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Q2 2021 Chindata Group Holdings Ltd Earnings Call

EVENT DATE/TIME: AUGUST 26, 2021 / 12:00PM GMT

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**Don Zhou** *Chindata Group Holdings Ltd - IR*  
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**Camille Xu** *Morgan Stanley, Research Division - Equity Analyst*  
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## PRESENTATION

### Operator

Good morning and good evening, ladies and gentlemen. Thank you and welcome to Chindata Group Holdings Limited Second Quarter 2021 Earnings Conference Call. We will be hosting our question-and-answer session after management's remarks.

Please note today's event is being recorded.

I will now turn the call over to the first speaker today, Mr. Don Zhou from Investor Relations of Chindata Group. Please go ahead, Don.

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### **Don Zhou** *Chindata Group Holdings Ltd - IR*

Hello, everyone. Welcome to Chindata's 2021 Second Quarter Earnings Conference Call. This is Don from Investor Relations team of the company. With us today are Mr. Alex Ju, our CEO; Mr. Nick Wang, our CFO; Ms. Zoe Zhuang, our Finance Vice President; Joy Zhang, our General Counsel.

On behalf of our CEO, Nick will take you through the quarterly review of our operation performance, and Joey will present our financial results. Alex, Nick and Zoe will be here to answer your questions afterwards.

Now I'll quickly go over the safe harbor. Some of the statements that we make today regarding our business, operations and financial performance may be considered forward looking, and such statements involve a number of risks and uncertainties that could cause actual results to differ materially. For more information, please refer to the risk factors discussed in our filings with the SEC.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP-to-GAAP measures is included in our earnings press release, which is distributed and available to the public through our Investor Relations website located at [investors.chindatagroup.com](http://investors.chindatagroup.com).

We have also updated our quarterly presentation on the company's Investor Relations website, which you can refer to as a supplementary material on today's call.

Without further due, I will now turn over the call to Nick.

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### **Dongning Wang** *Chindata Group Holdings Limited - CFO*

Thank you, everyone, for joining the call. Now let's first take a look at some key figures to summarize the highlights for the second quarter of 2021 of Page 4 of the slides.

We continue to grow our capacity. By end of the second quarter, our total IT capacity in service reached 361 megawatts, representing an additional 24 megawatts compared with the previous quarter. Our utilized IT capacity reached [252] (corrected by company after the

call) megawatts, representing a 13-megawatt increase compared with the previous quarter. Meanwhile, utilization ratio was stable at 70% by end of the quarter.

Our top and bottom line performance remained strong. Quarterly revenue was RMB 686 million with a 64% year-over-year growth.

GAAP net income stayed positive for 2 straight quarters at RMB 65 million with a 9.5% net margin.

Our adjusted EBITDA was RMB 338.5 million, a 49.3% margin, again showcasing the efficiency of our business model.

Meanwhile, our business fundamentals received a strong recognition from major rating agencies. As in July, Fitch and Moody's assigned respectively a first-time BBB- and Ba2 issuer's rating to the company.

We remain fully committed to core capacity buildup covering greenfield development, integrated energy solution and white-labeling of key digital infrastructure equipment. Our total number of approved and pending patent, a good indicator of our in-house design capability, reached 256 by quarter-end compared with 231 by end of the first quarter. Our comprehensive in-house design capability currently covers building, power distribution, cooling system, server rack and cabinets, wiring and supporting structures, et cetera.

We remain highly committed to energy efficiency and sustainable development. Our year-to-date average PUE by end of the second quarter was 1.22 compared to the same figure in full year 2020. Our year-to-date total power consumption was 797 million kilowatt-hour.

Now let's take a closer look at data center dynamics in the second quarter, as you can see on Slide 5. In China, we continued our steady delivery and completed construction of CN11-B project in Northern China, adding a total in-service capacity of 24 megawatts in the second quarter. For ramp-up of our data center, we added around 13 megawatts utilized capacity in the quarter and increased our total utilized capacity from 238 megawatts in the first quarter to 251 megawatts in the second quarter. Such was contributed by the steady ramp-up in projects, including CN06, CN08, CN09, CE01 as well as the newly in-service CN11-B. Our under-construction capacity further expanded as we added 3 new under-construction projects CE03, CN14, CN15, with a total capacity of 87 megawatts.

On client commitment of capacity, we added 66 megawatts of new indication of interest capacity mainly contributed by the inclusion of the 3 new under-construction projects and new IOI capacity with an existing client on project CN12. We also added 3 megawatts contracted capacity, which is converted from existing IOI capacity on project CE01 in Eastern China.

With the above mentioned, we have brought the total number of our in-service and under-construction data center to 15 and 9, respectively, or 361 megawatts and 217 megawatts, respectively.

Under our business model, we maintain strong control of our assets, indicated by 95.7% and 94% of self-owned capacity for in-service and under-construction data center, respectively.

Now let's take a more comprehensive view at our total assets on Page 6 and Page 7.

Client commitment remains high. Taking IOI capacity into consideration, 496 megawatts out of our 578 megawatts capacity are contracted, making an 86% contracted ratio by end of the second quarter. Capacity in service has a contracted ratio of 91%.

Utilization is healthy. By end of the second quarter, total utilized capacity is 251 megawatts, making a utilization rate of 70%.

Now let's turn to some other recent developments of the company on Slide 8.

Our effort continue in the pursuit of sustainable development. In May, Phase 1 of the company's Taihang Mountain Energy and Information Technology Industrial Campus was awarded the first prize in the Carbon Neutral Data Center evaluation of 2021. The evaluation was jointly organized by reputed organizations to promote the net-zero carbon development of the digital infrastructure

industry. Located in Datong City of Shanxi province, the Taihang campus has now utilized 100% of its energy from renewable sources for 2 consecutive years starting in 2019.

We also motivate ourselves to stay in line with global practice and standards as we became the supporter of TCFD, or the Task Force on Climate-related Financial Disclosures, and joined the Scientific Carbon Target initiative in May and June, respectively.

By becoming a supporter of TCFD, we expect to: pursuant to the framework of TCFD, constantly improve the disclosure, quality of environment and employment-related information; integrate with the information disclosure system of the international capital market; and enhance the capital markets' understanding of the company's sustainable development strategy in building new generation of hyperscale digital infrastructure.

By joining the Scientific Carbon Target initiative and committed ourselves to the Business Ambition for 1.5 degree Celsius campaign, we have become 1 of the 9 companies in China to commit to the campaign. And we'll strive to meet our carbon emission target setting more in line with recommended standards.

Diving deeper into our first-time issuer's rating, Moody's assigned a first-time Ba2 corporate family rating to the company with a stable outlook. As quoted, "Chindata's Ba2 CFR reflects the solid demand for data centers in China as well as the company's predictable earnings stream with adequate committed preleasing, moderate leverage and relatively quick ramp-up to a 90% occupancy rate for its newly completed data centers."

Fitch Ratings assigned the company an issuer a default rating, or IDR, or BBB- with a stable outlook. Key rating drivers include recurring revenue and predictable earnings stream, long-term contracts, strong asset ownership, strategic location, robust growth, favorable industry dynamics cost leadership and a stable EBITDA margin, et cetera. With the rating, the company will further diversify our financing channel to support our long-term development.

Several important regulation and industry policy were issued in the past few months, namely the implementation plan of computing power hub of collaborative innovation system of national integrated big data center issued by National Development and Reform Committee, or NDRC, in May; 3-year action plan for the development of new data centers published by Ministry of Industry and Information Technology, or MIIT, in July; and some updated regulation issued by local government, such as Beijing Municipal Government, to further strengthen review on data center energy efficiency performance. Key directions were pointed out for the future development of the industry.

We take a positive view on these policies and its impact on industry. We believe that the way we understand our data center business and our past performance were generally in line with direction mentioned. The development of digital economy in China is a long-term prospect with less uncertainty. The value of IDC industry as key, fundamental infrastructure is being increasingly apparent.

Guided by the understanding that our business is essentially to efficiently convert electric power to computing power, coupled with our constant in-house capability buildup to provide full stack solution to realize such conversion, adding our early site selection and long-term commitment of integrating renewable energy into our solution, we think we are in good position with first-mover advantage, and we will continue to deliver value to our clients and contribute to the sustainable development of the society.

Regarding the revised draft of Cybersecurity Review Measures by the Cyberspace Administration of China in July and the regulation on the security protection of critical information infrastructure, we currently expect limited impact on us given our business nature of noninvolvement or processing of any external data or information. Meanwhile, multilayered internal security measures have been carefully implemented by the company to ensure high level of cybersecurity and data privacy protection, eliminating any possibility of us or our employees accessing customers' business data in any manner.

Going forward, the company will closely monitor such regulatory updates and take further necessary measures to comply with any new or updated regulatory requirement that the company may be subject to.

With that concludes our business update. I will now turn it over to Zoe Zhuang, our VP of Finance, to go over key financial results for the second quarter of 2021. Being mindful of time, I encourage our listeners to also refer to our earnings press release, which is posted online and includes our quarterly results along with other additional details. Please note that all numbers today are in RMB terms and that all comparison are on a year-over-year basis, unless otherwise noted. Zoe?

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**Ying Zhuang**

Now turning to Slide 12. We grew our revenue as we increased our utilized capacity. In Q2, our total revenue grew by 6.7% quarter-over-quarter or 64.2% year-over-year to RMB 686.4 million. Utilized capacity increased to 251 megawatts by quarter end compared with 142 megawatts in the same quarter last year, indicating a 77.4% year-over-year growth.

For our cost and expense structure, our prudent cost center efforts enabled us to keep our core expenses and cost percentage within stable range while continuing to grow our adjusted EBITDA and adjusted net income.

Looking into the details of cost and expense items on Slide 13. Utility costs made up around 25% to 28% above revenues, maintenance and other costs took around 10% to 12% and adjusted SG&A took around 12% to 14%.

Take a closer look at our strong and stable profitability on Slide 14. Adjusted EBITDA in the second quarter increased 65.8% year-over-year or 10% quarter-over-quarter to RMB 338.5 million with a margin of 49.3%. Adjusted net income increased 289.6% year-over-year or 3.4% quarter-over-quarter to RMB 113 million. Adjusted net margin for the quarter was 16.5%.

Now let's take a look at our cash and debt position and our CapEx on Slide 15. CapEx in the second quarter was RMB 526.2 million. We had a cash position, which includes cash, cash equivalents and restricted cash, of RMB 7,024.7 million by end of the quarter with our total debt standing at RMB 5,154.4 million.

Let's look closer at the change behind the cash position on Slide 16. The major contributor was the RMB 285.8 million cash flow from operations, our RMB 513.7 million cash flow from financing, offset by a negative RMB 616.2 million investing cash flow and a negative RMB 65.2 million foreign exchange rate effect. Again, we grew with high quality, indicated by our constant profit matching cash flow from operations and our healthy leverage.

As you can see on Slide 17, by end of second quarter, our total debt-to-capital ratio was 34.2%. Of total debt-to-last 12 months adjusted EBITDA ratio was 4.6. Our last 12 months adjusted EBITDA-to-last 12 months interest ratio was 5.3%. And both have been improving over the quarters. Finally, let's take a look at the guidance. We have decided to update our 2021 full year guidance with revenue guidance reached to the range of RMB 2.78 billion to RMB 2.83 billion compared with the previous RMB 2.7 billion to RMB 2.78 billion, indicating a midpoint increase of 2.4%.

Guidance for adjusted EBITDA is reached to the range of RMB 1.35 billion to RMB 1.4 billion compared with RMB 1.28 billion to RMB 1.33 billion, indicating a midpoint increase of 5.4%. This forecast reflects our current and preliminary views on the market and operational position.

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

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Your first question comes from Camille Xu from Morgan Stanley.

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**Camille Xu Morgan Stanley, Research Division - Equity Analyst**

(foreign language) Congratulations on the very strong results. My question is about the regulation. So we see that MIIT has recently published a 3-year development plan. We would appreciate if the management could share more read on this new policy, how it will impact the data center industry and the Chindata's business.

**Dongning Wang Chindata Group Holdings Limited - CFO**

Thank you, Camille. This is Nick. I'm happy to take this one.

I think from the company's view, back in the day 1 of the founding of the company, we were well aware that the intersection of business, energy and data is actually quite critical to IDC business. Actually, we -- our interpretation about the nature of IDC business is to find a way to efficiently convert electric power, sometimes green power, to computing power. So based on this understanding of the nature, we think that the recent policy is a 3-years plan. Actually, we hold a very positive view over this policy. And we believe that its potential impact on the industry will be better beneficial to company like us.

And also, if you read these papers, coming down to detail, key directions we're pointed out in these papers, including something like a more optimized layout of data centers while encouraging development in overseas market. The policy also want to -- based on the objective to try to improve the national Internet linkage to support such a layout, the policy also is going to encourage larger scale, more intelligent, higher-intensity data center to support various computing demand.

And obviously, most importantly, the policy is going to require improved energy efficiency and going to encourage the development and usage of the renewable data center and, in such places, with proximity to renewable power resources. So that can actually better contribute to the long-term carbon neutrality objective set by the central government.

So -- and also, as I just mentioned when I went through our earnings release deck, what the company, Chindata, has always been doing is quite a lot -- has been in line with these key directions. Again, guided by the understanding of our business is essentially to efficiently convert electric power to computing power and coupled with our quite unique in-house capability build-up to provide full stack solution, including comprehensive energy solution, to realize such conversion. And if you also add our early site selection and long-term commitment of integrating this kind of renewable energy into our solution, we think we are in a good position with the first-mover advantage, and we'll continue to deliver value to our clients and ultimately contribute to the sustainable development of the society. Thank you.

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**Operator**

Your next question comes from Tina Hou from Goldman Sachs.

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

(foreign language) So congratulations, management, on very strong result and also raising your annual guidance. So my first question is around competition. Among the recently won projects, what is the competition landscape like? So for example, who are the competitors that we're bidding projects against? And what are the most important criteria customers are looking at? Is it pricing or something else? Also, what is the IRR for our latest projects? And lastly, if management could share your views around GLP, which is a new entrant into the market.

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**Dongning Wang Chindata Group Holdings Limited - CFO**

Thank you, Tina. This is Nick. I'm happy to take this one again.

I think you are referring to the most recent projects, as we indicated in the under-construction project. There are 87 megawatts roughly in total with 66 megawatts with a strong indication of interest from clients. And we actually believe this potential demand is based on our superior advantage on lower cost, sufficient resource and secured power supply and solutions, especially the potential, the future renewable energy supply into these data centers. And obviously, our efficient maintenance and our business model, full-stack model, which makes the customer completely worry free are our winning ticket to win hard from these customers, as we did before.

In regards to the competition, I think you can interpret it we compete on cost efficiency, not necessarily on price, although our price is probably be the most -- is among the most competitive one in the marketplace.

In terms of who are our competitors, all of them essentially. So I think we just emphasized our competency, our key advantage I had just mentioned, and. It's the full package that's been called out by customers.

In terms of customer criteria, we believe our customer are also looking at the same thing. As I just mentioned, I repeat, our advantage as a full-stack model customer worry-free package, low cost and operational efficiency, abundant and secured resource and power and green power supply. On the other side, our pricing is not final yet because it's a -- they're just an indication of interest. But we believe that, that price -- our pricing -- price offering to the customer is going to be as competitive as the peers' if not lower as a result.

In terms of Project IRR, we actually never and do not want to disclose the financials on a project-level IRR. But I believe with the addition of this new project, it's quite big scale, we are very confident to maintain the current IRR level for overall asset portfolio with the addition of this new project.

Your last part is regarding the new entrant into this industry like GLP. We actually don't want -- don't make a public comment on any specific peers. But we know some of them, including some of the new entrants, as you mentioned, have some certain leverage on land resources in selected Tier 1 cities. But in terms of hyperscale data center operational expertise, track record, comprehensive full-stack capability and also power solution side, we believe Chindata have sustainable advantage over most of industry peer because of our unique advantages I just mentioned. I hope I answered your questions.

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

Yes, Nick.

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**Operator**

Your next question comes from Arthur Lai from Citi.

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**Yu Jang Lai *Citigroup Inc., Research Division - Director & Analyst***

(foreign language) So I think the investor was pleased to see the high-quality growth. However, they are also very keen to understand what's the future development of the new client base.

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**Jing Ju *Chindata Group Holdings Limited - CEO & Director***

(foreign language)

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**Dongning Wang *Chindata Group Holdings Limited - CFO***

(foreign language)

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**Jing Ju *Chindata Group Holdings Limited - CEO & Director***

(foreign language)

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**Unidentified Company Representative**

Here's the translation for Alex answer.

[Interpreted] For the second question, it is confirmed that we have been and we are very proactively in touch with all of the global Internet leaders to collaborate and establish a very, well, comprehensive ecosystem. However, during the course of this, we're still going to insist and stand by our hyperscale greenfield Chindata model. When the business concerns and also the collaboration fits our business model and also our philosophy, we are definitely going to take this -- any opportunity that's presented in front of us and specifically maybe through mergers and acquisitions and -- to establish a more diversified client base.

And then going back to the related first question on the overseas layout, so we have -- constantly expand our -- and also penetrate the markets that we have already established our operations like in Malaysia and India. We are also very actively looking into the opportunities in other Southeast Asian or ASEAN countries such as Thailand and Indonesia. We are also considering opportunities in Vietnam, Macau, et cetera.

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**Operator**

Your next question comes from James Wang from UBS.

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

(foreign language) My question is around your pipeline. Is it getting more difficult to secure sites with access to both renewable energy and fiber right now? And in terms of pipeline, how long can you maintain the same rate of growth assuming the demand is there?

**Dongning Wang Chindata Group Holdings Limited - CFO**

This is Nick again. Thank you, James. Actually, as we -- I just disclosed, we have just added 3 additional projects under construction of a total capacity of 87 megawatts in the quarter located in northern and eastern part of China. Actually, these new projects are taken out of our reserve or pipeline projects. But in fact, we do -- have prepared ourselves abundant reserve for our future development. So the answer to your first part of the question is yes, we do have the good preparation for that.

But we have always been very conservative. You've probably already been noticing in the past 3 quarters when we released our earnings release. And we only -- we would only disclose further information when we believe there is an adequate and relatively certain intention of interest from the clients. Then we will report this kind of -- the new project into our disclosed categories of capacity.

So in terms of client base expansion and diversification, we have been in constant contact with our top-tier clients in China and overseas for potential strategic cooperation and would share with the market when it is time. So it's not only the existing customer, it's a wider base of customers.

For the second part of the question in terms of more competition on resource, we cannot say that we have advantage everywhere. But in certain key area we believe are going to be most suitable for the development of hyperscale, the energy -- green energy data -- green energy center or data center, we believe that we do have certain first-mover advantage or first accelerate advantage, especially in some part of China where we build our major hyperscale data center campus. Thank you.

**Operator**

Your next question comes from Albert Hung from JPMorgan.

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

(foreign language) So my question is about the demand outlook next year. Although the market has concern over the government policy, we think that Chindata has not seen any slowdown in capacity investment point. Actually, when I look at Page 7 in the presentation, you are going to add 185 megawatts next year versus only like 100 megawatt this year. So how do you think about the ramp-up schedule and utilization rates next year? Is it fair to say Chindata has much more stronger growth outlook next year versus this year? Or the new capacity will have more impact in 2023?

**Jing Ju Chindata Group Holdings Limited - CEO & Director**

(foreign language)

**Unidentified Company Representative**

The translation for Alex words.

[Interpreted] Thank you for your question. As everyone can witness, Chindata's growth has always been maintaining at a very high, steep curve. And it is visible that next year, we can also maintain this strong growth. This is based on our already public IOI interest and also customer orders. But on top of this, I still want to call everybody's attention that we will still stick to our business model on hyperscale and greenfield development. So we are -- strive to not only grow fast but also in a very healthy stage. Thank you.

**Operator**

Your next question comes from Hongjie Li from CICC.



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

(foreign language) Congratulations on such good results and as well as raising the guidance. So could management elaborate more about [management work] with Tencent, including some details on like what kind of business will tend to put out a data center and what matches that Tencent value most on this collaboration?

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**Jing Ju *Chindata Group Holdings Limited - CEO & Director***

(foreign language)

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**Unidentified Company Representative**

The translation for Alex words.

[Interpreted] As we tack on in the answers previously, so we have been constantly in touch with the top tier clients, including Tencent in China and overseas, with the potential collaboration in a strategic way. So the communication has always been continued. In June, as we published in news, the potential or contemplated collaboration are going to be more focused on the strategic [level] (added by company after the call) and also ecosystem collaboration. And also, we can see that for the potential collaboration, especially within China, we are definitely being valued by our capabilities, especially the capabilities of us relate to the renewable energy, our capabilities in the greenfield experience and also in the equipment or possible equipment intelligence manufacturing. I think this is the achievement that drive our growth and is also witnessed by market as well. Thank you.

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**Operator**

Your next question comes from Junyun Chen from CITIC Securities.

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**Junyun Chen *CITIC Securities - Analyst***

(foreign language) We have seen that your most important customer, ByteDance, is about to enter into the cloud computing market. Does that mean that we can see some significant order increase in the near future? In addition, does the rapid growth of ByteDance's oversea business also stand for a corresponding opportunity for us?

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**Jing Ju *Chindata Group Holdings Limited - CEO & Director***

(foreign language)

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**Unidentified Company Representative**

[Interpreted] Thank you for your question. So looking back, our collaboration with ByteDance in the past has been very successful, and we have achieved with very high-quality delivery and our client are very happy. So looking forward, with our constant capability building up and also the further layout in overseas market, we believe that we are fully capable of supporting the development of our clients both within China and beyond. Thank you.

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**Operator**

Your next question comes from Camille Xu from Morgan Stanley.

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**Camille Xu *Morgan Stanley, Research Division - Equity Analyst***

(foreign language) My second question is about the power allocation in Shanghai. The recent new batch happened in past few months. So could management share a little bit more read on this? What would be the implication on the industry and the future growth trends?

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**Jing Ju *Chindata Group Holdings Limited - CEO & Director***

(foreign language)

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**Unidentified Company Representative**

Translation for Alex words.

[Interpreted] From the company's strategic view, we have been, again, adapting -- adhering to our hyperscale model, the greenfield

development supported by our full-stack solution and comprehensive cost, in-house capabilities. And so our model is to the fact that our competitive edge is derived from the cost control and efficiency, and we are less impacted by such policies in the Tier 1 city. And we believe that our model is going to provide or create a buffer when it comes to the competition dynamics. Thank you.

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**Jing Ju Chindata Group Holdings Limited - CEO & Director**

(foreign language)

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**Unidentified Company Representative**

[Interpreted] In a complement -- on top of the answer just now, we are shaping our competitive strength through the cost and efficiency and the total solution, so no matter what the competition landscape is going to become, we think we can handle that properly. Thank you.

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**Operator**

Your next question comes from Tina Hou from Goldman Sachs.

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

(foreign language) I'll just translate. So my second question is regarding the data security laws and regulations. What kind of impact, both in the near term and in the long term, would this have of -- on the data center industry? Also, when we were talking to our anchor customer recently, what is their view on the data security law?

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**Dongning Wang Chindata Group Holdings Limited - CFO**

This is Nick. I'm happy to take this one. The straight answer is actually the current assessment from Chindata is actually we expecting this new policy to have a very limited impact to the company and the industry as well both in the near term and the long term. And -- because I would like to -- and also, I would like to walk you through some -- several important facts explaining why.

First of all, our business or data center targets the big business or the large corporation instead of individual end users. Actually, our service do not involve the ownership or processing of any external data or information. We only provide the hardware infrastructure level of service such as colocation service, including the deployment of a customer's servers and other equipment in our property. And at the same time, we're providing power, electricity, cooling and other relevant utility. And so basically, infrastructure or facility service to our clients.

And as all servers are owned and independently managed and monitored by our customers, we and our employees have no access. I believe the other IDC companies will have no access to any of such customer data. And our primary focus of security lies in physical security rather than virtual ones, which are typically the key focus of our large customers.

Secondly, our hyperscale data center service in China are strictly restricted to domestic use without any cross-border transfer of data information, therefore bearing 0 risk of potential overseas data leakage. So the customers and -- the impact on customers' side, international customer working overseas, domestic customers who are working in China, so there won't be a mix-up effect. So we don't think that the customer demand is going to be impacted at all.

Moreover, we have -- from the company itself, especially the Chindata, we have taken all necessary internal [measure] (corrected by company after the call) to promote a high level of cybersecurity and the data privacy protection, basically eliminating any possibility of our employees to access and manipulate the customers' of business data in any manner. Okay.

However, we do hold the understanding that such relevant laws/regulation are still at a relatively preliminary stage of stipulation. We will closely monitor such regulatory updates and take further necessary measures to comply with any new or updated regulatory requirements that our company may be subject to. Thank you.

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**Operator**

Your next question comes from James Wang from UBS.

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

(foreign language) So my question is around the uncertainties associated with U.S.-listed Chinese companies with VIE structures. So how do you manage this risk? And whether this will affect your ability to raise funds to support your future expansion plans.

**Dongning Wang** *Chindata Group Holdings Limited - CFO*

This is Nick. Thank you for your questions. I think this is probably one of the most commonly asked questions by any participant in the capital market. But the Board -- Chindata's Board and management have also been closely following this kind of issues. But as far as we understand, our interpretation on this is this VIE risk is actually quite small, and all this -- the rumor on The Street and the actual reported potential risk will have a limited impact on us.

The specific VIE requirements are more intended for those to be listed in the U.S. market. As a listed company, we have been in compliance, and our VIE-related information is already disclosed in a very proper manner in our previous filings submitted to SEC. We'll closely monitor the whole situation. And don't forget, in the future, we'll always have the option and flexibility to consider other kind of listing outside the U.S. Thank you.

**Operator**

Your next question comes from Albert Hung from JPMorgan.

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

(foreign language) So a follow-up question on pricing. The ROI ratio for data center construction is quite high, although the pricing has not been finalized. May I know how is the pricing dynamics under your engagement with clients for new projects? Did you sense any deterioration of pricing or the pricing dynamics have become quite stable?

**Jing Ju** *Chindata Group Holdings Limited - CEO & Director*

(foreign language)

**Unidentified Company Representative**

Translation for Alex words.

[Interpreted] So first, we adopt our hyperscale greenfield development model, which is our most -- biggest advantage. And under this model, we have been constantly building up our in-house core capabilities and integrate and streamline our supply chain for efficiency and profitability. So based on this, the competition for us is more like a competition in the business model and not a competition in the pricing. And in such, the pricing is never going to be the first influencing factor, and we can better facing the competition in the pricing and also throughout the entire market. Thank you.

**Operator**

Your next question comes from Junyun Chen from CITIC Securities.

**Junyun Chen** *CITIC Securities - Analyst*

(foreign language) Okay, I will repeat my question in English. So can you share with me -- can you share with us some information about the future development plan in strategy in Yangtze [river delta] (added by company after the call) and also Pearl [river delta region] (added by company after the call) where you adopt a more aggressive M&A strategy to -- for customer and resource's requirements?

**Jing Ju** *Chindata Group Holdings Limited - CEO & Director*

(foreign language)

**Unidentified Company Representative**

[Interpreted] Thank you. Generally speaking, as we're looking for M&A opportunities, we need to align it with our strategy, which is to follow our fundamental hyperscale greenfield and full-stack development model and to pursue a rapid, healthy and high-quality growth. Under such precondition, we are constantly looking for M&A opportunities in Yangtze River Delta and also Pearl River Delta region.

As for our development in the Yangtze River Delta region in particular, we are further expanding our scale as witnessed by adding up a new 30-megawatt under-construction capacity, namely CE03, following the previous projects. Thank you.

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**Operator**

Thank you. I will now hand the call over to management for closing remarks.

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**Dongning Wang Chindata Group Holdings Limited - CFO**

Thank you, ladies and gentlemen, for participating in this Q2 earning release. I think there's a lot of challenges laying in the capital markets today, but the company believe what we are doing is the right way of doing things in this IDC industry. We're going to center our business all around how to find the most efficient way to convert electric power or, in particular, green electric power to the computing power. And we think we're going to stick with this big plan and keep better serving our clients and ultimately to contribute to the society. And thank you very much.

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**Operator**

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

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**Editor**

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

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