So overall, depending on the region, we're expecting between 10% to 20%, so full year 2021 compared to 2022. And again, that's the sort of impact that we're expecting is under 1% to our margins.

Operator

Our next question comes from the line of Hongjie Li of CICC.

Hongjie Li ***China International Capital Corporation Limited, Research Division - Analyst***

My question is about the M&A plan. And you mentioned that 2022 CapEx plan is between CNY 4 billion and CNY 5 billion. So how much proportion is expected to be using M&A opportunities? And do you see the price of IDC projects in the premium market show a growing trend this year compared to 2020 and 2021?

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

Okay. Thank you very much. Let me take this question, and Samuel, you can add if there's anything else.

For the question in terms of the percentage of M&A, I would sort of look back at '21 and say that roughly 30% of 2021 related to acquisitions of land power, acquisitions of service companies and acquisitions of actual data center assets. So as I then look at what we've been planning out for 2022 and providing the CNY 4 billion to CNY 5 billion guidance, we're expecting probably in the range of 15% to 30%. It is a wider range, but that's because some of the M&A projects tend to be larger in size. And so a swing of doing it or not doing it could actually result in a larger percentage change.

Now in answer to your question about where do we see pricing of IDC projects, I would say we're still using a guidepost in terms of what we see in the market of around 10x EV/EBITDA pricing. Obviously, when we do evaluate the projects, it's not purely based on the price, but also on the locations in terms of proximity to our existing data centers as well as where the customer demands are in making that evaluation.

The other point I would make is that, obviously, the best projects that -- or the vast majority of our projects are self-built projects. So you'll see a lot more greenfield, brownfield that we've done in the past to build those into our self-built projects rather than acquiring EBITDA. So I think on an opportunistic basis, there will be some acquisitions of operating data centers. But again, we feel that it is a better use of our capital to not just focus on buying EBITDA but rather focusing on both, again, where our customers' requirements are and making sure that we can put together a product that is very attractive to our customers as well. Thank you.

Operator

So our next questions will come from line of Sara Wang from UBS.

Sara Wang ***UBS Investment Bank, Research Division - Analyst***

I have two questions. First is still regarding client demand. So under the government's new Eastern Data, Western Computing initiative, do we see more intentions from our clients on moving into the west no matter if it's retail or wholesale clients?

And second question is that I think we have mentioned that 2023 sales target should be higher than 2022. May I ask what are the key assumptions here? And what do you think is the key moving factor? So meaning for the 2022 sales target, are we assuming the weak macro or Internet regulation or supply chain disruption? So what are the key factors you think that are moving our sales target?

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

Okay. I might want to take the question first, and then welcome Tim to provide additional color associated with that.

I think both Tim and I, we mentioned about, first of all, when we look at the whole market, we're truly bullish, and we're bullish for reasons. Number one, the government is providing a lot of greater favorable policies, even further provide the directional guidance for Eastern Data, Western Computing.

On the other hand, government also mentioned about the data is going to be a key element for future production. And so the data sovereignty all of a sudden becomes like higher-order bids for every single enterprise to consider about for their cloud optimization.

And number three, because I think the COVID basically accelerate the digital transformation, and so nowadays, a lot of our enterprises, for them to accelerate their digital transformation is to go through either CapEx to OpEx, reduce the CapEx and focus on the OpEx in order to resonate with their business growth. On the other hand, they are continually driving the cloud optimization. But in the past, there's probably one single public cloud, but the hybrid multi-cloud is going to become a new norm.

And then the third one is to adopt every single thing as a service. And then because VNET, we're well positioned that we have a dual-core growth engine, industry-leading ones, and so for that one, we're very bullish about the future. The way we see that every single day, we'll see a great momentum.

But on the other hand, we also have to be very cautious because the macro environment is beyond our control. We're talking about the China-U.S. frenemy situation. It's a new norm. Industry wise, there is going to be a power quota, power tariff. And also, market-wise, the customers, they're paying more attention on the cost. And there's also possibly a premium that we have to pay from a merchant acquisition point of view in a short period of time. And so while we're bullish about the long term, but we're cautious in every single step we've taken. So that's, I would say, the overall perspective.

And then probably Tim can chime in with some of the additional input that we've seen every single day and the cautious steps that we're taking. Tim, do you want to add additional color?

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

Yes, absolutely. And so I would add to Samuel, if you sort of dig one layer deeper in terms of both what we've provided to the market in terms of guidance on cabinets. What Samuel is talking about in terms of the sort of sales, and I would link that then further to your questions around kind of how things look like in terms of, let's say, utilization rate assumptions. And with the delivery that we've made at the end of last year, obviously, we do expect there to be a dip in terms of utilization rates both due to large number of deliveries, but also each year, we then reset what cabinets are included under mature data centers ramp up and so on and so forth.

But the desire is also to make sure that we are finding a healthy balance between adding capacity, meeting our customers' requirements, but also looking at the now and today and seeing where the customers are in terms of ramping up and also where their demands are. And so I think there is the desire to find that balance. And so I think with the reduction in the total number of cabinets we're also still targeting utilization rates of around 60%.

And obviously, to the extent that we see customers ramping up faster, then we would speed up the deliveries. And in this case, right now, we are taking a more cautious approach because 2022 is not, as I said earlier on one of the earlier questions, it's not 2020. And so I think that we do need to find that balance then of making sure we deliver the right number of cabinets to match up with the ramp-up and the demands of our end customers.

Operator

Next question comes from the line of Clive Cheung of Credit Suisse.

Clive Cheung ***Crédit Suisse AG, Research Division - Analyst***

Congratulations on the results. My first question is on margin. We mentioned for certain existing customers, there's an increasing trend of taking up more value-added services. So my question is, assuming this is a long-term trend, how is this going to impact our margin, if any?

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

Go ahead, Samuel. Why don't you start, and then I'll add to that.

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

Sure. Okay. Again, thank you, Clive, for the question. Yes, we do see a big trend for customers to take on the value-added services. As I said, on the high-level perspective, some of the uniqueness for China compared to the rest of the world, as I said it before, is that while the rest of the world -- when enterprise is talking about the cloud transformation, they're basically 3 big players, which is AWS, Microsoft and Google. But in China, we have more than a dozen cloud service providers. So that's one thing.

The second thing is while the data, I would say, privacy, transparency computing, data sovereignty become the higher-order bids for enterprise to think about, then they will probably develop a new strategy other than one single public cloud. They might choose to go with a hybrid multi-cloud in a way that they want to making sure the data will be stored at their discretion. so that's the second thing.

The third one, because the COVID-19 really impact whole industry. So most of the companies, at least in China, they were so willing to go with the OpEx-driven approach instead of a CapEx-driven approach. Therefore, other than finding a partner to go with the colocation support, they want to have the partner, especially a neutral partner, and they don't take side, but providing them the full-stack services, all the way from colocation support, the networking capabilities and plan the networking securities and also the bare metal. Because they want to have a single tenant, they also want to have the O&M. They even want to have the hybrid cloud, multi-cloud management services and support and so on and so forth. And so that gives VNET a great opportunity. And we saw that, and we grabbed that as well.

The question is whether those value-added services are like data center wholesale play, which is pure EBITDA-driven, and my answer to that is probably not because those are the software capabilities and service capabilities may not have enough or a lot of the amortization, depreciation elements. And so that's the reason it may not be a pure apple-to-apple comparison for VNET versus our, I would say, IDC peer companies.

But luckily, as you probably heard from some of our peer companies, they are seeing a huge retail tailwinds. They want to switch their focus to the retail engine. And so I think to a certain degree, that specific comments or statements endorse our growth strategy. So I would say we're happy to have the strategy for the dual-core growth engine, and we're very proud to continue to execute on that strategy.

Tim, do you have any additional input you want to make?

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

No, no. I think, Samuel, you gave a good overview of the types of businesses and the value-added services and how it works. So again, I think we can dive into some of the modeling side on the callbacks then.

Clive Cheung ***Crédit Suisse AG, Research Division - Analyst***

Yes. Sure. And my second question is in terms of the security of resources for our 2022 kind of expansion plan. So how much of those are now secured? And actually, it's just that, yes.

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

Yes. So no, I mean, we've obviously given out the list of the actual pipeline projects, and those are secure. We have included a range this year, and that's because in terms of an overall timing, I think people were asking about overall timing. We expect that a large portion of these will be actually at the end of the year. And so we've included from our experience already the possibility that projects either get shifted into '23 or pulled up. And so we have included sort of others, and those are ones where I think there's uncertainty around the overall timetable from the customer point of view.

So overall, yes, these have been secured. It really is a matter of timing in terms of whether it comes in this side of '22 or the other side of '22 into '23. Hope that answers question.

Operator

Next question comes from Ethan Zhang from Nomura.

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

First of all is I note that you mentioned that we see the customers seeing more value-added service for our retail IDC business. So just wonder what's the outlook for our retail MRR in FY '22 as going forward?

And second question is regarding the new IDC projects. I note that we have some wholesale projects under construction in Chengdu-Chongqing economic circle. So just want to see your view on the IDC demand in that region because I think this was some new market where you are taking into.

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

Okay. And maybe, Samuel, I'll take the MRR question, and then you want to take the second question?

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

Sure.

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

So look, in terms of MRR, and I'm happy you sort of asked what the view of MRR for '22 is, it will move around quarter-to-quarter, as you've seen last year as well. But we do expect that the MRR to stay in the sort of CNY 9,000 plus range and trending upwards as there are more and more value-added services that we sell to our customers. Obviously, some of the volatility comes around the fact that not all the customers when they first sign on is taking on the full package of services. And so that's something which the more cabinets we add, if they're more for what I'll call basic service or basic plus one versus a bundled solution of multiple services, I think that's going to affect the MRR. But I think overall MRR trend again, we expect to be in a very positive trend going forward.

Let me pass to you, Samuel, in terms of questions around the Chongqing region.

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

Yes. So thank you, Ethan, for the questions. I think earlier this year, government has a new directional guidance in terms of Eastern Data and also the Western Computing. So if you look at the Eastern Data, Western Computing, and Chengdu and Chongqing area has been identified 1 of the 8 regions. And then that specific region, together with Beijing, Shanghai, Guangzhou and Shenzhen, say, the Tier 1 cities, the 4 of them are actually defined as the Eastern Data. So even though Sichuang, Chongqing are still like, I would say, a little bit kind of west compared to Beijing, Shanghai and Shenzhen from a geo perspective. But that specific area does have strong needs from a business and also market perspective. And a lot of the scenarios around, I would say, low latency, high bandwidth and also low package loss rate, so ideally for a region specialized to provide the Eastern Data per se.

So that's also one of the areas that we're going to continue to invest. As a matter of fact, one of the projects in our 2022 is to talk about that specific areas. And we're seeing, I would say, great momentum pick up. If I look back to 2021 versus 2020, that's also one of the areas, start with small but growing fast. So we're very optimistic about the Chengdu and Chongqing area. So hopefully, that address your question, Ethan.

Operator

Next question comes from Albert Hung of JPMorgan.

Albert Hung ***JPMorgan Chase & Co, Research Division - Analyst***

I want to ask, how should we think about the competitive landscape going forward? Because I see 2 major factors, one the government new policy, Eastern Data, Western Computing is driving the customers to the remote areas, while VNET has historical edge in Tier 1 cities. Second, one of your competitors wants to focus more on retail business. So I wonder how these 2 factors will affect your competitive landscape in the future?

My second question is could you comment on the latest pricing in wholesale customer as many of the large Internet service provider are doing cost reduction and you're also coming down a bit on the future demand outlook? How should we read it as the implication for pricing?

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

Thanks for the question, by the way, Albert. Let me start with the question around sort of the retail side of the business in terms of, I guess, you mentioned one of our peers wants to focus on the retail business. This is something which I think VNET has the history but also has built up the infrastructure to be able to service a more complicated, actually, customer needs of the retail customers. It's not as simple as saying it's a retail customer but using a colo model to service them. And so we're very confident of the fact that we have a distinct competitive advantage in that, and we show in each of the quarters the ability to not only keep but also then continue to add the retail customers to our base.

But secondly, I think more importantly, and this is what Samuel was referring to earlier on, is the value-added services. Again, it's not just to sell a retail customer a colo service. And the whole reason why it is a very attractive proposition for them to come to VNET in the first place is the ability for them to come and do a one-stop shop, a full stack of services, not having to deal with 3, 4, 5 different vendors of the service. And I think that's a distinct advantage, which also then adds to the stickiness of the customer once they come into our data centers.

The second part of the question in terms of the, I guess, customer demand pricing side. Maybe, Samuel, if you want to give a little bit of color to Albert?

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

Yes. So first of all, I would say -- first and foremost, it is great to have a dual-core growth engine. Basically, it will help us, the IDC service providers, to balance our, I would say, resource and priorities. Resource are finite, while the opportunities are infinite. And so when our peer companies switch to the retail to a certain degree, endorse our strategy.

It is true that we're seeing great market opportunities and momentum in the retail front. IDC business overall, the wholesale and retails are sort of like different kind of a way to look at it from a spectrum perspective. One, focus on the quantity, while the other focus on the qualities. The wholesale business gives us a greater predictability and also give us the scale. While the retail probably give us a very healthy margin and also the stickiness of the customers.

And to a certain degree, it is easier for retail business to go wholesale, while it is super hard for the wholesale to enter into the retail because you have to have the relationship with the customers. You have to have the track records. You have to have the great networking capabilities and coverage. You have to have the whole bunch of value-added services, and your sales structure, compensation package, skill set is going to be so different. And so it's not just about one company want to go to retail. Actually, every single IDC service providers want to have the dual-core growth engine from my opinion. But it is hard.

But again, I would say, in a given period of time, everybody want to do a wholesale business. But on the other hand, when there's a storm coming to the wholesale front, and then a lot of company want to go to a retail as well. So I would say we're very fortunate to have a balanced strategy. And of course, as I mentioned earlier, we're super bullish about the future, but we're cautious about every single step we're taking because the resource is finite. So we want to make sure that we can optimize for the better business returns. So hopefully, that gives, Albert, some of the additional color for the questions.

Operator

In the interest of time, we will now take the last questions from Guohan of Daiwa.

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

My first question is regarding the delivery schedule. So we are being more cautious about the near-term outlook. So as our capacity addition is more back-end loaded in 2022, and what's our view on the utilization ramp-up in the second half for 2022?

And my second question is about the recent kind of move-in progress. And we see certain cases in Shanghai region and also the other Beijing regions. And what's our view on the impact from capacity delivery in these regions? And as we are expanding our accounts to be a more diversified customer mix, it's better if we provide more revenue mix on Shanghai and the Beijing region.

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

Okay. Let me take the first question, Guohan. Thank you very much for the question itself.

In terms of the capacity, yes, I am expecting that more of the range of cabinets we're aiming to deliver will be in the latter part of the year. Next quarter, we'll be able to give you or give the market, as in previous quarters, a clear guidance on how much of it we're expecting within first half and versus how much of it will be in the second half of the year. But it is very much in line with what was the case last year in that things will be more back-ended as we are taking a more cautious approach in terms of how quickly we deliver new capacity, while we actually have our main focus is making sure that we ramp up the existing capacity.

That leads to the second question, which is kind of what we're expecting in terms of the ramp up or utilization rate trend. I would say that we should see a dip, as I mentioned before, in the early part of the year, and that will slowly then increase during the course of the year to the end part of the year as the ramp-up continues across all of our different data centers.

Samuel, do you want to take, I guess, the question around -- I think there were some questions around sort of customers' move-in rates ramp-up progress.

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

No. I think you covered that pretty well, so no additional comment from me.

Operator

Ladies and gentlemen, that concludes our conference for today. Thank you for participating. You may now disconnect your lines.

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