Mail.ru Group

CONFERENCE CALL TO DISCUSS MAIL.RU GROUP FINANCIAL AND OPERATIONAL RESULTS FOR THE THIRD QUARTER OF 2020.

Company: Mail.ru Group

Presenter: Matthew Hammond, Chief Financial Officer

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Participants:

- Boris Dobrodeev, Chief Executive Officer
- Matthew Hammond, Chief Financial Officer
- Tatiana Volochkovich, Director of Investor Relations
- Fedor Rubtsov, Chief Financial Officer (Russia)

Tatiana Volochkovich, Director of Investor Relations
Thank you all and welcome to Mail.ru Group third quarter 2020 Unaudited Financial Results Conference Call. I'm joined by Boris Dobrodeev, Matthew Hammond, Fedor Rubtsov, Vladimir Gabrielyan and Vladimir Nikolsky. As the remote work regime continues across our company, we do apologize in advance as coordination during Q&A might cause some minor delays in our responses, as we're all in different locations. During the Q& session, we would also kindly ask you to pose one question at a time. This is done simply to keep things manageable on our end; we will take the time to answer all of your follow-up questions.

Before I pass the line to Matthew who will provide a summary of our results outlook, I will read the Safe Harbor statement. Please note that this press release

contains statements of expectations and other forward-looking statements regarding future events and future financial performance of the Group. The forward-looking statements in this release are based upon various assumptions that are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict, and maybe beyond the Group control. Many factors could cause actual results to differ materially from those discussed in the forward-looking statements included herein, including those referenced under Risk Factors in the Group's public filing. I would like to direct you to read the forward-looking disclaimer at the back of our release furnished today with respect of the possible differences between management and IFRS accounts.
Matthew, please go ahead.

Matthew Hammond, Chief Financial Officer
Good afternoon and thank you all for joining us. The Q3 had two major external developments affecting our business. First of all, a somewhat unpredictable macro recovery on the one hand, as well as the normalization of user behavior and a return to typical seasonality; both were related to the passing of the peak of COVID-related lockdowns, which happened in April. Given the slightly better macro backdrop, our core advertising business managed to return to growth versus the around 5% decline seen in the second quarter. We also saw reacceleration of growth in Youla, from 24% in Q2 to nearly 35% growth in the third quarter.

On the other hand, we saw normalization and engagement across social networks, games, as well as online education; as all of these saw unprecedented levels of demand from users during the peak of the lockdowns. And similarly, to Q2, we've seen forces pulling our business in different directions. However, our results showed that yet again, we managed to adjust, adapt and maximize the benefits of the diversified nature of our ecosystem, with revenues for the quarter of nearly 20% year-over-year. The healthy state of our business allowed us to continue to actively invest in our business and ecosystem, which we expect to strengthen our market positioning, and contribute to growth and market share gains in the coming years.

I'll now provide a few key highlights, including around advertising, games, New Initiative, ecosystem development, and ongoing investments as well as joint ventures and outlooks.

First, on advertising. Throughout the third quarter, we experienced incremental recovery in advertiser activity, which led to a high0single digit year-over-year growth in average auction CPM across the network. Their performance continues to be volatile and varies on a month-by-month basis, we managed to deliver a healthy 5% growth in advertising in the third quarter to RUB 9.5 billion, with growth of nearly 9% on an ex-Search basis. In terms of verticals, leisure entertainment, electronics, household goods, telcos, health and medicine, games and services showed the fastest growth in Q3. On the other hand, media, sport, fitness, health and beauty and children's goods categories have all been underperforming. As a reminder, FMCG and e-commerce are the only two categories which account for more than 10% of our advertising revenues each; with FMCG performing better than e-commerce during the quarter. VK grew revenues by 13% in Q3 versus 8% in Q2. This means that the center of our ecosystem is in a very strong position, importantly given all of the efforts around SME-related advertising revenues on VK grew nearly 40% year-over-year. As a reminder, SMEs generate less than a quarter of our overall advertising revenues today. And hence, SME is where we identified significant potential for further growth across the Group.

Our solid advertising growth is driven not only by healthy engagement across our core advertising platforms, but also completed and ongoing ad tech enhancements, which we aim to continue to boost the ROIs of our clients. We continue to grow the myTarget ad network with nearly 25% year-over-year increase in the number of partners in September. Looking ahead, visibility does remain limited, and it is challenging to estimate the ultimate timing and shape of further recovery or sustainability. The situation remains very dynamic, especially given the second wave of COVID-19 we've been experiencing in Russia since September, which resulted in a slowdown in the pace of advertising recovery in recent weeks.

However, as the second wave has so far not resulted in strict lockdowns and business closures as it stands right now, October is looking to deliver around 5% ad growth; and we hope to maintain this momentum through the fourth quarter. This assumes businesses remain open, and there is no adverse impact on the speed of recovery from the ongoing second wave. Looking longer term, given our continued investments into ad tech, ongoing growth of performance-related advertising share, diversification and growth of advertising base and expansion of the advertising network, we target further market share gains; I feel that our

Group should be in a position to hold at least 20% of the domestic digital ad market in the midterm versus sub-16% today.

Secondly, on games. Despite the normalization following the removal of lockdowns, games showed very solid growth in Q3, at 33.8% growth and accounted for 40% of Group revenues. We did see some posts-lockdown engagement normalization, with MAU returning to pre-COVID levels. At the same time, growth of our overall user base continued up 6% Q-over-Q to RUB 740 million; with retention metrics of COVID acquired users having been very close to the metrics of cohorts acquired pre-pandemic. Growth has been supported by the consolidation of Deus Craft in Q3. The deal reflects our ability to source attractive gaming opportunities while studios remain in early development stage. The Grand Hotel Mania, time-management mobile game of Deus Craft launched in July, is amongst the top ranked games in its category, and is now among our top five revenue-generating titles, with around $ 5 million in revenues reached in September. This might be our largest gaming M&A to date, assuming a maximum total payout of $49 million. However, such payment would require $15 million in monthly revenues by the end of Q1 2021. If achieved, this would be a 0.5x one-year forward sales valuation for Deus Craft, which compares to around 3.5x plus valuations across the latest reported global M&A deals. The studio has two more games in the pipeline, which should be ready for launch in the next 12 months.

Going forward, we continue to seek value accretive acquisitions complementing the MY.GAMES portfolio of now 13 studios, so it continues to progress towards the top 25 position on the global games market in terms of revenues. As it continues to expand, MY.GAMES is becoming increasingly global, with 76% of revenues coming from international markets, versus 74% in the second quarter. 75% of our games revenue now comes from mobile, versus 71% a year ago. Top revenue generating mobile games include War Robots, Hustle Castle, Left to Survive, Love Sick Interactive Stories and Zero City now joined by Deus Craft. At this stage we see around 30% growth as achievable for MMO games in 2020, which means the growth is set to exceed last year's 22% level, while future growth should remain supported by over 15 games in the development pipeline available for launch over the next 12 months.

Given the unique nature of 2020, in light of the ongoing pandemic, as well as the various solid traction titles like Grand Hotel Mania, we aim to maintain flexibility around marketing activity into the year-end. Marketing spend could therefore be heavier than normal during Q4, albeit as ever guided by attractive and sustainable ROIs. This will allow us to form a solid base to EBITDA growth in the coming years when some of our titles reach their maturity, while also taking maximum advantage from any near-term spikes in demand across global games markets. Hence as the base case, we do not expect Q4 to mark the typical peak in profitability in our game segments in 2020.

Third, New Initiatives. The New Initiative segment in Q3 grew by 99% to RUB 3.2 billion. The two largest contributors here remain online education and Youla. First of all, online education. Business is represented by the consolidated Skillbox and Geekbrains Edtech businesses. In combination, these assets grew by 2.9x year-over-year, with related revenues exceeding RUB 1.6 billion, and now account for 51% of the New Initiative segment, and 6% of overall Group revenues. The business saw normalization during Q3 compared to the 265% growth year-over-year seen in the second quarter. At the same time, the ongoing second wave is again stimulating demand for related services, which makes us very optimistic about related growth prospects. We continue to see online education among the sectors most positively impacted by the pandemic, hence our ongoing investments into the area.

Since Q2 reporting, we raised our shareholding in Skillbox to 70% and bought minority stakes in SkillFactory as well as Tetrica; thereby expanding our course offering and target audience. While we're currently focused on digital careers vertical, we also see opportunities in the broader segment of online education. The result of this is that our currently consolidated Edtech assets should deliver over RUB 5 billion in revenues in 2020.

Youla. Our classified business accelerated growth to around 35% versus around 25% year-over-year in the second quarter, with revenues reaching RUB 760 million, around 3% of Group's total revenues. Youla remains on track towards its target of RUB 2.7 to RUB 3 billion for full year 2020 revenues, on a proportionate EBITDA loss at or below the 2019 level, is one of the prime examples of the growing synergies within the Group, given the multiple integrations within our ecosystem projects, our social networks and other communication services.

Fourth, investments in ecosystem development. As we've been saying through 2020, we recognized the expanded digital opportunities across all verticals, which have been unlocked by the pandemic. Hence our active investments into across the business lines throughout 2020, so that we're fully equipped to deliver continued strong growth and reach a materially larger scale in the coming years. All our ongoing investments are focused on existing verticals, and most of them are targeted on the core communication and social segment, including Clips, VK Pay, video, music and social commerce. This has resulted in a reduction of margins in this segment from 53.7% a year ago to 46.3% in Q3, adjusting for investments into the new products, like VK Clips, VK e-commerce platform, VK Super App and video calls, Communication and Social profitability would have been above 49%, despite the ongoing investments into music, and still muted advertising market recovery.

We are making a big push in areas of video and music. We're in the process of launching a unified video service, as well as broadening our music offerings across the VK, OK, and BOOM. Multiple other investment areas include MY.GAMES, including MY.GAMES store, cloud, B2B and Edtech, as well as ecosystem products and joint ventures to ensure the leading positions in audience reach, engagement, and monetization. Our recent $600 million fundraising supported by all of our largest economic shareholders serves to put us well-positioned to achieve this.

Fifth, joint ventures, the O2O JV first. Despite the removal of lockdowns and seasonality, Delivery Club revenues in Q3 more than doubled year-over-year, with twice the number of orders. Restaurant network has more than doubled since Q1 with more than 10% now also connected to our recently launched takeaway option. All customers are benefiting from the expanded delivery zones using Citymobil, with multiple new restaurant delivery options, including from agents like Magnit, and the ability to book tables of connected restaurants through the app. Delivery Club continued to demonstrate improvements in unit economics in Q3, and continues to expect to at least double its revenues in 2020 to around RUB 9 billion.

Samokat grew revenues 20x year-over-year, partially driven by high growth in the number of orders in Q3; and we continue to expand the reach of the business. Private label has also expanded and now continues a double-digit share of GMV. The O2O JV has also consolidated 85% in Local Kitchen, the dark kitchens operator, which demonstrated around 3x year-over-year growth in the number of orders and revenues in the third quarter.

Citymobil grew rides by 4x year-over-year in the third quarter to 50 million. GMV growth has also improved versus previous quarter, our monthly active user base has more than tripled to 5 million in September. In Q3, Citymobil continued its regional expansion, launching operations in Sochi along with a number of smaller locations in Leningrad and Moscow regions. Citymobil is now presented in 24 geographies, which account for around 40% of the domestic population, and is a top two ride-hail operator in most cities of presence, with a 20% to 30% market share in most geographies, including Moscow and Moscow region. In Q3 VK Taxi growth continued, with a high double-digit month-over-month growth, almost tripling rides since July, which provides Citymobil with a proper dual-brand structure.

The AER JV, the GMV of AER rose by 60% in August versus April, and audience growth continues as well. The number of local sellers increased by 120% since March, and now contributes above 20% of GMV. Localization continues with over 250 local engineers added year-to-date. AER launched AliExpress delivery marketplace service with focus on FMCG products, with the new offer aiming to build an association of AliExpress with a local platform with express delivery access. Also, AER continues to improve its logistics, expanding the number of pick-up points to nearly 17,000. We remind you that losses from AER and the O2O JV will not be reflected in net profit under management accounts until next financial year. However, for maximum transparency in the meantime, Group's share of the net results of JVs stood at RUB 3.1 billion in the third quarter.

Finally, outlook. Despite the expected decline for the local economy in 2020, we're positioned to deliver like-for-likes revenue growth in the high teens, with the potential to deliver around RUB 103 billion in revenues, which puts us within the guidance range provided pre-pandemic at the beginning of 2020. Our ongoing solid growth is achievable at the expense of near-term profitability, with both revenue mix shift and investment with EBITDA margins expected to be in the mid-20s for the year. This will at least partially reverse in 2021. We recognize that it is just important to run high-margin business that can weather through any future downturns. With that I thank you. And we'll give as much time as we can to Q&A.

Operator
As a reminder, ladies and gentlemen, if you do wish to ask a question in today's presentation, you may do so by pressing star followed by one on your telephone keypad. Please be reminded that we are taking one question per person at a time.

And if you do have any follow-up questions, you will have to reselect the request to speak button. Our first question today is from Miriam Adisa of Morgan Stanley. Your line is open.

Miriam Adisa, Morgan Stanley
Good afternoon, everyone. And thanks for the call. The first question I have is just on gaming, just the decision to spend a bit more marketing in the fourth quarter. If you could just give us a bit more color on where that spend is going, and why you've decided to do this given the fact you're highlighting that you've seen good retention from COVID users, more color on the marketing would be really helpful. Thanks.

Boris Dobrodeev, Chief Executive Officer
Hello Miriam, thank you for this question. So, generally there are two answers to that. So, the first one is we want to generally in terms of the Q4 spending, so we want to be a little bit opportunistic. So, even very unclear shape of the quarter, given all the potential outside developments, developments outside of our control lockdowns, no lockdowns, the state of both local and international advertising markets, we want to be more conservative, giving the margin guidance, as well as leave more room for investment if we see very good opportunities, so we can tap into this opportunity and acquire kind of more users, if we see this opportunity. This is number one. And number two, given that we just acquired the new studio called Deus Craft and It has very good growth and very high potential; we also want to reserve an opportunity to invest more into its growth.

Miriam Adisa, Morgan Stanley
Great, that's clear. Thank you. And then my second question again, on EBITDA. You mentioned that you expect some of the trends this year to partially reverse next year in terms of investment. I appreciate that you can't give any precise guidance. But if you could just give a bit more color on the segments where you're expecting to see more operational leverage next year, and which segments will still be in investment mode.

Boris Dobrodeev, Chief Executive Officer
I think in terms of the operational leverage, I think that's going to happen across the board. So, obviously next year, we will see a net recovery, which would give us better leverage on the revenue side and make a lot of the investments related to social; they will make them much more profitable. We also think that both,

Consumer Social and Games will be much more profitable in 2021. We also think that this year was driven by a lot of new investments into our ecosystem, into a lot of launches that we made this year, including Marusia, a lot of investments into O2O, including Clips. So, obviously, given the earlier stage this year and kind of more mature stage of this product next year, we'll see operational leverage across all these product verticals.

Miriam Adisa, Morgan Stanley
Great, thank you. Just one more from me. If you could just give us a bit of color on what you're seeing with the integration with VK Combo and VK Music. And then also just touch on what you're seeing in terms of the competitive environment in music. Thank you.

Boris Dobrodeev, Chief Executive Officer
Sure, so yes, we made, this year, we made the pivot in our Combo. So, generally, what we're doing, we are merging this with the music subscription. As we see now music is the most complimentary service to Combo within our ecosystem. So, the game plan is to ultimately like make it one subscription. So, we are in the midst of this transition, but we already see pretty encouraging signs, so we must say that the efficiency of the conversions and the retention numbers is much higher under VK Combo scenario. So, we think this is very good development. So, I think that in terms of competitive landscape, we will -- obviously there is a new player in the market, which we all saw the news couple of months ago. I don't think that it changes anything to the competitive nature of our market with already a lot of players present, such as Apple Music, Yandex, and YouTube, and a couple of others. So, I think that nothing changes to our thesis and nothing changes to the numbers that we see with VK Music.

At the same time, I want to note that we have a lot of unique advantages for our music service. First, it is the social nature of the product, and none of the players in the market has anything comparable to our offering, given the amount of social integrations and also given the presence of UGC functionality in our music. At the same time, we also as I just pointed out, that we're also integrating it into subscription loyalty program. And we are integrating it into entire Mail.ru Group ecosystem, which gives us also additional leverage over retention, and additional value for the end user as for roughly the same price, the same, or I don't know smaller price our user receives not just music, but he receives a number of services from Mail.ru Group ecosystem. So, altogether all these things make us much, much more comfortable. And we already have 4 million paid music subscriptions. And I think that going forward with the right combination of VK Music and Combo we will see even further growth.

Miriam Adisa, Morgan Stanley
That's really helpful. Thank you.

Boris Dobrodeev, Chief Executive Officer
Yeah, thank you.

Operator
Thank you. Our next question comes from Cesar Tiron of Bank of America.

Cesar Tiron, Bank of America
Yes, hi. Good morning, everyone. Thanks for the call and for the opportunity to ask questions. My first one would be about the online education. Can you please tell us how much that contributed to the growth in your other segment? And probably shed some light on any ambition for M&A in the space? And if you believe that, due to COVID, they're still assets which are available and if they're available at attractive prices. Thank you so much.

Boris Dobrodeev, Chief Executive Officer
Thank you, Cesar. So, education contributed (?)RUB 1.6 billion to our revenue, so it is growing very well. And we are very bullish on the sector, and we think that we would continue to invest into this area, both organically and inorganically as we see some good [inaudible]. We have a joint venture with Rostelecom to make software for schools that will help both students and teachers in their education process. Also, were looking at a lot of other opportunities. So, stay tuned.

Cesar Tiron, Bank of America
Thank you so much. I just had one very quick one. I think Matthew made an interesting comment on the valuation of your latest acquisition on games and how that was below what most transactions are done in the market? Is this strategy, the Group strategy to keep on potentially increasing the games portfolios through M&A? And then if management believes, the Board believes that the value of these assets are not reflected into the stock at the fair value, could there be an angle to potentially IPO the games division. Thank you.

Matthew Hammond, Chief Financial Officer
Yeah, hi Cesar. It's Matthew. Just to be clear that valuation, of course, that 0.5 assumes the full payout and that assumes, of course, that Deus Craft hits all their KPIs. Nevertheless, I think this is an example of what we've talked about many times, the games portfolio approach and our M&A approach of investing very early with options, then to take control as we watch the games; and clearly, this provides an extremely capital efficient way of doing it. We will obviously continue to use M&A where we see great opportunities. And if we look at a business like Pixonic where I think that nobody would doubt that that was $30 million all in, that was an extremely effective acquisition and extremely effective use of capital to grow that business, and you've seen over 5x revenue growth from that, from Pixonic since we bought it. In terms of an IPO, I would say you never say never, you keep all options on the table, but there are no current plans to do that.

Cesar Tiron, Bank of America
Thank you so much, very clear. Thank you.

Operator
Thank you. Our next question comes from Anna Kurbatova from Alfa-Bank.

Anna Kurbatova, Alfa-Bank
Good afternoon. Thank you very much for the presentation and congratulations with the good results. My question is on the O2O JV and Local Kitchen and Delivery Club. You for the first time disclosed the numbers of the Local Kitchen revenue. And I wonder since Local Kitchen and Delivery Club are now the parts of one joint venture, do they work on the -- let's say the market your normal terms of Delivery Club working with their food supplies or there are some special terms, and between Local Kitchen and Delivery? And whether you could probably disclose how much of Local Kitchen revenue or GMV comes from Delivery Club. So, basically the inter-company or inter-group transactions between the two? Thank you.

Boris Dobrodeev, Chief Executive Officer
Thank you very much for your question. I don't think that we will disclose the exact number. Obviously, Delivery Club and Local Kitchen has a very good story of cooperation and indeed there is a good overlap between the audience and orders of these businesses. At the same time, they work, and they will continue to work on commercial terms, as there are slightly different groups of shareholders, these

people generally -- a slightly different shareholder position within these two assets. And number two, for us the key value here lies not in making non-commercial arrangements between those two assets, for us the key value lies, given that now this group belongs to the one JV, I mean the overall level of relations and trust between these assets can be significantly increased. And that will allow us to extract much more synergies by creating a joint product and joint services, and joint expansion. Given that, at the same time we have the same group of shareholders, and there's of course, trust that these projects and these joint investments can be long-term. But we are of course, very, very bullish about these assets; this is fantastic assets showing very good growth. And we see a lot of room for cooperation and synergies between these assets going forward.

Anna Kurbatova, Alfa-Bank
Thank you very much. My follow-up question on the expansion. So, currently Local Kitchen business is limited to Moscow only. Should we expect some regional expansion maybe going forward? Thank you.

Boris Dobrodeev, Chief Executive Officer
You know, I just don't want to -- sorry, it is a very good question. But I don't want to elaborate on our immediate expansion plans, as it is pretty sensitive information, the plans and the timing. But obviously probably the correct answer, for me the answer is, obviously, there is a history of expansion, including joint expansion of these two services.

Anna Kurbatova, Alfa-Bank
Sure, understood. Thank you very much.

Operator
Thank you. Our next question comes from Slava Degtyarev of Goldman Sachs. Your line is now open.

Boris Dobrodeev, Chief Executive Officer
Thank you.

Vyacheslav Degtyarev, Goldman Sachs
Yes, thank you very much for the call. My first question is, can you comment on the O2O JV additional cash contribution? It looks like you haven't met all the KPIs and the payments have been reduced? Basically, can you comment what will be

the Sberbank's contribution then, or would you expect to fund the JV additionally anyway or it's currently well capitalized, in your view?

Boris Dobrodeev, Chief Executive Officer
Thank you very much. As for the KPIs, the answer is pretty simple. I think both of the key assets of this Group performed very well. And you saw Citymobil numbers, which were very good, especially the growth, but obviously, if you consider the impact of COVID on mobility across the world, I think that, in this fiscal year that it has reduced some demand and also incurred some -- generally became an obstacle for the business. This made us make an assumption that probably not the Citymobil related KPIs are not met. So, I think that, on one hand, the JV is indeed well capitalized, but of course, we might consider some extra investments into it in the future.

Vyacheslav Degtyarev, Goldman Sachs
Okay, thanks. And my second question would be on AliExpress Russia JV. Can you comment, how sizeable is the cash burn at the JV over the last year? And do you feel that the JV is also well capitalized for the e-commerce opportunities that are arising in Russia?

Boris Dobrodeev, Chief Executive Officer
Sorry, can you please repeat the first part of your question, so I just answer it correctly?

Vyacheslav Degtyarev, Goldman Sachs
Yeah, sure. I was wondering, what was the cash burn at the JV of AliExpress Russia.

Boris Dobrodeev, Chief Executive Officer
Yes, sorry. Of course, we would not disclose, and given that we are just 15% shareholders, we would not disclose the level of burn. But I think that it is well capitalized now, and it has sufficient cash. So, there are no immediate or short-term plans to add any extra capital on top of it. So, it has more than 25 million annual shareholders, annual buyers; so, it's doing pretty well. And I think there are no immediate plans for capitalization of this business; also has massive support from shareholders of the business. I think we're just first base of launching social commerce products around this. So, I mean, this is where we're

looking, and given that currently the business model is not too asset-heavy, so there are no plans for that.

Vyacheslav Degtyarev, Goldman Sachs
Okay, thank you very much.

Boris Dobrodeev, Chief Executive Officer
Thank you.

Operator
Our next question comes from Anna Kupriyanova of Gazprombank. Your line is open.

Anna Kupriyanova, Gazprombank
Good afternoon. Thank you very much for presentation and opportunity to ask a question. My first question will be on your online advertising revenues. You mentioned that ex-Search your online advertising revenues were about RUB 9.3 billion, and that was about 16% up year-on-year. Could you please give us some color, how this part of your online advertising is distributed among your segments? I mean, games, and may be some other. Thank you.

Boris Dobrodeev, Chief Executive Officer
Thank you for your question. I don't know, maybe Fedor will elaborate on the growth rate and confirm the growth rate.

Anna Kupriyanova, Gazprombank
Sorry. Yes, I was incorrect. It's 8.6%.

Boris Dobrodeev, Chief Executive Officer
But it is faster than including Search. So, the idea is that Search is indeed growth dilutive, and it significantly underperforms the core social and myTarget segment advertisement. And given that Search is the area which our ad auction does not participate, we thought it would be transparent and prudent to show both, including Search and excluding Search. So, the straight answer is yes, the Search dilutes our ad growth rate.

Anna Kupriyanova, Gazprombank

Okay, and excluding Search, in percentage growth, and then total amount, what is the distribution of online advertising revenues among your segments, games, and maybe some other segments, from where it comes?

Boris Dobrodeev, Chief Executive Officer
The majority comes from so-called myTarget and VK revenue. So, VK, generally social networks and Mail.ru Group, and ad network, which are altogether combined into one single ad network. So, this is where probably around the 90% of all the ad revenue come from, with probably less than 10% coming from international revenue, like international gaming revenue, mostly international, so I mean, ad gaming revenue. Also speaking about the Russian ad revenue, the first part, which is 90%, it also includes -- I also forgot that Youla is part of this revenue, the non-IFRS part of Youla is included into that revenue.

Anna Kupriyanova, Gazprombank
Okay. And in terms of online revenue growth rates, talking about this 90% of revenues, how fast they grow? And talking about games part, what is the revenue growth rate for that, if you can?

Boris Dobrodeev, Chief Executive Officer
Well, I don't think that we disclose the exact growth rates, but I think they grow -- -- games revenue growth is slightly higher than the myTarget revenue, given its kind of scale, and the early stage of development.

Anna Kupriyanova, Gazprombank
Thank you very much. And if I may, my second question on your EBITDA margin guidance. You mentioned in your press release, that possibly it will reverse trend of decline in 2021. And my question is, on which grounds do you expect this improvement, from where can it come?

Matthew Hammond, Chief Financial Officer
Hi. It's Matthew, I'll cover this. I mean, as Boris said earlier, a large part of this is obviously going to be in terms of mix, in that we would expect ads to see some recovery next year. And clearly, that is very beneficial for the operational leverage and the revenue mix. But also, at the same time, we expect some of the returns from New Initiatives, so the losses in New Initiatives should decline proportionally. And also, Youla obviously moves, the losses in Youla continue to reduce. So, if you

put all of those together, you then see an improvement in the margin profile in 2021.

Anna Kupriyanova, Gazprombank
Thank you very much. That's not because of games margin may increase.

Matthew Hammond, Chief Financial Officer
Look, I don't want to get into -- we haven't given 2021 guidance yet. It's difficult for us to give line-by-line guidance. We said that on games we are going for remain somewhat dynamic, but clearly, we are expecting games to contribute at least proportionally. And they should progress towards the sort of through the cycle margins that we talked about.

Anna Kupriyanova, Gazprombank
Okay, thank you very much for your answers.

Operator
Thank you. Our next question comes from Vladimir Bespalov of VTB Capital. Your line is open.

Vladimir Bespalov, VTB Capital
Hello. Congratulations on good numbers. First, I want to ask Matthew to comment a little bit more on what you said in your prepared remarks on the Games margins in the fourth quarter. Should we see the more normalized margins somewhere in the high-teens to low-twenties? Or what are your expectations from that perspective, what do you see as more normalized margin?

Matthew Hammond, Chief Financial Officer
Yeah, Vladimir, I refer you to the answer I gave a couple of minutes ago. As I just said, I'm not going to give 2021 guidance for Games margins at this point, because we want to remain somewhat flexible. What we're really talking about in the fourth quarter is clearly margins were better in Games in the second and the third quarter than they were in the initial plan. Quite clearly, there is a lot of COVID effects, and there are a lot of moving parts right now. And we want to remain sort of very flexible in our ability to invest where we see good ROIs. I think we're very happy with the fact that we've retained the cohorts of COVID acquired users at pretty much the same level as pre-COVID users, that is a very positive sign for us. And so, we're very committed to growing the business. I would also

say that Deus Craft is also doing very well, and we're very happy with that. And in exactly the same way we did with War Robots, we intend to invest in that business up front. And you've seen the effects that we had with War Robots doing exactly that. So, I think there is an element of us maintaining flexibility here and seeing how we go. But clearly, the Games business will move towards the sort of through the cycle margins, over the next number of quarters. Does that answer your question?

Vladimir Bespalov, VTB Capital
Thank you very much. More or less, it's more or less clear. Thank you. And I also have a question on VK Pay. You haven't been saying much about Q3 FinTech exposure. Sometime after this launch, it still looks like a very local product. So, my question is, maybe you could share some metrics, what is the user adoption? What is the revenue contribution? What is the turnover? And how do you generally see this product? Do you see a lot of opportunities or maybe, opportunities in other areas are much higher than in the FinTech space? Any comments would be appreciated.

Boris Dobrodeev, Chief Executive Officer
Yeah, thank you. So, I don't think we break out any FinTech metrics and any VK Pay metrics. I think that we are in the very early days of the development of the product, despite having already 15 million wallets, we need to do more work yet to better convert these users into financially meaningful transaction. This is what we're doing. So, we're also as we said before, we are on the way of creating joint venture with AliExpress Russia -- with Alipay; that would give us exposure to AliExpress Russia transacting users, which is in the amount of 25 million. So, the idea is indeed to get this probably one of the biggest transacting audience in Russia; get access, and then convert these users into kind of more financially meaningful transaction users. This is the plan. I mean, it is still, I would say, a pretty long way to go until we have a very competitive product. So, this is why we've been kind of more humble about it. So, it's just work in progress.

Vladimir Bespalov, VTB Capital
Thank you very much. And the last one is on education technology project. First, could you provide some comment on the profitability of these projects? And the second, on your strategy in M&A, is it similar to what you do in Games, as you acquired some minority stakes? Do you have an option to buy out, to increase

your stake to a controlling one, once some KPIs are met, and so on and so forth? Maybe you could comment on this as well.

Boris Dobrodeev, Chief Executive Officer
So, the gaming assets we have are broadly either profitable or breakeven to profitable, because we have kind of different assets, but throughout the history of ownership, they've been either like profitable or breakeven, and we are very comfortable about their profitability rates. So, in terms of the new venture, I just don't want to comment on the tactics. I think, of course, the goal is to identify the most lucrative interesting assets, and to get exposure in any shape or form with, of course, any way to increase the share to control is, of course, preferable. But we're open to all potential ways to get exposure to this industry. And of course, our M&A team is well qualified to find the right way and KPI to handle this task. Probably this is the kind of level of detail that would be comfortable to disclose currently.

Vladimir Bespalov, VTB Capital
Thank you very much. And good luck.

Boris Dobrodeev, Chief Executive Officer
Thank you. Thank you.

Operator
Our next question comes from Ildar Davletshin of Wood & Company.

Ildar Davletshin, Wood & Company
Hello. Thanks for the opportunity and congratulations with good results. I'd like to just clarify on your core or the largest so far segment, Communication and Social. So, there is a bit of a gap between the reported growth for the whole segment, and then if you look individually at key drivers, it looks like the whole segment grew 1.5%, but then if you look individually at VK or online education that was like, high-single digit or double digit. So, I'm wondering what is really underperforming? And if I'm correct that this is OK. And then to what degree this underperformance is, maybe there are other issues? And in general, OK seems like the number of users or audience is somewhat declining on a multi-year trend. What is your strategy for that, regarding that segment?

Ildar Davletshin, Wood & Company

Maybe if I may just part of it, but it's a bit different question is, you have a quite a few brands. So, I understand this is driven by the explosive growth of various segments and the offline to online trends in consumer behavior. But is there a point that you may consider kind of simplifying the structure? And do you think this is a drag for your profitability if you have to maintain different brands and VK Taxi, Citymobil, VK Eda versus Delivery Club, etc., etc? Thank you.

Boris Dobrodeev, Chief Executive Officer
Sorry, maybe I will jump in first to answer the second question, sorry. So obviously, VK has been growing nicely and it's growing more than 4% both of monthly and daily active users with also quite strong engagement of overall user base. So, Odnoklassniki for the last couple of years, they've been broadly flat with some kind of a moment declining, at some moments growing year-over-year. The Odnoklassniki user base is quite volatile given very heavy event, entertainment driven segment or interests of their audience, given VK which is mostly concentrated about communication. So, given the brands, obviously, I think that it doesn't make sense to combine the OK and VK brands, because both of the brands are very strong and they carry very strong awareness and identity, and also have absolutely different patterns of usage. So, the patterns of usage in OK and VK, they're radically, radically different.

So, in terms of -- if talking about rationalizing the brand strategy within the whole Group, this is what we're actually doing by working in our joint ecosystem. We are launching products like ID and the Mini Apps, we recently rebranded Combo also into VK brand. So, as you see, a lot of new products that we launch and a lot of kind of ecosystem products that we launch being branded by VK. So, we kind of have -- we are testing using VK brand more to use new products. But you should understand that the kind of more mature type of products, like Odnoklassniki which you gave reference to, they have extremely loyal audience and audience is very loyal to their brand. So, obviously I don't think we should anticipate for any rebranding of all the destinations under one brand, at least very kind of tough rebranding. And I think that obviously, currently these brands are better off having their own brands, which are -- because most of them are pretty strong. And actually, the rebranding old brands into new brands can actually not only carry efficiencies, but also carry additional costs.

So, generally, our approach is that we're very cautious at doing anything that has a risk of mixing brands and doing damage to any of the brands and the audience.

At the same time, we are indeed kind of using and utilizing VK more as a kind of the most used brand for the company. But given that the big part of the Group appeared -- well, emerged via M&A and via a lot of different entities, you shouldn't anticipate us at a glance to emerge as a mono-brand, like some of the companies in the market.

So here I pass it on to Fedor to answer regarding the second part of the question -- actually the first part of the question, sorry.

Fedor Rubtsov, Chief Financial Officer (Russia)
Thanks Boris. So, as was said, basically, at the time when we compose this current reportable segment, we don't think it makes much sense to give a detailed breakdown between different properties within the Communications and Social segment. But I could say that OK also showed solid performance in terms of ads, although of course, that was slow that [inaudible] driver of that within the segment. However, some of the properties which were more exposed to branded resizing as compared to performance advertising were obviously more heavily hit during the COVID crisis, and also recovered more slowly than the performance exposed parts such as VK. So, here I'll probably mention e-mailing portal which actually negatively affected the average online advertising growth rates on the segment.

Ildar Davletshin, Wood & Company
Thank you very much. So just to confirm because the line broke for a second, OK was actually positive in terms of revenue?

Fedor Rubtsov, Chief Financial Officer (Russia)
Well, I would say it was broadly flat, but still we consider it solid, basically in line with the audience growth.

Ildar Davletshin, Wood & Company
Okay, thank you very much for detailed answer.

Operator
Our next question comes from Yulia (?) from UBS. Your line is open.

Yulia (?), UBS

Hi, I think you have answered all my question already. So, thank you, no questions from my side.

Operator
Thank you. Our next question comes from Nakalo Ivanov of Open Broker. Your line is open.

Nakalo Ivanov, Open Broker
[Russian language]

Tatiana Volochkovich, Director of Investor Relations
For the purpose of English speakers on the line I will translate this question. So, the question is whether the company plans to pay dividends or introduce a dividend policy. And the second question is related to MSCI inclusion, whether this is being considered and is likely.

Matthew Hammond, Chief Financial Officer
Thank you. I'll answer the dividend question. At this point there is no formal dividend policy. Although we've always been very clear that as a business, we're not going to sit on excess cash through the cycle. We've returned very large amounts of cash to shareholders in the past. And we would definitely consider doing it again, at points in the future, but obviously M&A always comes first. So, our position on M&A, buybacks and dividend is the same as it's always been. I'm sorry, MSCI, obviously that is not a decision for us, that is a decision for MSCI. But we would obviously be delighted to be included in the MSCI. And as it stands right now, we are meeting the key criteria.

Nakalo Ivanov, Open Broker
Thank you so much.

Operator
Thank you. Our final question on the line today comes from Maria Sukhanova of BCS. The line is open.

Maria Sukhanova, BCS
Hello. Thank you for the opportunity to ask questions. Could you please answer a couple of questions regarding AliExpress GMV? You mentioned that it has increased significantly versus April. But I wonder if you could comment where we

stand versus pre-COVID levels on year-on-year basis. And also, specifically I wonder what's going on in the cross-border segment because it would seem like that with how active local players are now and how significant the assortment has expanded and terms of delivery have improved; it seems like cross-border might be seeing less interest. So, please correct me if that's not what's going on. Thank you.

Boris Dobrodeev, Chief Executive Officer
Thank you. So, AliExpress Russia continues to grow year-over-year in all the segments. But as you pointed out, cross-border is rising, is growing, not as fast as domestic is growing, domestic is growing quite faster. So, I think for AliExpress its function both of the scale of their assets, because domestic is much less mature, as well as I think that during the COVID there is a much more demand for goods that are delivered locally and delivered very fast. And I think there is also quite a big difference in the assortment of cross-border and local. So, the kind of growth, the growth of currently local is faster than cross-border and it is caused by the things that I just mentioned.

Maria Sukhanova, BCS
Understood. Thank you.

Boris Dobrodeev, Chief Executive Officer
Thank you.

Operator
Thank you. We currently have no further questions on the line.

Tatiana Volochkovich, Director of Investor Relations
Thank you very much again for joining us today. If there are any follow-up questions, please feel free to reach out to our IR email. And we look forward to speaking with you in the next quarter. Thank you