



In light of the ongoing pandemic and its impacts across various business lines, we have been receiving a number of questions on Delivery Club (DC) food tech asset, which we are developing together with Sberbank as part of O2O JV [established](#) last December.

We decided to address these in this blog as **FAQs**, which you can find below. Please contact our IR team at ir@corp.mail.ru for clarifications or any other topics around our company.

Q. What is the business model of DC and the market that it represents?

A.

- DC is the **largest domestic ready-to-eat food delivery platform** in terms of orders, working with restaurants on marketplace as well as own delivery basis and now also integrating e-grocery into its platform's offer
- The **ready-to-eat food delivery market** in Russia exceeded RUB170bn or >10% of total public catering market in 2019, with growth of 25% YoY, fastest rate seen in the last 5yrs
- Delivery market is expected to continue to expand at double-digit CAGR of till 2024, as only ~1/3 of Russian employed population is currently using online food delivery services, which compares to 60%+ in the US or the UK. Online food delivery market in Russia stood at ~\$10/per capita last year vs \$65+ in the US or the UK

Q. How large is DC and what have been its recent performance in terms of orders and revenues in light of COVID-19?

A.

- **DC grew revenues by 131% YoY in 2019** (to RUB 4.46bn) and saw **3.35mn in monthly orders in December** (+122% YoY). **In Q1 2020, it expanded revenues by 2.1x YoY** to RUB 1.8bn
- **In mid-April DC reached 1 million in weekly orders for the first time**
- **For the month of April DC completed 4.5m orders** excluding grocery delivery, setting a new monthly record despite seasonality, with Q1 and Q4 typically being peak quarters in terms of demand on the Russian restaurant delivery market

Q. What is the marketplace versus own delivery exposure of DC?

A. **Own delivery was available in 70 cities** (vs 13 a year ago), with a **53% share of orders coming from OD in Q1 vs 23% as of 4Q18**

Q. What are the general terms/take rates?

A. Pre COVID-19 restaurant support initiatives, which include temporary take rate reductions, take rates stood at **20% on avg for marketplace restaurants and 35% for OD**

Q. What is the geographical coverage of DC?

A. DC is present across **150 cities**, which cover **>45% of Russian population**

Q. What is the split of business between Moscow and the regions?

A. Moscow and St Petersburg account for >50% of the overall restaurant aggregator market and therefore GMV for DC. Yet, regions are quickly catching up

Q. Have you been rolling out new cities and using which model?

A.

- While we have not been rolling out many new cities across marketplace coverage of DC in the past year, we have been scaling 1P availability across existing locations, having launched OD in more than 50 cities since last April
- Development of own logistics allows to attract more restaurants to the platform, increase the speed of delivery, and as a result, has a positive impact on retention and frequency, which is why we continue to invest into OD

- Where economically viable, we try to **use both models** with an **ultimate goal to balance MP and OD orders** in order to achieve better economics

Q. Which model is most profitable?

A.

- Marketplace model is most profitable
- Overall, DC remains loss-making given that it is in growth phase, but expects to be profitable in the coming years based on current internal model

Q. Who is the average customer of DC? Have the user profile or consumption patterns changed during the COVID-19 related lockdown?

A.

- DC targets **mass-market audience, which has not changed in light of COVID-19**
- DC had **3.3mn in active users as of Q1**, up from 1.7mn a year ago and hence market penetration remains quite low. **MAU reached 5mn in April** for the first time in light of elevated COVID-19 related demand
- COVID-19 has also stimulated the rise of new users, with **>15% of orders coming from new users in April** vs 10% in early March
- COVID-19 also **shifted demand from city centers**, where people work, to suburban areas, where people live
- It also changed the **distribution of orders**, with no typical lunch peak during weekdays related to business lunch orders and **no typical peak in demand during weekends**, with orders elevated throughout the week
- **Average order value increased by 3%** as DC has been seeing more orders for families vs individuals on one hand as well as elevated demand from QSRs on the other
- **Frequency has risen by 20%** versus pre-COVID level

Q. Is there much difference in behavior between regular and repeat customers?

A. Average check does not differ much between new and existing customers while frequency rises looking at cohorts over time

Q. How large is the restaurant supply of DC and has it been disrupted by COVID-19?

A.

- Since the middle of March, when COVID-19 impact started to emerge, DC **connected >2,500 of new restaurants within a month**, with a total of **16,300 in connected restaurants** at the end of Q1 vs 9,400 a year ago so supply has been expanding rapidly
- DC faced a ~20% decrease in quantity of restaurants (both connected and active) at the start of the lockdown period, but all of this has been recovered in April based on latest operational statistics and we continues to see further growth, driven by our support program and improved sales process

Q. How does restaurant onboarding process work and has it been disrupted by COVID-19?

A. Process was made **fully digital** upon the launch of local lock-down with onboarding done **within a day**, versus being manual and involving offline document exchange in the past, which has taken two weeks or more previously

Q. Has DC experienced any difficulties in hiring new couriers in light of COVID-19 and related lockdowns?

A. Ahead of the lockdown announcement, DC created a courier reserve in order to meet potentially higher demand. There is no significant movement in courier pay from DC side, while their incomes have grown significantly as a function of higher demand and our rising efficiency, given that courier pay is linked to serviced orders, at **RUB120 per order and RUB20 for km travelled**. DC has also launched a support program for couriers motivating customers to pay tips and motivating couriers to deliver better service. As a COVID-19 measure, DC is doubling the amount of tips for couriers at own cost for April. So, DC had no courier or logistics bottlenecks despite elevated demand and peak order volume seen in April

Q. What support measures has DC taken in light of COVID-19?

A. DC has taken many steps to support restaurant partners, couriers and customers during COVID-19, including:

1. **Temporarily waving commissions charged to some of its smaller marketplace partners** (chains with up to 3 restaurants, present in one city only). Moreover, DC is offering temporary 20% discounts for orders from small local partners (until June 30)
2. **Commission for 1P sign-ups was temporarily set to 25%** (between March 15 and June 30). The Moscow government also announced intention to compensate half of the commission, if set up to 20% and has recently further scale such program to all restaurants
3. Commission for legacy MP and OD sign-ups was reduced by 5% for the same period
4. **Hotline for restaurants** was launched and **courier reserve** was formed in order to meet potentially higher demand while restaurants are closed for walk-ins
5. Users were enabled to **recommend their favorite local** restaurants to be onboarded on DC platform as part of our "Support the local" campaign

Q. How has DC client value proposition changed over the past 2 months? Has DC introduced any new features to address customer needs during the lockdown period?

A. Among some of the customer-focused new features:

1. DC made **contactless and cashless** delivery as default options, with tipping of couriers done through VK Pay. At the end of April Delivery Club will **double the tips** as a gratitude for couriers
2. DC launched **take-away**, which will be scaled during post quarantine period in order to support restaurants and reduce their costs
3. DC is looking to launch deliveries of **OTC pharmaceuticals** in partnerships with Mail.ru Group's "Vse Apteki" platform, which is connected to almost half of the local pharma market
4. DC has been providing couriers with **masks, antiseptics and other protective tools, while office staff has been working remotely**
5. DC launched **mobile testing units** to check couriers for COVID-19
6. **Samokat e-grocery app has been integrated into DC** to broaden overall food offer

So, DC continued to improve safety and quality standards while expanding its overall offer, including to areas like take-away, which will be convenient for users and supportive for restaurants as we exit lockdowns given the relatively low commission level

Q. Has DC increased or decreased promotional activity in light of COVID-19?

A. Given already elevated demand, **DC did not increase promotional activity during COVID-19** and continued to improve efficiency of the service instead. Due to continuous improvement in logistics tech, application of algorithmic zones and further roll-out of Alan – AI based scheduling system, DC demonstrated gradual improvement of delivery time to low 30s in terms of minutes and cost reduction to record low level while improving customer satisfaction

Q. How have unit economics been impacted by COVID-19?

A. **DC has been able to improve unit economics** despite all the COVID-19 support measures and related costs of >RUB150mn given rising demand and slightly higher average check, faster delivery speed, further impact from ongoing AI-rollout, introduction of delivery fees and balance between OD and marketplace offers

Q. How does DC differentiate itself versus competition?

A.

- DC is the **largest player** on the market in terms of brand awareness and scale
- DC has **partnerships with leading QSR chains, including on exclusive basis**, which is important given the nature of current demand. It is the only aggregator **connected to all three largest QSRs**
- DC initially worked in the marketplace format. By has been **rapidly expanding into own delivery**, which allows to significantly boost restaurant supply with **choice** being one of key demand-driving factors. Currently, DC is the leader in both, own delivery and marketplace model among restaurant delivery aggregators
- DC tends to have **better value for customers**, with promotions are partially funded by partners
- DC has a **highly advanced tech stack**, with most processes automatic, including courier and order matching, routing etc. The delivery time reached lower 30's in terms of minutes from

40's last year, while unit cost of logistics decreased significantly. We believe with the recent service improvements, **DC offers faster delivery time** than competition

- DC is **well-funded** following the creation of the JV between Sberbank and MRG in Dec 2019, which helps the platform gain further scale in the current market environment. Plus, it offers **access to synergies and ecosystems** of both partners, which DC has already started to exploit

Q. What is the progress around Samokat e-grocery service?

A.

- The O2O JV has now completed consolidation of control in Samokat (75.6%), the leading express e-grocery platform operating more than **160 dark stores** in Moscow and St Petersburg
- Samokat saw **>30,000 in daily orders in March, up >30% since January, having made >1mn deliveries in April**, with daily deliveries now exceeding 40k
- The deal has been [completed in May](#)
- Samokat is available for users of DC mobile app and website
- Average check and frequency have risen in light of COVID-19
- Samokat expanded from less than 100 dark stores at year-end and 400k monthly orders so the growth in the business has been very strong and COVID-19 to likely accelerate the rise of e-groceries within domestic eCommerce space

Q. Beyond COVID-19 what is the opportunity for grocery deliveries in Russia?

A. Prospects of e-grocery in Russia are quite promising, given that food accounts for nearly half of the RUB33tn retail market of Russia is extremely underpenetrated, with e-grocery at just 0.3% of retail.

Q. Is DC integrated with other Mail.ru Group's platforms and how does it work?

A.

- DC is **integrated into VK Mini Apps**, which means that users can make orders from DC through VK, without having to download a stand-alone DC app. DC is already among the most popular Mini Apps on VK in light of COVID-19 related spike in restaurant order demand. Already today VK generates high single digit percentage of DC orders through related mini app
- DC is also integrated into **MRG's loyalty program Combo**, which provides for an additional 10% discount on top of any current discounts available through stand-alone DC app
- DC will be integrated into **MRG's Single ID product** to be formed on the basis of VK in 2020, which means that new DC users will be able to easily register using their VK registration details, which eases the process on the side of the customer and allows us to better track user data
- **VK Pay** is also integrated into DC as tips are payable to couriers digitally, using VK Pay
- In the near future DC orders will be available from the Citymobil app and it will be integrated with MRG's Marusia virtual voice assistant, among other MRG products and services

Q. Has DC done any integrations/cooperation with Sberbank?

A.

- DC has been **integrated into Sber ID** for easier and faster new customer onboarding
- DC has been integrated within **Sberbank Online** to provide Sberbank's clients with personalized offering
- DC has been integrated into Sberbank's **Spasibo** loyalty program
- ~300k employees of Sberbank have **personalized offers** from DC
- DC has participated in various marketing campaigns with **Sberbank ecosystem partners** (Okko, SberMarket, "Green Day" etc.)
- DC launched **experimental delivery zone** for McDonalds inside a Sberbank branch
- DC will be integrated within various products of Sberbank and its ecosystem companies going fwd

Q. Is there any synergy between Citymobil (CM) and DC?

A. Users of CM are now able to make DC orders through CM app. This means access to longer distance deliveries as well as native integration between food and mobility verticals of O2O JV

Q. What are the strategic priorities for DC?

A.

1. **Covering all food needs** of customers including food, groceries etc
2. **Providing the best service** in terms of choice, service quality / speed and value
3. **Expanding DC footprint** to cover bigger geography and more restaurant types
4. **Expanding into more value added services** for restaurants such as take-away

Overall, DC is focused on growth and creating the leading and well-diversified food delivery platform in Russia. Many initiatives require investments near-term, which is being provided by the JV between Mail.ru Group and Sberbank, but DC aims to create a profitable business within the coming years.

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About Mail.ru Group

Mail.ru Group (MAIL, listed since November 5, 2010) is the largest internet business in Russia in terms of total daily audience (Mediascope WEB-Index Desktop&Mobile, Russia 0+, population aged 12+, February 2020).

Mail.ru Group is developing the leading domestic internet communications and entertainment platform. The company owns Russia's two largest Russian language social networks, VKontakte (VK) and Odnoklassniki (OK), leading email service, one of Russia's largest internet portals (Mail.ru), and four instant messaging services. The company also holds the international gaming brand MY.GAMES, with a portfolio of hundreds of popular games for a range of platforms and over 540 million users worldwide. In 2019, Mail.ru Group Tech Lab was launched with a primary focus on technology and innovation development.

Mail.ru Group is a shareholder of AliExpress Russia JV along with Alibaba Group, MegaFon and Russian Direct Investment Fund. The company partners with Sberbank to jointly develop O2O service platform targeting food delivery and taxi markets.