Mail.ru Group

CONFERENCE CALL TO DISCUSS MAIL.RU GROUP FINANCIAL AND OPERATIONAL RESULTS FOR THE FIRST QUARTER OF 2021.

Company: Mail.ru Group

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Participants:

- Boris Dobrodeev, Chief Executive Officer
- Matthew Hammond, Chief Financial Officer
- Fedor Rubtsov, Chief Financial Officer (Russia)
- Vladimir Gabrielyan, First Deputy Chief Executive Officer (Russia)
- Vladimir Nikolsky, Chief Operating Officer (Russia)
- Tatiana Volochkovich, Director of Investor Relations

Tatiana Volochkovich, Director of Investor Relations

Thank you, all. And welcome to Mail.ru Group's first quarter unaudited financial results conference call. I'm joined by Boris Dobrodeev, Matthew Hammond, Fedor Rubtsov, Vladimir Gabrielyan and Vladimir Nikolsky. In our recognition of the likely lasting effects of the pandemic on multiple spheres of human life and in response to internal employee survey our company is testing a hybrid working regime, which means that we are currently in multiple different location. Hence, coordination during Q&A might cause some minor delays in our responses and we kindly ask you to pose one question at a time during the Q&A session to keep things manageable on our end. We promise to take time to answer all of your follow-up questions and thank you in advance for your understanding and cooperation.

Before I pass it on to Matthew, I will read the Safe Harbor statement. Please note that our results press release contains statements of expectations and other forward-looking statements regarding future events or future financial performance of the

Group. The forward-looking statements in the release are based upon various assumptions that are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and may be beyond the Group's control. Many factors could cause actual results to differ materially from those discussed in the forward-looking statements, including those referenced under Risk Factors in the Group's public filings. We would like to direct you to read the forward-looking disclaimer at the back of our release, particularly with respect to the possible differences between management and IFRS accounts.

Matthew, please go ahead.

Matthew Hammond, Chief Financial Officer

Thank you very much. Good morning, good afternoon, and thank you for joining us. We had a strong start to 2021 with revenue growth of 27.4%, which would have been around 30% without the temporary loss of the VAT tax benefit for part of our IVAS business, which we experienced in Q1. We'll run through the details of this in a minute. The acceleration was driven by the ongoing recovery of our online advertising business along with the continued strong performance of MMO games revenue coming from MY.GAMES as well as Other revenues, mainly driven by the Online Education segment. EBITDA in Q1 grew 8% to RUB 6.1 billion. Excluding the VAT effect EBITDA growth would have grown 13% to RUB 6.3 billion. We continue to invest into growth and the strengthening of our business and ecosystem. Our key focus areas include video, particularly Clips, video and audio calls for personal and professional use, music, social commerce, games, digital education and ecosystem products, including VK Combo, VK Connect, VK Pay, voice and Mini Apps.

Despite all of the ongoing initiatives our plan remains unchanged - to deliver a certain level of margin improvement for the Group in 2021. This was not yet visible in Q1 mainly due to the ongoing mix shift towards MY.GAMES, which accounted for nearly 40% of Group revenues for the quarter versus 35% a year earlier. This is likely to reverse in Q2 given the combination of a low COVID base for advertising versus the high base for online games, along with the expected return to growth for IVAS, which will support not only growth, but also profitability of the core Communications Social segment and the entire Group. We would also note that Q1 already showed improvement in profitability in Games as well as New Initiatives segment and would reiterate that both revenue growth and EBITDA margin at a Group level are in great focus for the entire management team.

And I'll now provide a few highlights across the key business areas.

First of all, **advertising**. Advertising revenues in Q1 grew by 22% to nearly RUB 10.5 billion which is a strong acceleration versus the 10.2% growth in the fourth quarter. Acceleration was driven not only by the ongoing macroeconomic recovery, but also continuous investment into Ad tech, focus on performance ad formats and scaling of the SMB initiatives. Some of the best performing verticals in Q1 were FMCG, entertainment, health, medicine, work, education and finance. We saw improvements in performance across the board. Some of the relatively underperforming verticals during the quarter were travel, autos, telcos, beauty, dating, and real estate. Among products and services VK remains the major growth engine with its revenue growth of 21.2% in the first quarter. In terms of client types, we remain focused on growing the advertising revenue contribution from SMBs with related revenues outperforming the overall ad revenue growth in Q1. We see major further potential for expansion here given that less than 10% of the 3 million businesses active across our two major social networks are currently our commercial advertising clients. Within ad formats, we're also raising penetration into video as reflected in the 36% growth in our in-stream video ad segment in Q1. The ongoing overall ad business strength is reflected in growth of the average eCPM in the MyTarget auction, which accelerated versus Q4 by almost 20%. Given the low base effect of Q2 and assuming no changes in the underlying environment, we currently expect further acceleration in advertising revenues in the current quarter.

As for the long term, our targets remain unchanged, and we continue to move towards better aligning our share of local online advertising market with our leading positions in audience reach and time spent with an ambition to hold 20% plus digital share in the midterm versus today's around 15%.

Secondly **IVAS**. IVAS saw a temporary decline of 3.6% in Q1, driven by the ongoing IT tax legislation changes, which are actually expected to have a net positive effect on the industry as well as the Group in the long run. As part of the new legislation since January, VAT exemption only applied to licensed software and databases included in the local register of domestic software. Previously the exemption applied to all software and databases. This means there was no application of the previously applied VAT exemptions to parts of our IVAS revenues for the majority of Q1 until we were included into the domestic software register towards the end of March. We estimate the IVAS revenue impact was around RUB 580 million with the consequence RUB 260 million reduction to EBITDA for the quarter. Excluding this effect, IVAS growth would have been around 8% year-over-year in the first quarter. As the process of getting into the register has been successfully completed, we expect normalized IVAS performance in Q2 with mid-single-digit growth for IVAS anticipated for full year 2021 in line with our initial budget and Group's guidance provided in February.

Communications and Social including VK. VK, our core product and the center of our ecosystem remains the largest component of the core Communications and Social segment. VK maintains its leading positions among the local social networks with the business delivering above 21% total revenue growth in the first quarter with acceleration versus the 17.2% seen in the fourth quarter. VK's Russian MAU stood at 73 million with DAU growing by nearly 6% to 48 million and 70% of users visiting VK daily. The number of services on the VK Mini Apps platform rose by 90% year-over-year in Q1 and is approaching 30,000 with MAU growing by more than 35% year-over-year and DAU up 80% year-over-year in March.

Product innovations continue and the launch of Multimarket, a single B2B platform for managing stores on VK, OK, AliExpress and Youla; updating messenger, video calls and the music section in Q1. VK Clips has shifted to the New Initiatives reporting segment as of Q1, which is the same as the broader ecosystem related projects such as VK Connect and VK Super App Kit, given that there are cross-segment initiatives. The Communications and Social segment saw 8% year-over-year growth in Q1. This is due to more than a third of the segment's revenue coming from IVAS, which saw the previously discussed temporary VAT hit in Q1. Excluding this effect, the segment would have expanded by 12%. Given the expected return to growth for IVAS in Q2, we expect the segment to exhibit stronger growth in the second quarter.

Games. MY.GAMES growth exceeded 42% in the quarter, reaching 11 billion despite no new game releases during Q1. Among the major growth drivers was the ongoing solid performance of existing franchise and other titles along with the successful late Q4 launch of Rush Royale. We also continue to see good traction from recent acquisitions such as the Deus Craft studio. Given that nearly 80% of MY.GAMES revenues comes from outside of Russia/CIS, currency also had an effect. In constant currency terms, growth was 30%.

Rush Royale was launched in late Q4, was internally developed by our IT Territory studio. The title was developed in a fully remote work environment and with only around $300,000 in development cost, it is now approaching 6 million downloads and has surpassed 1 billion in cumulative revenues.

Grand Hotel Mania, from recently consolidated Deus Craft studio continues to perform well with earn-out payments of around 300 million to be made in the coming days as part of the related consolidation deal announced last October based on the RUB 350 million of its monthly revenue in March. The deal highlights our effective M&A strategy around early-stage investments. Our franchise titles also continue to show good performance with War Robots now surpassing $500 million in lifetime revenues and, Warface GO receiving Best Shooter Award from Pocket Gamer in March. The MY.GAMES Store is showing a positive traction with DAU of 2.5 million and prospects for synergies from porting our mobile games to PC via the MY.GAMES Store and therefore providing a boost to the revenues.

Despite the anticipated short-term slowdown in growth in Q2 due to the high base effect after the excessive 45% growth in MY.GAMES seen in Q2 2020, we aim to try to be around the record Q2 2020 revenues levels for this quarter. This will be supported by titles like Rush Royale and Grand Hotel Mania. And we remain committed to double-digit organic growth from MY.GAMES in 2021. Among the near-term launches, we're currently preparing Dino Squad of Pixonic studio for relaunch following multiple enhancements of the game, and we have one additional mobile title close to global launch subject to the success of its related beta testing. We are also in active pursuit of value accretive consolidation opportunities, which could further support the MY.GAMES growth. We'd like to highlight that the MY.GAMES Venture Capital Fund entered Games One's top 10 global gaming venture funds list with over 35 existing minority holdings with path to control and six completed consolidations, which we've managed to scale multiple times since closing. MY.GAMES margins should see quarter-on-quarter improvement throughout 2021 with peak profitability expected in Q4 with the goal to deliver margin improvements from MY.GAMES in 2021 and a commitment to deliver 20% plus EBITDA margins for the business in the coming years.

Online Education. EdTech revenue has nearly tripled in Q1 to 2.2 billion with its share of Group's revenues already at 7% with continued strong growth from both GeekBrains and Skillbox assets. The segment was at breakeven level in Q1, but Q1 typically being the low point in the year in terms of margins, given the active new course launches and generally seasonally heavy marketing. Furthermore, the assets are seeing incrementally higher tax burdens as their scale grows, with Skillbox having started to pay VAT. There is also certain effect of the post-COVID year where platforms have to invest more into marketing given less organic traffic. Despite the expected post-COVID growth normalization, we anticipate further strong growth for EdTech in 2021 with up to 9 billion in expected revenues and a positive EBITDA margin.

New Initiatives. The segment's profitability improved driven by the progress towards breakeven from Youla, which had an EBITDA loss of around RUB 200 million for the quarter versus nearly RUB 1 billion during the same period last year. Youla revenue growth was 15%. This is a function of our focus on the launched integration of Youla and VK in December, which helped drive 27% year-over-year growth in MAU to 33 million in March. In 2021 we continue to target RUB 3.6 billion to RUB 3.9 billion in revenue for Youla with progress towards breakeven, which we anticipate in 2022.

Amongst other initiatives, Worki was rebranded into VK Jobs having contributed 20% of Youla's classified revenues with related DAU rising by nearly 50% year-over-year and the number of new CVs increasing by 2x year-over-year in Q1. The service will continue its integration with other MRG properties such as VK, OK, Youla and our e-mail service during 2021.

VK Clips reached a new peak of nearly 250 million views per day in March with the DAU of 15 million. Time spent per user grew almost 50% versus September with the number of users spending more than 10 minutes per day on VK Clips rising by a quarter year-to-date, with this consumption being additive to their overall VK engagement. And hence we are confident that Clips will help drive overall time spent on VK. Content quality is also being enhanced with recommendations being increasingly personalized and the launches of exclusive content such as interactive films. Amongst the other New Initiatives, we saw our recommendation platforms' combined revenue almost doubled towards 200 million in Q1 and the amount of people using both of our recommendation platforms reaching 62.4 million per month, up nearly 40% year-over-year.

Ecosystem progress. Authentication via VK Connect unified ID done outside of VK exceeded 9 million a month in Q1 versus less than 2 million last June, with a total of more than 29 million users outside of VK having used it for authentication since the launch, nine months ago. 16 of the Group services has now been integrated into VK Connect versus 12 at year end. The number of active loyalty program subscribers rose nearly 10x year-over-year as of March with further CVP enhancements via integrations with AliExpress, MY.GAMES Cloud, third-party e-reading platforms as well as our internal music system expected. Super App rollout continues with the launch of a super app on the basis of our e-mail service, which now incorporates calendar, audio and video calls, cloud service tasks and voice. We continue to envisage our services as increasingly cross integrated and personalized with the potential for multiple valuable super apps, which we can offer to the more than 93% of Russian internet users who sit within our ecosystem.

Joint ventures, the **O2O JV**. The JV saw its GMV double year-over-year in Q1 to above RUB 40 billion. Delivery Club's revenues grew by 1.8x to RUB 3.2 billion with 1.6x growth in orders to nearly 17.6 million, a 61% 1P share in March with more than 43,000 in connected partners, which is nearly three times over what it was a year ago. Delivery Club continues to demonstrate improvement in unit economics with further enhancing its pricing and marketing processes as well as AI and analytical instruments and logistics.

Samokat revenues expanded by more than 10x to RUB 6 billion on the back of nearly 8x growth in orders to 11 million including up to 160,000 in daily orders in March. Samokat's dark store base expanded by more than 3.5x year-over-year to 490 in March. It launched operations in four new major cities in Q1 and plans to be present across all Russian cities with population more than 1 million in the next couple of months.

Local Kitchen serviced 2x more orders year-over-year and more than doubled its revenues to nearly RUB 1 billion in Q1 with 45 dark kitchens across Moscow. Citymobil exceeded 50 million in rides with GMV growth of 53% year-over-year to RUB 14.3 billion with growth supported by its ongoing efforts in B2B and premium segments, both expanding by 3x year-over-year in Q1. Completion rates driver utilization and ETAs continue to improve with contribution per trip improving in Q1.

AER. Our partners have recently done a call detailing the full year and Q1 results which they plan to do on a more regular basis going forward. In Q1, the local marketplace of AER continued its triple-digit year-over-year growth, which suggests ongoing share gains. This has continued into Q2 with growth of local orders, more than tripling year-over-year and combined AER JV nearly doubling year-over-year so far in April. AER plan remains to balance local and CB businesses already by the end of the current financial year. In terms of the ongoing investments, EBITDA burn rates was at a low single-digit level versus GMV in Q1, despite the rising level of investment. We are pleased with the platform's efficient expansion.

Finally, **guidance and governance**. Our strategic priorities for full year 2021 remain unchanged and our guidance remains unchanged. We continue to expect revenues of RUB 127 billion to RUB 130 billion with an improvement in EBITDA margin year-over-year. While growing our business, we continue to evolve as a public company seeking ways to improve internal governance, standards and disclosure to help drive shareholder value. As part of the multiple ongoing initiatives, we no longer report on a pro forma basis with asset consolidation scope now fully in line with IFRS reporting. Also, as was guided at the beginning of the last year starting from Q1, we started to provide net income contribution from material associates and JVs within management accounts with granular breakdown for the various contributions. Again, this serves to reduce the differences between management and IFRS accounts.

To provide more transparency across the various pieces of our expanding business, EdTech is now presented as a separate reporting segment, which is the practice we aim to continue as the various parts of our business reach sufficient scale and proved profitability. Our recent ESG survey helped us identify certain focus areas important for the external community. We appreciate your feedback; we have taken it on board and aim to incorporate it in our upcoming Sustainability Report.

With that I thank you and we'll now like to turn to Q&A where we will leave as much time as we can for that.

Operator
Thank you. [Operator Instructions] Our first question comes from Miriam Adisa from Morgan Stanley. Please go ahead.

Miriam Adisa, Morgan Stanley
Hi, everyone. Thanks for taking my questions. Firstly, just on advertising. If you could just comment on what you've been seeing over the last couple of weeks in April as you sort of lapped easier comps, just to get a sense of what growth is looking like now. I'll ask my questions one by one. So, you can go ahead and do that first. Thanks.

Boris Dobrodeev, Chief Executive Officer
Hello, Miriam. Thank you for the question. We see continuous improvement in the market and of course given that in April the really easy comps start where we see significant ad growth acceleration in comparison to March; it is really significant. So, generally, if we look at the shape of the market, we see segment like FMCG, entertainment, health, medicine, work, employment, education and finance improving,

while travel, auto, telcos, beauty, dating, and the real estate still a little bit underperforming. But generally, we think we're entering the quarter with quite encouraging numbers.

Miriam Adisa, Morgan Stanley
Great, thank you. And then my next question is on Delivery Club. So, I see that you had a slight increase in active customers between Q4 and Q1 and frequency slightly went down. So, just again what do you sort of seeing as you lap the COVID comps. Are you seeing any change in user behaviour as people go back to normal? And what are you expecting this year in terms of the balance of growth between frequency and further customer growth?

Boris Dobrodeev, Chief Executive Officer
Thank you for this question Miriam. I still think and see that we retain most of the cohorts that we acquired during the COVID. And I think that you know we're growing the business at such a high rate despite a very, very high base. It is a good sign. So, we still see as of now both the elevated size of user base as well as elevated level of activity per user. So, the level of activity decreased slightly sequentially quarter-on-quarter, but it is still meaningfully above pre-COVID level. So, we are very, very optimistic. And I think going forward, yes, we think that there is a structural shift in user behaviour. And also, we see higher user engagement thanks to this and also thanks to higher engagement in e-grocery segment of Delivery Club.

Miriam Adisa, Morgan Stanley
Great, thank you. And my final question is just on the Super App strategy. I think you mentioned you're sort of planning to have or you see potential for multiple Super Apps. I'm just wondering how you're thinking about that in terms of what the different user proposition would be across these different Super Apps and whether there's any potential sort of conflict or will you integrate multiple services within different Super Apps? How are you thinking about the splitting all your assets across different platform?

Boris Dobrodeev, Chief Executive Officer
Thank you very much, Miriam. A great question. There are two angles at which we look at this question. First, it's user happiness and user satisfaction. We are not building Super Apps initially for business purposes. So, we're building them where it's really organically for the user to get some additional use cases. This is the strategy we pursue. Number two, we think that as we said before, we don't believe in the concept of one

Super App. We think, not only in Russia, but even within certain holdings or groups of companies there might be a couple of Super Apps which are built around different use cases. So, in Mail.ru Group you generally have VK Super App, which has a super, super broad audience and already because of super high breadth of audience it has a lot of use cases, it has probably the most advanced Super App and Mini App platform in Russia with more than 29,000 different apps being present on the platform. And for example, with VK, what we see is the breadth of usage is a very high; it is from gaming apps to taxi, to food delivery, to health, to different steps tracking, to productivity, to marketing tools. It is indeed super high given the high exposure to a very broad audience.

If we talk for example about email, we're starting to roll out email Super App strategy. There we see more angle towards productivity where the users use a lot of calendar services as well as cloud services and more productivity type of cases. We would continue to develop email in this direction. So, if you look at, for example, food delivery, our food delivery apps also generate a lot of high frequency audience. If you look at the Delivery Club and I think also Samokat, they're actually starting to aggregate a lot of cases around food delivery. If you look at Delivery Club, it originally started as just ready-to-eat food delivery app. Now it has a very fast-growing grocery segment. I think this is also kind of a Super App of its own. And even Citymobil is building the Super App case around mobility where you have ride hailing, car sharing, and also electric scooters built into its functionality. I think this is where I see the Super App market going. I think it's logical. I think big traffic generators will survive and increase their market share and probably smaller, less frequency apps will probably fade or become niche.

And then of course one more trend is voice. So, voice will play a big role in Super App strategy. What we see now, we introduced voice technologies into email and into VK. For example, in email, we are working a lot on the functionality to read your letters. I think it's very convenient. I think in the future very big percentage of all your communication with email information will happen via voice assistant. I hope I gave all my ideas on the Super App strategy and Super App market now.

Miriam Adisa, Morgan Stanley
That's great. Thank you for that detail. Thank you.

Operator
We'll take the next question from Cesar Tiron from Bank of America. Please go ahead.

Cesar Tiron, Bank of America

Hi, everyone. Thanks for the call and thanks for the opportunity to ask questions. I have a couple on the advertising and social networks, probably I'll ask these together and one on the O2O JV. The first one on the advertising, on the 22% advertising growth that you reported. Is there any tailwind from FX? I'm thinking about for example any in-game advertising revenue that you might have had or anything like that. And then the second question on that segment would be on the big OPEX increase. I think margins were down about 9 percentage points in Communication and Social. I just wanted to understand better what projects are you pursuing and where basically have you invested and if we should expect in the next quarters that this pressure on Communication and Social will be less than what we've seen in Q1? Thank you so much.

Matthew Hammond, Chief Financial Officer

Cesar, hi. It's Matthew. I'll answer the first question on FX. There is some FX, but it's not enough to move the needle to be honest. It's really rounding errors there, it's really not relevant. And I'm sorry, the second question, we missed. Could you just repeat the second question?

Cesar Tiron, Bank of America

Yes. Sorry about that. Basically, just wanted to have a bit more clarity on the OPEX. I think the margins on Communication and Social were down about 9 percentage points versus last year. I think OPEX was up about 30%. So, just if you help us understand a bit better, what are the key drivers? You seem to be investing quite a lot in the social networking, is that content, is that technology? What is it in any case, it seems to be increasing faster than revenue unless I get this wrong?

Matthew Hammond, Chief Financial Officer

Cesar, it's Matthew. There are a couple of effects there. First of all, obviously IVAS. IVAS falls into Social and Communications and because of the temporary VAT effect we had in Q1, as we said that removed 600 million of revenue and over 200 million of EBITDA, that obviously does have an effect. The other two effects are, one is a rollover from headcount growth late last year, and the second is Clips where we do continue to invest. This is really driving traffic, video, mini apps, social commerce all of these areas we continue to invest in because they are absolutely core to the increased time spent online and the growth in user numbers and I think Boris is going to add another couple of comments.

Boris Dobrodeev, Chief Executive Officer
Matthew thank you very much. Just to add to what Matthew just said, there are a lot of projects that lie within this segment. For example, in email and portal, which is also part of the communication part, there are a lot of important ecosystem projects, R&D projects; things like single ID, Combo, Marusia virtual assistant, devices, Capsula speaker and all the devices, and even Search actually lies within this segment. Generally, all of the video technologies that Matthew just mentioned they almost all lie within this segment. As you obviously noted, we're getting more and more transparent with our reporting, but still Social and Communication have a lot of R&D heavy stuff. But I mean if you completely strip them out and leave clear-cut social network, the picture would obviously be the same. I hope I gave the overview. There are multiple projects which are lower margin than core Social and Communication, which lie within this segment. They are not that high margin, but obviously, if you look at where the world is going, they're absolutely existential for the existence of Mail.ru Group and our ecosystem in the future. Thank you.

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

Fedor Rubtsov, Chief Financial Officer (Russia)
This is Fedor here. Just a small technical correction that overall what Boris said is right. However, a couple of the products are actually in the New Initiatives such as Marusia and Capsula. But overall, that's right, quite a number of R&D heavy products are sitting within the Communications and Social segment.

< Additional IR comment to clarify the management answers to the above question: Given the potential for Clips to become a major separate product and its target presence across the various Group's services, Clips has been shifted from Communications and Social segment into the New Initiatives starting from Q1 2021, along with certain ecosystem products like VK Connect and VK Superapp Kit, which are being rolled out across projects inside as well as outside the Communications and Social segment. Communications and Social margin in Q1 2021 was mainly affected by a temporary loss of VAT benefit as well as the ongoing R&D related hires and investments into the VK Combo loyalty programme, music, VK mini apps, group communication and social commerce initiatives.>

Cesar Tiron, Bank of America

Thank you so much. Just one other question please, sorry about it. On the O2O JV, do you disclose, I haven't seen it, but do you disclose how much cash is left in the JV? And do you think you can help us a little bit understand what's the burn run rate on a cash flow basis on a yearly level for this year at the JV and how much cash this JV needs in your view to reach breakeven. And if it needs cash, will it be only funded by the current two shareholders in your view? Thank you.

Boris Dobrodeev, Chief Executive Officer
No. I would not comment on this topic as I think information is quite competitively sensitive. We would refrain from answering this question. Thank you.
< Additional IR comment to clarify the management answer to the above question: Question was misheard by the CEO and related answer will be provided below.

Cesar Tiron, Bank of America
Thank you.

Operator
Thank you. We are now going to move to our next question from Vladimir Bespalov from VTB Capital. Please go ahead.

Vladimir Bespalov, VTB Capital
Hello. Thank you for taking my questions. My first question will be on EdTech. When I look at the first quarter revenues and at your full-year guidance it actually implies that in the three subsequent quarters there will be no sequential growth. So, maybe you could comment a little bit why do you expect no sequential growth or maybe your guidance is pretty conservative and there is a upside. Plus, are there any options in the EdTech segment, which you can exercise and consolidate more assets in the coming quarters? This will be the first question. And the other one, I will ask it later. Thank you.

Boris Dobrodeev, Chief Executive Officer
Thank you. As for education technologies I think we want to be conservative in terms of guidance, obviously, the asset is growing at a very good pace. It's growing 3x year-on-year and indeed when we gave guidance we wanted, and we want to be conservative. It's better to under promise and over deliver. Generally, we're very optimistic how these assets are being operated and how they are positioned in the market. As of coming next quarter, I'm not sure that there will be any consolidation that will impact our financials. But, as you know, situation is pretty dynamic, and we are pretty acquisitive. And we never were shy about expressing our interest in the

EdTech sector. So, never say never. But of course, we have assets with path to control such as Uchi or SkillFactory and of course I expect that medium term we will increase our shares in these companies. And referring to the previous questions from Cesar, as far as I understand from my colleagues, again, initially not all of us heard the full question and when I was answering, I answered the question on the cash remaining at O2O. And I think there was the second question about the burn. And my colleagues will now address this question because I just didn't hear it. I think Matthew and Tatiana will address it.

Vladimir Bespalov, VTB Capital
Okay. Thank you.

Tatiana Volochkovich, Director of Investor Relations
We do anticipate that given the seasonality the level of burn of O2O will increase in the second quarter for a couple of reasons. As you recall last year, there was a peak of the pandemic in the second quarter, which allowed the ride-hailing businesses to significantly reduce all variable costs by reducing driver as well as customers subsidies. We have done the same, Citymobil had a very strong improvement in unit economics in Q2. This is reversing a bit this year. And I think you heard some comments from our peers as well on the front, the demand is coming back quite strongly. And for example, there is a little bit of a supply issue. So, we are of course investing into drivers in order to ensure high customer quality. In terms of burn rate, in absolute terms, it's likely to be higher for Citymobil for example. On the other hand, if you look at this business, and where it was in the Q1, we are extremely happy with the trend we're seeing as the burn versus GMV has declined by 15 percentage points year-on-year. The business has seen significant improvement in its economics.
Delivery Club, as we mentioned, last quarter actually saw positive unit economics already in February and we anticipate a significant reduction in the burn rate for Delivery Club for 2021. Of course, Samokat is in very active expansion phase, as Matthew mentioned. They're going to be launching in all the largest Russian features in the next couple of months. You can see in the numbers, the revenues are growing 10x, orders are growing 8x year-on-year. This will be shown in the GMV numbers and so on. So, of course the associated burn, given that they're opening a significant number of additional dark stores and hiring additional staff and so on, will increase this year. But in terms of the performance of existing dark store base, we are very happy with the performance, it is showing in terms of the timelines operational breakeven. So, in aggregate, there could be of course some increase in total burn rates

in Q2, but economics are improving and we're confident about these assets reaching breakeven and very supportive positive economics in the coming years. Thank you.

Vladimir Bespalov, VTB Capital
Thank you. May I have another question? During the previous call, you mentioned you have 3.5 million paying subscribers. Maybe could you update where do you stand now in terms of subscribers for you VK Combo loyalty program?

Boris Dobrodeev, Chief Executive Officer
So, the joint paying subscribers of Combo and Music is about 4 million.

Vladimir Bespalov, VTB Capital
Thank you very much.

Operator
We are now going to take our next question from Vyacheslav Degtyarev.

Vyacheslav Degtyarev, Goldman Sachs
Thank you very much for the call. Couple of questions. Firstly, on margins, but more on a high level. Having moved the Clips and few other projects into the New Initiatives segment, do you see certain sustainable medium-term level of margins in the Communication and Social segment?

Matthew Hammond, Chief Financial Officer
Hi. It's Matthew. Sorry, I apologize for the delay. As we've said we're all in different locations and it always difficult to coordinate everyone. We would say around the mid 40s is a sustainable level.

Vyacheslav Degtyarev, Goldman Sachs
Thank you very much. And secondly on O2O JV, there were some comments in the media around the different views on how to approach the management of the O2O JV between you and Sberbank. Have you aligned those views somehow with Sberbank? And if you can share your views, how structurally is that difficult to reasonably align the interests of the two large ecosystems without the negative consequences on the Delivery Club and Citymobil operational performance. Any thoughts there would be appreciated here. Thank you.

Boris Dobrodeev, Chief Executive Officer

Thank you very much. I will take that. We are very happy with how the assets are being developed. And I think the results speak for themselves. We're totally satisfied with O2O. As we said before, we are happy, and we plan to remain the shareholder of O2O. As for our relations with our partners, I think they were structured in the initial deal agreements and we live according to them since the inception of the JV, and we're not aware of any changes or restructurings over this period.

Vyacheslav Degtyarev, Goldman Sachs
Thank you very much.

Operator
[Operator Instructions] Our next question comes from Anna Kupriyanova, Gazprombank. Please go ahead.

Anna Kupriyanova, Gazprombank
Good afternoon. Thank you very much for the presentation. My questions will be on margin side. Given your annualized outlook for the margin improvement in terms of EBITDA; just for my understanding, I see that current margin is at the level of fourth quarter and implying a margin improvement from where should it come and in which year period? I understand the second quarter will be not as good for Games division. Does this mean second half for Games should be better and maybe you could add something on other details? And then I will ask my second question. Thank you.

Matthew Hammond, Chief Financial Officer
Thank you. It's Matthew here. The first thing to note of course is that the comps for 2021 are not in the same shape as previous years. 2020 was obviously an exceptional year. We saw huge swings and then there is a number of factors there. We are in a much more normalized environment right now. Q1 is always the low point for Games margins, and as we said we expect Games margins to increase through the year peaking in the fourth quarter as they usually do. Now, as we said, 2020 was different. It had different dynamics. Obviously in Q2 and Q4 you saw lockdowns, and we also took advantage of those lockdowns by bringing new users and also taking advantage of some of the cheap traffic. So, in terms of our margin guidance for this year. Clearly, we expect Games margins to get better through the year. Also, in the second quarter, as we just previously said, there is a mix shift. Games will -- as we just gave guidance for Games, and clearly ads' comp is very much easier, so, we would expect that the percentage of sales of ads will be much higher in Q2 this year than it was last year. If you put all of that together you will then see a margin improvement through the year.

And I would say, and we said this with the full year results about two months ago, we would expect a more normalized shape to 2021 in terms of the margin profile through the year.

Anna Kupriyanova, Gazprombank

Thank you very much for your answer. And one small question on margin as well. In EdTech, I see that your margin is below historical level. I understand it is very competitive time for this market segment. Just for my understanding, how margin of EdTech business can develop going forward? I mean midterm, maybe in 2-3 years' period what is the normal level for EBITDA margin for this segment maybe?

Boris Dobrodeev, Chief Executive Officer

I will take that. The asset is growing at a fantastic pace, 3x year-on-year, it's also showing record audience addition, record amount or courses added, hundreds of new courses launch in quarter, that's absolutely a record for this asset and maybe I assume for the Russian market as well. There were quite heavy investments into growth. And as we look at the top line, we think that these investments are fully justified. So, we fully encouraged the company to go ahead and invest this money because we think this money is well-spent. But of course, as you know this is a business with positive margins, so, going forward on a normalized level we expect this business probably to be at least 15% to 20% EBITDA margin. We could have significantly higher margin even now, there is no necessity to keep the ongoing -- for these investments to keep the ongoing business. But since we are after-market expansion, we prefer to reinvest some of the margin that we get in this business.

Anna Kupriyanova, Gazprombank

That's very clear. Thank you. And with a quick follow-up on IVAS. Given it was a technical effect in January, February, can we assume that going forward, you will get some compensation for these months in terms of VAT return?

Boris Dobrodeev, Chief Executive Officer

Sorry to interrupt. For these 500+ million we assume there is no compensation.

Anna Kupriyanova, Gazprombank

Okay, thank you.

Operator

[Operator Instructions] Our next question comes from Anna Kurbatova, Alfa Bank. Please go ahead.

Anna Kurbatova, Alfa Bank
Good afternoon and thank you very much. Also, one question on EdTech assets. We see that your largest assets like Skillbox, GeekBrains and also Uchi.ru, they are residents of Skolkovo. And it would be great if you elaborate something in terms of what benefits these companies get currently as Skolkovo residents. For how long do you expect such benefits to continue? And are there any triggers why these companies will at some point of time lose these benefits? So, in general what are advantages and maybe future disadvantages of being Skolkovo residents? Thank you.

Fedor Rubtsov, Chief Financial Officer (Russia)
Hi. It's Fedor here. I think I can take this. Basically, yes, indeed some of these companies are used to be residents of Skolkovo and obviously with size they are actually starting to lose the benefits that they got as Skolkovo residents. However, in a bigger picture, we don't think that the effect of the loss of benefits from Skolkovo will actually be material to their growth rates or their EBITDA margins. Actually, we are assuming that sooner or later all of them will actually lose those benefits. However, combined with the new benefits for IT companies, as part of the current government tax initiatives, some of these companies maybe also eligible to the positive effect of some of those. However, as I said, given the very good growth rates and the growth stage of these companies, we're considering that these effects will not be material on their revenues or EBITDA.

Anna Kurbatova, Alfa Bank
Thank you very much.

Operator
There are currently no further questions in the queue.

Tatiana Volochkovich, Director of Investor Relations
Great. Thank you all again very much for joining us today. If you have any follow-up questions, please feel free to contact the IR team at Mail.ru Group. Have a lovely day and we'll talk to you soon. Thank you. Goodbye.