Mail.ru Group

Q2 2021 RESULTS CONFERENCE CALL

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Participants:
- Boris Dobrodeev, Chief Executive Officer
- Vladimir Gabrielyan, First Deputy Chief Executive Officer
- Matthew Hammond, Managing Director and Chief Financial Officer
- Fedor Rubtsov, Chief Financial Officer (Russia)
- Vladimir Nikolsky, Chief Operating Officer
- Tatiana Volochkovich, Director of IR

Tatiana Volochkovich:
Thank you all and welcome to Mail.ru Group Second Quarter Unaudited Financial Results Conference Call. I'm joined by Boris Dobrodeev, Matthew Hammond, Fedor Rubtsov, Vladimir Gabrielyan, and Vladimir Nikolsky. In light of the still elevated number of COVID cases in Russia, as a precautionary measure aiming to support and protect our staff and their families, we're again working remotely at least until the end of August versus the hybrid working regime we started testing earlier this summer. This means that we are yet again presenting from multiple different locations, 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 to keep things manageable on our end. We will certainly take time to answer all of your follow-up questions and thank you in advance for your understanding and cooperation.

Before I pass 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 on 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:
Thank you very much. Good morning. Good afternoon. Thank you all for joining us. I'm here to make a series of comments about the major divisions and then we'll give as much time as we possibly can for Q&A and answer all of your questions.
In Q2 2021, our group is facing very different base effects across the various business lines versus last year. The results of last year's pandemic can relate to lockdowns. This meant an easy comp for advertising but much tougher comps against IVAS and education technology service revenues, which account for over 50% of the group's revenues. Notwithstanding this, we continue to expand our business at a healthy rate of 17.4% delivering nearly 30 billion in revenue in Q2 with EBITDA, 6.7 billion and a 22.2% margin, and no change to the full year 2021 guidance. I will now provide a few comments on each area and as much color as we can.

On Advertising:
- Advertising revenues grew by almost 39% YoY in Q2, exceeding RUB11bn, which marks further acceleration versus the 22% growth in Q1, with the fourth quarter of acceleration

- The best performing verticals in Q2 was services, sports and fitness, business, media, FMCG, education and work, with some of them showing triple-digit growth rates
- While the relative underperformers were telcos, games, dating, beauty, and jewelry, much of this is a function of the high Q2 2020 base effect
- Performance advertising with major driver grew by ~70% YoY vs 41% in Q1
  We continue to place major assets and the sources into the SMB advertising sub-segment, which expanded revenues by 56% YoY, but with very significant room for further growth as SMBs still account for less than a quarter of our total ad revenues, while most local businesses have active pages within our social networks
  Within advertising formats, we are highly focused on video with 84% growth of in-stream video ad revenues in Q2 vs 36% in Q1
  In terms of outlook, April marked a peak in ad revenue growth as a function of the easiest comp with growth starting to normalize in May, and we expect it to further normalize in Q3 and more so in Q4
  IDFA related changes are currently having no visible impact on our core domestic ad business. iOS accounts for less than a quarter of the domestic mobile device market, which is heavily Android driven. We also now support the SKAdNetwork which Apple allows as an alternative to IDFA to be able to track attribution. Hence, we see ourselves as well positioned and fully support the initiators which aim to protect the privacy of users on which we're highly focused on internally as well.

On IVAS:

- IVAS declined 2.3% in Q2, mainly as a function of the tough comp from Q2 2020 when revenue growth was ~17%, which was driven by elevated engagement across social games, stickers, and virtual gifts triggered by lockdowns. Music was less of a growth driver in Q2 2020 given the lower user movement activity at the time. In Q2 2021 there were no mobility restrictions with user behavior linked to seasonality, which was slightly more pronounced this year given the extended May holidays and extremely good weather conditions. Yet despite the slightly slower than expected H1 start, we continue to expect growth in IVAS for the full year 2021
- Importantly, despite a certain remaining IVAS headwind and with IVAS being almost entirely booked within Communications and Social, the core segment still significantly accelerated revenue growth to 22% growth YoY in Q2 versus 8.2% in Q1

On VK:

- VK remained the growth engine of the group with 35% total revenue growth in Q2, accelerating by 14p.p. QoQ despite certain adverse IVAS effect, with VK advertising revenue growth exceeding total VK growth
- Although VK is already reaching nearly 50% of Russian internet users every day and 75% every month, average MAU and DAU was slightly up again YoY in the Q2, which reflects our strong competitive positioning
- The VK Super App development continues with Mini App MAU up nearly 30% and approaching 40mn, with DAU up 60% YoY and exceeding 5mn. We saw a 16% increase in the number of Mini Apps QoQ to more than 34,000, and 40% YoY increase in the number of apps with MAU of more than 1,000
- Global video monthly active users reached 75mn in June with the number of daily video views exceeding 1bn and video remaining a major area of focus and investment for us
- VK mobile games catalog grew nearly 5 times YoY with 11% YoY growth in mobile games' audience in Q2. We continue to support monetization of content creators on our platform with VK Donut already being one of the largest sources of revenues for some VK communities

On games:

- MY.GAMES business managed to deliver 1% growth in Q2 exceeding RUB11bn with 18% YoY growth for 1H compared to the previous year
- Within the mix of revenues, MMO games revenues saw a 6% YoY decline in the Q2. This was expected given the high hurdle rate of 48% growth in Q2 2020, along with no new internal game

launches YTD versus 5 new game launches in H1 2020. There were also no studio acquisitions as well as the recent IDFA related changes

- However, user trends remain strong with no material change in engagement despite the improved mobility of people, which suggests the pandemic provided a structured boost to the games market. It is worth noting that the 12-month retention of the Q2 2020 cohorts was actually higher than that for Q1 2020 on both Android and iOS, and roughly the same for PC across our entire portfolio
- Average Q2, MAU was 21.4mn with 1mn in average monthly paying users and monthly ARPU up 20% to above RUB170, with MY.GAMES continued to improve monetization through promotions tailored to specific player behaviors along with active support of the portfolio through more than 30 new updates across the existing titles made in Q2
- As an example, our most recently launched game, Rush Royale, continues to do very well, with the number of installs approaching 10 million since its launch in December. The cumulative revenues approaching RUB2.5bn up 20% QoQ and MAU up 40% QoQ, with the peak DAU exceeding 500,000, with the title being one of the most successful launches in our history
- We did not complete any major studio M&A in Q2, but consolidated a couple of small yet promising IPs, namely Global City and Love Choice. These contributed less than 2% in segments' revenues as are very early stage titles, which we plan to scale inside our games ecosystem
- We continue to innovate, experiment, and search for efficient additional sources of growth with one of our recent initiatives being porting of our mobile games to web using our own international game store to boost internal synergies. War Robots, Warface, Hustle Castle, Left to Survive, Rush Royale, and Guild of Heroes have all been ported YTD and more are planned for Q3, which provides a low cost boost to revenues of these games. Incremental revenue from ported projects is small but we're already seeing successful cases like Left to Survive where web contributes over 10% of the title's overall revenue. Importantly, where web is a high-margin revenue stream as well
- The IDFA related changes are having a more pronounced impact on advertising within games, as it is a global business which is more iOS exposed. Yet, advertising accounts for around 10% of MY.GAMES' revenues and hence the impact is manageable given that we're currently not significantly exposed to casual and hyper-casual games, which monetize largely through advertising and reliant on constant user acquisition. We're currently focused on the development of new titles, and it is likely that we'll launch fewer titles this year than last year, but we have nearly 20 games in the development pipeline. This leaves significant room for profitable and efficient growth in the coming years
- Speaking about the nearest launches, these include:
    - World War 3, which is a tactical online multiplayer first person shooter developed by Farm 51 studio, where we are acting as the global publisher
    - Blast Brigade, an internally developed 2D action adventure console game where we're aiming for early access presale launch in the autumn
    - Pathfinder 2 from our partner studio Owlcat is also scheduled for rollout this autumn, where MY.GAMES is invested into the game's development and therefore benefit from royalties from the games.
- In terms of profitability, MY.GAMES' EBITDA margin in the second quarter was 24%. That's the highest level since Q4 2019, and even higher than the 21.4% margin we delivered a year ago with the COVID related traffic support. With a margin of almost 19% in the first half, we're on track to deliver year-over-year improvement in profitability in 2021 with the likely peak margins for the years we've seen in the fourth quarter, along with further organic growth.

On Online education:

- Online education nearly doubled in revenues in the second quarter despite the 3.6x YoY growth in Q2 2020. We're encouraged by the trends we're seeing as the pace of slowdown is more moderate versus our initial expectations with a cumulative number of registered students on the two platforms nearly doubling year-over-year and approaching 1mn in June

- Monetization and conversion of registered users into payers also continues with the cumulative number of paying students at ~240,000, up 2.3x YoY, including more than 30,000 new paying students added in Q2
- Given the supportive sector backdrop, we decided to invest in further strengthening our leadership on the professional education market by new vertical experiments, active product launches, hiring, and marketing this year, and hence the deterioration in the margin in Q2. It's also impacted by some taxation regime changes, as well as typical marketing seasonality, and no COVID enhanced organic traffic as we saw in the second quarter of last year. The business will therefore remain in investment phase for the year, albeit with margin improvement in H2 versus H1. We also now see the segment exceeding RUB9bn in revenues for the year versus the previous guidance that we gave of up to RUB9bn of revenue.

On New initiatives:

- **Youla:** Growth was around 64% in Q2 versus 15% in Q1. We know the Youla was the only local classified platform which continued to grow through the pandemic last year with 25% growth in Q2 2020Integration with VK via VK Classifieds is showing positive initial traction, including as a tool driving Youla audience growth up 15% YoY in June. We also see a positive trend in the contributions for VK Classifieds in terms of listings, contracts and transactions. Integration provides additional liquidity for sellers on Youla, which supports its overall monetization. More than 55,000 VK groups have been integrated into VK Classifieds, but there is room for hundreds of thousands of more, and we see these integrations coming by VK. Despite the encouraging trends we're seeing, at this stage we reiterate the RUB3.6 to 3.9bn top-line guidance for 2021 for Youla, as our major focus remains on audience growth and liquidity coming from our social integrations as a tool for long term growth and creation of a major competitive advantage for Youla vs peers. We would say that 2021 however, is likely to be the last year of investment in Youla, and after that it will be self-funding.
- **VK Clips:** VK Clips continues to see very good growth with daily active users up 2.5x YoY to 20mn in June, and the average video of views per day, up 3x YoY to 300mn in Q2. Time spent for user in Clips grew by 36% YTD, with the number of users spending 10+ minutes per day on Clips rising by almost a quarter.
- Our **recommendation platforms** also continued to scale with 30%+ YoY growth to 55mn in the average number of people using both Pulse and Relapse in Q2. This then drives a 2.5x YoY growth in revenues supported by continued technological and product enhancements. Growth and time spent is amongst the key KPIs for Pulse for 2021 and is up more than 30% YoY in the Q2
- **Marusia** usage continues to rise, with MAU exceeding 5mn in June, up 10x YoY driven by its integration with VK. Given the progress made across the various new initiative segments, we saw more than 50% YoY growth in revenue, while importantly, also reducing the level of EBITDA burn from 45% in Q2 2020 to 37% today.

On Ecosystem development:

- We continue to drive cross-asset integrations to boost efficiency as a group to driving not only increased usage on monetization, but also aiming to boost retention and reduce customer acquisition costs
- **VK Connect** is now rolled out across 24 services, having most recently been scaled to MY.GAMES, myTarget, Samokat, Citydrive, and Tetrika. As a result, VK Connect has exceeded 40mn in registrations outside VK in June. This is up more than 20x what we had in June 2020 and up 40% QoQ
- We're further integrating our media services with AliExpress to promote eCommerce. Additionally, the first referral program was launched in OK on the basis of AER where social commerce users can benefit from extra discounts by broadening reach to the various AER products. Any group in VK now has the opportunity to create its own classified service integrated with VK Classifieds and with Youla
- These are just a few of the multiple examples of what we've been actively doing, and we're still very early in the process. And hence, it's probably still too early to talk about the broader group

level effects but we're already seeing that a number of services used by an average group user is rising. There's some encouraging data points including the ARPU of VK Connect users being higher than of non-users with increased conversions in service registrations. We will continue to monitor and update the market on further progress in this area but we clearly see significant potential.

On Margins and guidance:

- EBITDA margin declined YoY in Q2, but with a YoY improvement across two out of the four segments, Games and New Initiatives, and with improvements showing for the Group on a QoQ basis
- Going into specifics, C&S margin declined from 48% to 41% in Q2, given the mix shift from certain pressure on the very high margin IVAS revenue stream. Obviously, Q2 2020 saw a disproportionately high amount of high margin IVAS, and hence that needs to be taken into account. This should be less pronounced in 2H. Notwithstanding that, we continue to invest into new products like social commerce, video, messenger, music, and we are not yet forcing active monetization of these, with a focus more on the user experience and rising engagement. Hence, we do not currently project YoY margin improvements to this C&S segment in 2021, but with margin improvement QoQ expected in the Q3
- **Online Education** will see margin deterioration YoY given the ongoing investments into scaling and diversifying the business, but with margin improvements in the second half of this year
- **Games** are well set to deliver margin improvements in 2021 along with New Initiatives where **Youla** is moving towards breakeven, which should be potentially visible even in the fourth quarter of this year with 2022 expected to be the first full profitable year for Youla
- Overall, we reiterate our guidance to deliver a certain margin improvement for the group along with revenues in the range of RUB127-130bn for the overall Group

Finally, **joint ventures**. O2O and AliExpress Russian joint ventures are not part of the consolidated scope of the group, but given their materiality, ongoing investment levels, and impact on our bottom line, we need to provide some additional highlights around both.

On O2O:

- The O2O JV reached RUB45bn in GMV, up 75% YoY in Q2. Despite the rising scope, early stage of development to certain assets, supply issues, and extra COVID related cost, FCF burn as percentage of GMV stayed largely flat QoQ at 25% in Q2 versus 23% in Q1
- Delivery Club expanded revenues by 40%+ to RUB3.6bn rubles with 30% growth in orders YoY to ~21mn, with also high teens QoQ growth. Using Q2 2019 as a more normalized space, Delivery Club has nearly quadrupled orders and grew revenues 4.2x since that date. Frequency is steadily going up, rising to ~4.3 orders per active user in Q2. Importantly, Q2 frequency was 16% higher than during Q2 2020 at the peak of the pandemic. The number of active users continues to go up approaching 5 mn in Q2, up 14% YoY with over 300,000 new users joining our platform every month. Grocery continues to grow in importance, both as the customer acquisition and retention tool, and with 13% of Q2 orders of Delivery Club being non-restaurant orders. The level of FCF burn Delivery Club was marginally up from 9 to 10% of GMV with e-grocery at 1P being the main drivers of this. Despite the ongoing investments, burn rates should be declining on a year-over-year basis in 2021
- **Samokat** grew revenues by ~4x YoY to 8 n in Q2, with 15.6mn in completed orders, up 4.3x YoY. Dark store base has more than tripled approaching 700, which makes Samokat into one of the largest dark store operators globally. Samokat plans to enter more new cities in 2H. Despite the aggressive regional expansion in Q2, Samokat FCF burn versus GMV has been declining since the formation of the O2O JV, excluding the extraordinary Q2 2020. We should also see peak in the absolute level of burn in 2021
- **Citymobil** completed 50mn rides in Q2, with GMV doubling YoY to RUB15.4bn, and revenue more than doubling YoY, stimulated by the increase in the take rate. Platform saw a particularly fast growth across premium segments and B2B. The burn rates increased QoQ given the ongoing supply constraints, which was slightly worsened by the rollout of DiDi and hence, higher

competition. However, the level of FCF burn versus GMV is largely stable in recent quarters. Looking ahead Citymobil is so focused on further growth, including B2B, premium, and logistics areas, along with improvements in unit economics

- Speaking of overall O2O economics, the absolute level of burn did rise QoQ driven by the active rollouts of Samokat, as well as rising competition and elevated driver subsidies in ride hailing. But we know that the burn is likely to reach a peak level in Q2 2021, and we expect a gradual qQoQ improvement in 2H of this year and ongoing

On AER:

- AER continues to grow at a rapid pace, including triple-digit YoY growth for the local marketplaces with nearly 5X growth in the number of marketplace orders as AER diversifies its SPU base and its product categories. The plan remains to nearly equate local GMV with that of cross-border by the end of the current financial year of AER, which means acceleration in GMV growth for the business as a whole, including multiple times growth for the domestic business this financial year, and they remain on track towards that goal. Amongst the operational focused areas, the company is extremely focused on improving its supply chain and fulfillment offer.

Overall, we're committed to support our major JVs with planned total capital allocation of above RUB20 bn rubles from the group in 2021, including RUB9.3bn in loans provided to O2O JV in H1, which are expected to be converted into share capital of the company.

That concludes my comments. With that, I thank you. We turn to Q&A, and I would reiterate that we would ask you to ask one question at a time as it simply makes it more manageable for us from a logistics perspective. Thank you.

Moderator:
Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We can go ahead and take our first question from Miriam Adisa with Morgan Stanley. Please go ahead.

Miriam Adisa:
Great. Thanks, everyone. My first question just on the gaming margin, I think Matthew said we should expect peak margins in Q4. So I just wanted to get a bit more color on the magnitude of that margin improvement versus the second quarter. Should we look at the fourth quarter in 2019 as a reference point to where margins could get to? And then also, sort of link to that, I know your previous guidance for EBITDA in 2022 for gaming was for that to double versus 2019 levels and sounds like you're on track or to exceed that target. Would you say that guidance is now quite conservative? Thank you.

Matthew Hammond:
Miriam, yes. Firstly, thanks for the question. Yes, look, clearly the shape of 2020 is not a good comparison for anything, and even 2019 had some slightly unusual features too. So I would say if you're looking for a good comparison in terms of the shape of the year from the margin and revenue profile, 2018 is probably a good comparison. As far as guidance goes, I think that the guidance remains realistic, doable, but I don't think it's overly conservative. I think it should be regarded as the most likely outcome.
< Additional IR comment: previous guidance for Games segment EBITDA in 2022 was that it will double versus 2018 level, not 2019 level and is therefore expected to reach RUB10bn in 2022. Please check for reference: https://corp.mail.ru/en/investors/ir_blog/10742/ >

Miriam Adisa:
Great, thank you. And then my second question is just on the associate losses, specifically just AliExpress. Just what are your latest thoughts around the pace of investment that AliExpress is making and when that may need to step up further, particularly just in light of how much some of your peers are investing there?

Boris Dobrodeev:

Yes, I can probably answer that question broadly. So as you know, AliExpress traditionally comes out of cross-border business, which is more asset light model. So in the middle of last year, the team did very good job in transferring its business model towards local commerce, which of course, requires more investments into the business, into logistics, infrastructure, and operations. And the company plans to continue to ramp up investments. And we obviously support the company as it shows very good results. So for example, its local marketplace orders, they grew multiple times year-on-year in first quarter. So they already show a respectable market share in the first quarter, so we plan to continue to support the team and their efforts. Thank you.

Miriam Adisa:
Great, thank you.

Moderator:
All right. We can go ahead and take our next question from Cesar Tiron with Bank of America. Please go ahead.

Cesar Tiron:
Hi, good afternoon, everyone. Thanks for the call and the opportunity to ask questions. I have three questions, so I'll ask them one by one if that's okay. So the first one would really be on the games segment. Do you expect to significantly accelerate the game launches in H2 this year?

Boris Dobrodeev:
Yeah, I will take it, Cesar. Thank you for this question. As we take a prudent approach towards the gaming, and gaming became quite a marketing led business to an extent. So we always look at the marketing condition. So for us, the gaming launch is both a function of the readiness and our conviction that the game is good, and the second is the condition in the market and our ability to buy enough traffic at a good price. So we think that, last year for example, during the COVID times where the environment for marketing of the games was very good, so the options were pretty light for the gaming. So now looking at the rebound in the market, we think it's not a very good time to launch new titles since the competitive landscape in gaming marketing is quite tight. So it would probably be opportunistic. Things are pretty dynamic, but I don't think we have plans to launch and aggressively market something in Q3 and Q4 this year unless things change, unless the environment change. So we're more looking at like probably start of next year.

But at the same time, we have a very high quality portfolio of about 20 games in development. So as soon as we see the environment is good for the launch, then we'll launch it. Right? So usually we make our decisions depending on business, but not on like season or calendar months or something like that. But it looks like it will be more start of next year when we start to aggressively roll out new titles.

Moderator:
We can go ahead and... Go ahead.

Boris Dobrodeev:
I think it's also important, sorry, Caesar, just to add for that, it's nothing related. I mean, it is nothing related to competition or IDFA. I mean, we don't see any significant effects of IDFA on our gaming business. So it's mostly due to the elevation and the cost of marketing which generally happens in the market systematically with the market rebounding.

Moderator:
All right. And again, that is star one to ask a question. If you find your question has been answered, you may remove yourself from the queue by pressing star two. We'll go ahead and take our next question from Vladimir Bespalov with VTB Capital. Please go ahead.

Vladimir Bespalov:
Hello. Thank you for taking my question. I would like first to follow up on the margins. If we take your guidance, the margin, EBITDA margin in the second half of the year should be somewhere close to 30%

based on what I calculate. We saw margins like this back in 2019, and there was a decline, and there is also a change of the revenue mix now with the share of Communication and Social declining, and the margin and Communication and Social declining as well. So what makes you confident that you can be back to this 30% EBITDA margin in the second half of the year? There were some comments from Matthew, but maybe you could also provide some color. Where do you think Communication and Social could enter in terms of margins because there has been a decline trend for several quarters? Thank you.

Boris Dobrodeev:
Yeah, I will probably start to answer this question. I thank you, Vladimir, for this question. So generally looking at the Q1 *<IR comment: he meant to sayQ2, not Q1>* margin profile, I think it was a little bit of a perfect storm for two lines of our business, for Social and Education.

So I think that in Social, there are three reasons for declining margins. So the first one would be pretty high based in IVAS. And I'm talking about the high margin IVAS, which is not a music type of IVAS but like gifts and the gaming type of IVAS in social networks. So they originally were very high during the COVID period when people stayed at home and entertained a lot. Hopefully also indicated through this IVAS as well. And they spend a lot on this high margin IVAS. When people went out of homes and the quarantine ended, people started to use this IVAS less and hence, we have a negative base effect for IVAS, and I think this is one of the aspects that keep the margins.

We lost YoY in terms of YoY comparison and a very high-margin revenue component. So here I mean going forward frankly, I think this part of IVAS will be compensated by the music IVAS because music actually wins from the rebound as people spend more time in mobility and commuting, and therefore listen to more music and consume more music services. But as you know, music is low margin, so this one would not compensate to a big extent, a very big part.

But at the same time, I think that there are two important aspects. So this means that are more temporary and make us pretty comfortable in terms of Social margin improvement. So one is generally what happened is we still have a hiring overhang from last year. I mean, generally most of the hiring happened last year, but we still see the effect on the costs this year, so we see definitely the effect of this hiring waning in the near quarters, in the coming quarters. So we're seeing that this cost effect is temporary and it will improve.

Generally, the second effect is also one-off, we had some... In H1 we had some, and Q2 especially, we had some marketing investments in some of our new products inside of Social, which are more of a one-off. Again, they mostly would not repeat in the second part of the year but they were also affecting the Social margin. So we think out of the three factors, two are temporary, and we're pretty confident that like all the coming quarters we'll see sequential improvement in Social margin.

So this is in terms of Social. I think in terms of Gaming, Matthew already made his comment. So in terms of other initiatives, we generally see improvement even in current results, and as Matthew said in the letter, for example, such a big originally cost contributor as Youla is seeing good progress in movement to break even. So we're pretty sure that 2022, we will see Youla breaking even.
And the fourth aspect is education. So education also saw a little bit of a miss on EBITDA, which also happens to be part of business seasonality even though this, you know, COVID times. So I generally have two major effects. One effect is that the team can vary, and I think a fully justified aggressive investment into content. So it was record-breaking quarter for the launch of new courses. 1,000 courses were launched. And we think that these launches paved grounds for revenue upgrades.

Matthew Hammond:
Apologies. It looks like we just lost Boris. I'm sure he'll be dialing right back in. Could you, sorry, just bear with us for a couple of minutes? The joys of remote working from different countries.

Fedor Rubtsov:
Yeah, I guess I can just finish Boris's thought on EdTech. So it's Fedor here. So when Boris-

Boris Dobrodeev:
Yeah, I'm coming back. Sorry, sorry. I'm really sorry. Sorry. Yeah, problems of the remote work. So I'm coming back on Education. So the Education made very big investments into content. They launched more than 1,000 courses. And we see that is paving a way for increased revenue for this year. So we think that the 9 billion revenue which we guided for this year now looks conservative view on this investments. So we just see a lagging effect from this investment.

And there is a second factor, which is well, we have a COVID comparison. So last year, it was actually a story which is quite similar to gaming. We have very low customer acquisition cost. So this year we saw kind of increase in customer acquisition costs. So given probably seasonally highest investment into content and increase in CAC, we saw this perfect storm for margins.

And finally, there is a third aspect, which is a transfer of our education business from... Like as they gain more scale they exit more like tax regime into more usual business tax regime. And we also added this to the, so add it to some like a drag on the financial. So generally, we aim to have a positive margin, at least in the fourth quarter for education business, and we're very happy and bullish with the way this business goes further. So I gave you a broad picture of what gives us comfort in margin expansion going forward.

Vladimir Bespalov:
Thank you very much. Very helpful. And can I ask one more question on education technology? I see that the revenue growth is slower than the number of paying students in your EdTech segment. Could you maybe give more color on what's going on there? Do you have to provide price discounts? Or maybe the product mix is changing? What is going on from this perspective?

Boris Dobrodeev:
No. I mean generally, we don't have any trends changing. It is just effect of quite a high base. Last second quarter we saw very high growth, so again, we're entering higher base here. This is number one. And number two, the growth, of course, the growth is very correlative with revenue, but also everything has lagging effect because given that it is very high check business, it's not like an IVAS where you pay, or it's not expected where if I pay several hundred rubles for a treat. It's generally a course that can be worth thousands of dollars. So usually, the decision-making cycle is longer than in other businesses. So it is like some kind of... There is a general of course correlation but on short term, this correlation is absolutely fine. And generally, the growth in students underpins the strong demand for digital education in Russia.

Vladimir Bespalov:
Thank you very much.

Boris Dobrodeev:
Thank you.

Moderator:
All right, we'll go ahead and take our next question from Slava Degtyarev with Goldman Sachs. Please go ahead.

Slava Degtyarev:
Thanks very much for the call. My first question would be, you mentioned some of the key development areas are video, including Clips, also VK Combo, VK Connect, VK Pay, as well as the Mini Apps and the social commerce. How would you characterize at which investment stage of the cycle are those projects which are at the early stage of the investment cycle and you're looking to accelerate investments in the medium term? And where do you think the investment cycle is largely over? And also maybe are there any major product areas you're looking to deploy more capital or incremental capital in the second half of the year?

Boris Dobrodeev:

Thank you, right, for the question. Can you please... I didn't very well hear all the services that you mentioned. Can you please again repeat those services you are referring to so I could better address your question?

Slava Degtyarev:
Yeah, sure. So specifically, you highlight them in the press release your key development areas, which are videos, including Clips, also VK Combo, VK Connect, VK Pay, Mini Apps and the social commerce.

Boris Dobrodeev:
Thank you. Thank you very much. I think in terms of video, we are... There's certain things in innovation. Of course, investments always continue, but we think that video is already quite a mature product. We're starting to see a very good return on investment into this direction via increased growth in video advertisement. So we think that here in terms of monetization, the model is getting quite mature. We think that in terms of investment cycle, in terms of the size of the team, we're definitely through the peak, so we anticipate some launches going forward. But generally, we think that 2022 in terms of video should be more of a year of return and no incremental investments.

So in terms of VK Connect, I think it's mostly the same. So we already have 40 million people outside of VK using VK Connect. And we already see that together with Combo and other ecosystem products paving a very good way for increased synergy and overall increase of, well, group products for a user, which increases ARPU.. And after this year, we don't anticipate any incremental increase in investments into this product line. So generally, we have a team that would continue to probably more or less within the current size to upgrade the product without any significant expansion.

So we think that social commerce, it is more early stage. Despite very good progress in terms of the audience, we're still experimenting with the business model. But at the same time, the investments into this... I mean, we operate with not a very big team, so investments into this area should not be very, very big. So Mini Apps do very well. There are, well, close to 40 million, like 38 million monthly active users of Mini Apps. And they actually already profitable within the new initiatives. And VK Combo, it has around, I think, 4 million combined users of VK Combo and VK Music and we already see quite good efficiency of combining Combo and music, with both increase the conversion and the retention of the music service. So generally, all in all, I think we are, I think... 2001 *<IR comment: 2021, not 2001>* should be like the year of finalizing investments into this area. And we think that literally in 2021, and for sure in 2022, you would not see any incremental increase of this investments and you would trust it starts to skew towards seeing a return on these investments.

Slava Degtyarev:
Thanks very much. And the second question would be on Samokat. Basically, how do you view the addressable market of Samokat service? What kind of population operation, maybe a number of cities, are you looking to have in the medium term? And do you envisage different unit economics in large cities versus the smaller ones? And maybe a few words on the international ambitions of Samokat as well. Thank you.

Boris Dobrodeev:
So look, I think that in terms of the addressable market, I think that the teams have done a phenomenal job in scaling Samokat outside of, well, Moscow and St. Petersburg, outside of the two big cities. And actually, from what we see now, we do not see any big difference in terms of the unit economics in the new cities and the older cities. And we are already in about and Samokat is already in about 20 cities, so guys are doing really phenomenal job. So we think that that makes us quite confident in the future of Samokat business, so we strongly believe in it. And we think that generally, the total addressable market is literally almost the entire retail market in Russia if you look 5 to 10 years ahead from now, so we don't see any big impediments for them going forward. It will be, of course, a question of continuous solid execution, but the current data makes us very, very positive. So we think that the dark store model and the fast commerce model, it is probably the disruptor in this market.
So in terms of international ambitions, as you know, Samokat is limited to Russia, and our current ambitions, at least current ambitions which are outlined in O2O strategy, are limited to Russian market,

and we are committed to invest to be the leader in the market and to sustain the leadership in Russian market.

Slava Degtyarev:
Thank you very much.

Boris Dobrodeev:
Thank you.

Moderator:
Okay, and now we will take the remaining question from Cesar Tiron. Please go ahead, Cesar.

Cesar Tiron:
Hi, again. I have one more question. I think Matthew touched on it, but just wanted to understand better if there's been more cash contribution or more loans to the JV in the past quarter, and whether you intend to make additional contributions to the JV in terms of capital this year, or if you do intend to lend more money to the JV this year? Thank you so much.

Boris Dobrodeev:
Thank you very much. So maybe I will give you a more total number. So I think this year, we plan to invest around 22 billion rubles in AliExpress Russian and O2O. Probably we would not disclose the sum by the separate entity and timing, but this is our appetite to invest this year. So we're very excited about both of the assets, about both the growth of these assets , which is also reflected in third-party independent valuations, valuations of different analysts and investment banks. So we generally plan to continue to support these assets. So again, the number for this year should be around 22 billion rubles. I think this is how it looks.
I think going forward that, on one hand, in this market situation is usually pretty dynamic, so it is very hard to make a long-term forecast for any of the business or all the business altogether. But at the same time, given our commitment to fund these businesses going forward, and again, ourselves being very, very bullish on them, it looks like at this point, that this year looks like a big investment year of our contribution to them. It doesn't mean that next year we wouldn't make significant contributions, but I mean, if you look at the total numbers, currently, in my opinion, this year it looks like next year we would see decline in our commitments into these JVs.

Cesar Tiron:
Thank you so much. I just want to clarify, is it 22 billion contribution from, additional contribution from now, which you haven't yet made for this year?

Boris Dobrodeev:
No. It's total Mail contribution to O2O and AliExpress Russia this year. So AliExpress Russia contribution hasn't been done yet this year. And generally, we have already contributed 9.3 billion into O2O this year already, so you can calculate the rest.

Cesar Tiron:
Great. Thank you so much. That was very helpful.

Boris Dobrodeev:
So just to be clear, the total number for 2021 is around 22 billion for AliExpress Russian and O2O, with 9.3 billion out of them already been made.

Cesar Tiron:
That was very clear. Thank you so much again.

Boris Dobrodeev:
Thank you.

Moderator:
All right. We'll take our next question from Ildar Davletshin with Wood & Company. Please go ahead.

Ildar Davletshin:
Thank you. So I had two questions. Main question is on the Game segment. So it was quite encouraging to see a very strong performance in the second quarter despite no new launches and lower investment into marketing. I'm curious if you've noticed perhaps any changes in player behavior so that perhaps there is less attrition or higher retention rate among existing players or maybe high engagement, so players spend more time or spend more money on your games playing? And related to that, when you say that second-half margins in the game business should continue to improve, do you also assume a significant decline in revenues because without new launches, without new investments, and consumer behavior hasn't changed dramatically, it may be that you just will lose quite substantial amount of top line and maybe margin will be higher, but in absolute terms, your EBITDA may be even lower X? So I would be grateful if you could provide some color on this. Thank you.

Boris Dobrodeev:
So now, I will answer the first part of the question and Matthew and Tatiana can address the second question. So generally, we looked at the cohorts, at the retention rate, and in general, if you look at the gaming cohorts, I mean, of course, there is some variance of different cohorts month by month, but in general, we do not see any big divergence in the cohorts. We think that all the previously acquired cohorts look quite good and quite healthy. So there is no divergence or radical changes in behavior, and there is nothing wrong with the cohorts previously acquired. So as we said before, the only big radical difference is... And there is no abnormal cooldown. Everything according to usual seasonality. People continue to love playing games. So the only difference we see, and I just reiterate what we said before, is not in the existing cohort. It's just different in the face of user acquisitions as LTV remains quite healthy but the CAC, customer acquisition costs, goes up, we proportionally decrease the spending. This is the only thing that changes, and Matthew and Tatiana will guide you on the second question.

Tatiana Volochkovich:
If I might comment, I believe you asked about margin potential for Games. Right? So as we said reiterating our plan for this year, our games are extremely well positioned to deliver a year-on-year improvement in 2021. We're firmly on track to deliver this goal. Clearly how margins will shape up between quarters will depend on launch of them, therefore our marketing activity, as Matthew mentioned in his first speech, there are a couple of titles which could be coming to market. So we recommend the audience to track timing of this launches because of course, this could impact margins between different quarters. But for this year, fourth quarter of the year should again, like back in 2018, should mark peak margin for the year.
And in terms of longer-term guidance, again as we mentioned previously, we target low to mid 20s margin for our games business. We of course track all our peers and we think that these are best-in-class margin for scale businesses that focused on mobile games with a healthy franchise portfolio. So we see ourselves benchmarked to these global mobile games leaders. We will deliver low to mid 20s margins for our games business in the coming years.

Ildar Davletshin:
All right, thank you.

Moderator:
All right. We'll take our next question from Sebastian Patulea with Jefferies. Please go ahead.

Sebastian Patulea:
Hello, and thank you for the presentation. Can you please develop more on the competitive pressure in the eCommerce segment and in which areas you're starting to see that competitive pressure, if any? Is it customer acquisition? Is it logistics, logistics employees? Is it engineers? You tell me please. Sberbank is guiding to invest four-and-a-half billion dollars in the next three years in their non-banking business with a significant part of that going into logistics. Ozon raised almost $2 billion from their IPO and bond sale. Yandex invested 650 million to grow their eCommerce business, while Wildberries, the local market

leader, exists as well, but it's less focused on Russia now and more focused on the international expansion. So I'll be really interested in that, and I also have a follow-up questions.

Boris Dobrodeev:
Thank you very much. So generally, we are very much used to. We're one of the, I think, pioneers in both operations and in the investments in the different eCommerce market and broad eCommerce marketplace market, so there is nothing new to us going on. Frankly, I don't see any radical change in the picture different from last couple of years because again, we are used to operating in currently like competitive heated and in some areas, also global space. So you know in the market that there is permanent competition for IT talent, there is permanent competition for, say couriers.
Of course, there is a huge competition in terms of the quality of tech. Of course, there is competition in terms of marketing and mind share, and of course, there is competition for the end customers. So, no, there is nothing new. AliExpress Russia aims to hold 20% of the market when it reaches scale in 2025. So, we continue to run for top position in the market as it consolidates. We are one of the biggest players in terms of GMV and I think we're probably the biggest player in terms of the customer base, which makes us quite optimistic. And as I said before, whenever the asset requires, we are ready along with other shareholders to fund the business and its expansion. And already it has proven its ability to almost from scratch to start a new line of local business, and we're very happy with the way the business operates.

Sebastian Patulea:
Thank you very much. I was more trying to gauge with all of these investments happening in a short amount of time if you're starting to see any radical price inflation for customers, to be for customers or for logistical employees or for engineers, if you're having trouble to get some of those logistical employees or engineers or if it can be done.

Boris Dobrodeev:
No trouble. No trouble at all. No, again, no trouble at all. Mail is on this market for more than 20 years, and we are actively in Mail investing into eCommerce since probably 2015, 2016 into eCommerce businesses starting with Youla, then with Delivery Cloud, Citymobil, AliExpress Russia, Pandao, Samokat, we have a lot of experience in this market. We're thinking very, very long term. And there is nothing radical and nothing new that is going on in the market, so all these aspects have been there forever in the market. And as we look at our efforts, and here namely AliExpress Russia, there is nothing which is a showstopper for AliExpress Russia development. So we think we have a very highly qualified team. So just to give you an example, last year, management managed to hire 500 new local employees for AliExpress Russia, a lot of new talent, ramp up a huge local business. So I think this is a testament of the company and management being very capable to compete in such an environment.

And also in terms of marketing, of course, we have, I would say, a double-edged competitive advantage, because, again, AliExpress Russia traditionally, from its cross-border business has probably the biggest eCommerce transacting user base in Russia, and on the other hand, we have a cooperation with Mail where we do a lot of exercises on social commerce. So 27 million transacting users in AliExpress Russia and 92% of Russian internet located in Mail.ru. I mean, you're talking about CAC difficulties when it should not be such a big problem for such an asset. Maybe other companies without the link to such strategic parent can indeed have trouble, but not AliExpress Russia. And you also shouldn't forget that it helped MegaFon as leading several, second biggest telco operator as one of its parents. And also, it has RDIF, one of the biggest sovereign wealth fund, Russia's foreign wealth fund as one of its parents, and also Alibaba, one of the world's biggest eCommerce players with half a trillion market cap. So I don't think we are scared and I don't think we should look scared too.

Sebastian Patulea:
Thank you very much. That's very clear. And regarding my follow-up, please. From the outside, it's starting to look like a bit like a busy sector. If you were to pick one operator which won't be in the market five to seven years down the line, which one would it be and why is that, please? Thanks very much.

Boris Dobrodeev:

Sorry. You're talking about eCommerce, right?

Sebastian Patulea:
Yes.

Boris Dobrodeev:
So if we were five to seven years... I think we started, so the only change that would be if we had an ability to... Well, not an ability. If we made up our mind earlier, we would have done the same, but maybe a couple of years earlier. So we are focused on ourselves, we are focused on our assets that we have chosen, and we think we've chosen the best assets possible, and we are focused to how to deal with that. So the only thing we would have done probably it would have been great if we could have started earlier, but we started when we started and we have very good and solid market positions, and generally we try to think not about the past, but the future. But looking at the past, I think it's also very good.

Sebastian Patulea:
Thank you very much.

Moderator:
All right. And we'll take our next question from Anna Kurbatova with Alfa Bank. Please go ahead.

Anna Kurbatova:
Good afternoon. Thank you very much. Well, the first thing is the short follow-up on your contribution to JVs. Should we understand the point that your 22 billion rubles, total contribution this year, it will be only proportionally you will invest in the past years along with your partners? So we should calculate proportional, on the proportional basis, the total amount of investments into those assets, right?

Boris Dobrodeev:
Yes, it is proportion. It's just the proportion faced by Mail is right around 22 billion, but you should bear in mind that part of it goes to AliExpress Russia, will go to AliExpress Russia, and part of it will go and already went to O2O. So we cannot disclose any more detail, but hope it helps.

Anna Kurbatova:
Yes, sure. Just to understand that the entire, more or less entire amount of investments into this joint ventures. Thank you. And my main question is, again, with regards to games. It looks like this year, MY.GAMES is less active in terms of acquisition of new studios compared to the previous two years, maybe. So maybe you could make some comment of why is that, because of marketing or market conditions, maybe after the COVID, like peak in the games' activity, assets are more expensive or you are happy with the current portfolio? And just a follow-up, would you reiterate your earlier guidance or ambition to grow into top 25 global games developers in the medium term? Thank you.

Boris Dobrodeev:
Yeah, thank you. Thank you very much for your question. So on number two, clearly, yes, and there is no change. On number one, I don't think that there is any change in strategy or approach. I think that there are two factors. One factor is that we're already invested in so many studios. So recently, we were discussing it internally. So we have 45 studios in our ecosystem. I mean, either controlled or where we are invested. So we are not buying for the sake of buying. So we're buying for the sake of operating, controlling, and getting high quality games and pipeline out.

So we will continue to do so. But we think that we already have huge [inaudible 01:11:16] to operate. So we are not in maybe some like, some other players in the market, we are not in a rush to do something. We always take prudent approach. We don't want to buy one dollar for two. So therefore, we take the prudent approach, so when we see good studio and good deals, we do it, but otherwise, we do not see anything mission critical for us in not doing any acquisitions in the next couple of months. That wouldn't affect our business profile, our ability to enter top 25 game studios in the next couple of years. So there is nothing mission critical about that.

However, if you look at the market, definitely it is a little bit overheated. And I think if you are a new entrant into this market, it is indeed not a good time because I think most likely, you end up having either no deal or overpaying seriously. So with the company, we always take business-oriented approach, and we will definitely prefer not to overpay for a studio. Because, again, we have 45 studios in our ecosystem and this capacity is enough to build a worldwide leader in games.

Anna Kurbatova:
Thank you very much. Very clear. Thanks.

Moderator:
We'll take our next question from Vladimir Bespalov with VTB Capital. Go ahead.

Vladimir Bespalov:
Thank you very much for taking my follow-up questions. I have two small questions. First, you're porting some of your mobile titles to PC. Could you share some experience how this works from the user perspective and in terms of revenue contribution margins, and could it be a big driver for the game segment? And the second one also on the games. When I look at the numbers of paying users, this have been quite stable over the past several quarters with some fluctuations. So basically, the revenue growth is driven mostly by the growing average revenue per user, which is also partly impacted by facts given that you have a lot of international exposure. In your strategy, do you think this would be possible to grow the number of paying users going forward, and what are the key drivers for revenues in the future for you? Thank you.

Matthew Hammond:
Hi, it's Matthew. I'll do this one. I think it's very important that you need to keep things in perspective. While the porting over definitely does have some not only advantages, but opportunities for us, the absolute numbers are still relatively small. That said, incremental revenue from porting projects in June grew 7X versus January. So we are actually seeing an impact. Obviously, the margin is better because you're not paying away commissions to the source. And that is the primary difference.
And in terms of user behavior, the physical porting process over is not particularly difficult. That's just about some of the base code and making sure that it works with the relevant engines, especially graphics engines. So this is not a difficult thing. So Left to Survive, now 10% of revenue is coming from having been ported over to web. I think that we expect that a number of titles can make a decent contribution to this. Is it the primary driver of games growth looking into the next six, 12 months? No, that obviously has to be new titles higher up and more users, but this definitely is a supporting factor.

Boris Dobrodeev:
Thank you very much, Matthew. And as for the second question, I think, look, there is no special strategy behind either growing via ARPU or penetration of paying users or increase in the general users where I think we're still very small and the market is very big in terms of gaming, and we have enormous room to grow we think in all the three. So now given that the customer acquisition cost is high, we are more focused on the quality rather than quantity metrics. But again, with new launches or new opportunities and pocket of new opportunities in the market, the quantity part of the game business will also increase. But there is nothing strategic here. Probably it's all more tactic part.
Matthew Hammond:
Thank you very much.

Vladimir Bespalov:
Thank you.

Moderator:
All right. It appears there are no further questions at this time. Mr. Hammond, I'd like to turn the conference back to you for any additional or closing remarks.

Matthew Hammond:

Well, thank you all very much for joining us. We look forward to speaking to you all again after the Q3 results. And in the meantime, if you have additional follow-ups or questions, you know where you can find myself, Tatiana, or the team, and we are always available to you. With that, I would say good morning or good afternoon depending on your location. Thank you very much.