

# Mail.ru Group

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

**Company:** Mail.ru Group

**Date:** 04.03.2021

**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

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**Operator**

Ladies and gentlemen, welcome to Mail.ru Group conference call on the Fourth Quarter and 12 Months of 2020 Financial Results. Throughout today's recorded presentation all participants will be in listen-only mode. After the presentation there will be an opportunity to ask questions. I will now pass it on to Tatiana for opening remarks.

**Tatiana Volochkovich, Director of Investor Relations**

Thank you, all, and welcome to Mail.ru Group's Fourth Quarter and Full Year 2020 Audited Financial Results conference call. I'm joined by Boris Dobrodeev, Matthew Hammond, Fedor Rubtsov, Vladimir Gabrielyan, and Vladimir Nikolsky. Remote work regime continues at Mail.ru Group; hence we apologize in advance as coordination during Q&A might cause some minor delays in our responses as we're all in different locations. During the Q&A session, we also kindly ask you to pose one question at a time to keep things manageable on our end. We promise to answer all of your follow-up questions and thank you in advance for your 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 possible differences between management and IFRS account.

Matthew, please go ahead.

**Matthew Hammond, Chief Financial Officer**

Thank you very much. Good afternoon and thank you for joining us. I'm going to make a number of comments about the business and the outlook and then we'll give as much time as we can to Q&A.

2020 has provided all of us with a number of challenges. However, we're very proud to report that this will not stop us from scaling our business both in terms of revenues and products, while also strengthening our ecosystem. In 2020, our Group has grown more than 21% with revenues exceeding RUB 107 billion. This is above the last guidance of up to RUB 103 billion and even exceeds the 18% to 20% revenue growth target of RUB 103 billion to RUB 105 billion that we set for 2020 ahead of the pandemic. The diversification of our business and the commitment to our strategy were the main drivers of this result. We finished the year amongst the top-5 players in EMEA in terms of mobile monetization and amongst the top-20 mobile games publishers across Europe. We maintained our leadership in the competitive social networking space and the gaming leadership across the very promising online education segment. Additionally, we've made strong progress in our ecosystem development strategy announced last February, with amongst others, the rollout of VK Connect unified ID and VK Combo loyalty program, enhancements of capabilities of our virtual voice assistant and VK Pay virtual wallet. The completion of multiple major cross integrations, including between Youla, Marusia, Delivery Club and Citymobil with VK directly and via the rapidly scaling Mini Apps platform.

I'll now provide you with a few key highlights.

**First of all, on advertising.** Despite the adverse advertising market backdrop, our ad revenue continued to grow throughout 2020; up 10.2% in the fourth quarter, including nearly 40% growth for SMP advertisers and above 30% growth for business formats. Our advertising business delivered 5.3% growth for the full year 2020, while the Russian as well as global online ad spend stayed largely flat. We've outperformed the broader digital ad market consistently for the prior 5 years, and the currently available data points suggested 2020 was not an exception.

Entertainment, FMCG, health and medicine as well as media have been amongst the best performing verticals, while real estate, beauty and travel were amongst the relative laggards, albeit with some quarter-on-quarter improvement across the vast majority of verticals and ad pricing improving with eCPM growth accelerating to double digits year-over-year in the fourth quarter. Consumer and advertising innovation remains our top priority, with continued focus on further improvements,

measurements and performance formats and penetrations into SMEs, which will help us drive further outperformance by advertising revenue growth versus the broader market in 2021.

**Second on VK.** VK remains the key pillar behind our strong advertising performance, with VK revenues growing 17.2% year-over-year in the fourth quarter. Despite the pandemic and its largely advertising driven business model, VK grew revenues by nearly 15% in full year 2020 to over RUB 25 billion. VK's monthly user growth significantly exceeded that of the overall Russian internet market in 2020, with monthly active users of 73.4 million, up 4.5% year-over-year. On average, users visit VK 15 days a month, with mobile time spent at around of nearly 37 minutes per day as of December and 60 minutes in the 12-24 age group. And we anticipate this to grow further as our new product scenarios like Mini Apps, short video and social commerce gain further traction. VK saw rapid growth in the number of Mini Apps and their audience. VK Taxi showed the platform's potential with over 2 million people having used the service in 2020. VK Food app updated in July already accounts for over 10% of new customers of Delivery Club.

Mini Apps audience is expected to further expand as Mini Apps get cross integration within the Group, with OK integration being the first major step in that direction. We note that there is barely any monetization of Mini Apps outside some news feed-based promotion.

Clips launched in July already have daily users in excess of 16 million, means its audience is already larger than that of TikTok. The number of views per day reached a new peak of 230 million in December and much of the engagement is incremental to the platform so far with the initial monetization experiments ongoing. Overall, we remain committed to not only maintaining VK's leadership among social networks, but also to continue to transform VK into the main Super App in Russia and the center of our ecosystem. Despite the pandemic and the challenges that that raised, VK remains on track to double revenues by the end of 2022 versus 2018 levels.

**On games.** We are enthusiastic about the prospects of MY.GAMES, as we believe the games industry is poised to continue to increase its share of media consumption globally, with a growing player base which is becoming increasingly mobile first and increasingly free-to-play focused, with 76% of our games revenue coming from mobile and 98% from free-to-play games in the fourth quarter. And MY.GAMES full year growth exceeding 30% including 27% growth in Q4. We continue to focus on development of our own IP to expand our audience and this includes entering new regions, with 77% of revenues coming from outside of Russia/CIS in the fourth quarter.

The working from home protocols, which have been in place in our company now for a year have no adverse impact on launches with 5 in-house mobile and 2 console releases in 2020. MY.GAMES continues to broaden its TAM through further diversification in terms of genres, including most recently within the hyper-casual games and including through M&A with 2 studio consolidations and 12 new minority investments made by the games fund in 2020. We would however note that the newly

acquired and consolidated studios contributed only 9% of MY.GAMES revenues in 2020 with our growth being largely organic. War Robots remains our largest franchise game with nearly RUB 1 billion in monthly revenue in December. Love Sick and Grand Hotel Mania offer the potential to become our new franchise games, supporting Warface, War Robots and Hustle Castle. Looking ahead, we target further market share gains through the ongoing scale in the existing and the development of new franchise titles, along with the development of MY.GAMES Store, Cloud and M&A. In terms of recent launches, Skyforge was the second title to be rolled out on the Nintendo Switch platform in February of this year. Rollout plans for 2021 is expected to be somewhat less active than in 2020, but in line with the typical base case annual strategy of launching around 4 mobile titles as well as one or two across other platforms.

**New initiatives, online education.** Online education represented by the consolidated Skillbox and GeekBrains businesses remains the largest contributor to the New initiatives segment, with revenue growth of 56% quarter-on-quarter and up to 3.1x year-over-year in the fourth quarter. For 2020, EdTech generated RUB 6.1 billion in revenues exceeding the set target of RUB 5 billion while also being profitable. Skillbox and GeekBrains launched over 200 new courses and programs during the quarter and they are in the process of being integrated into a unified business focused on professional education, albeit with two distinct brands remain in place, given the different educational format offerings. Despite the expected post-COVID normalization, we anticipate further strong growth in excess of 30% from the consolidated EdTech assets in 2021. Additionally, despite this growth and the investment, we expect the segment to remain profitable.

**Youla.** Q4 revenues of Youla exceeded RUB 1 billion for the first time with year-over-year growth of 43%. Revenues reached RUB 3 billion for the full year 2020, finishing at the top of the guidance range with an EBITDA loss of RUB 2.2 billion, which marked a sizable decline as a proportion of revenues versus the 2019 levels. Deeper integration with VK continues with the monthly launch of VK classifieds which resulted in more than 20% growth in monthly users to a new high of 33 million. Youla is expected to continue to gain market share, with target revenue of RUB 3.6 billion to RUB 3.9 billion for the full year 2021. At the same time, we will continue to focus on improvement of its profitability with a lower proportional loss in 2021 and an anticipated breakeven in 2022.

**On the new initiatives.** Our B2B technology business exceeded 1 billion in quarterly revenues for the first time in Q4 with growth exceeding 200% year-over-year. Our cloud business approached 1 billion annual revenue for multiple times year-over-year. The number of people using both our recommendation platforms reached 62 million per month, up 47% year-over-year with related revenues exceeding RUB 200 million in the fourth quarter.

**On margins.** Investing in new businesses and use cases is vital for the sustainability of growth and the competitiveness of the technological companies, where competition is global. And hence, we've been investing throughout 2020, especially with the notion of the pandemic that become a major tailwind for the pace of development of most of our verticals of presence. This investment continued throughout the year. The

biggest driver of the reduced margins came from MY.GAMES, so we continued to invest in our portfolio even during the peak Q4 season with the focus on retention of COVID-acquired users and the goal to benefit from still elevated demand, with partial lockdowns continuing across the globe. We also wanted to continue to invest in the recently consolidated Deus Craft studio as well as initial marketing of the Rush Royale mobile title, both of which are currently amongst our top revenue-generating games. Despite the nearly 50% decline in games EBITDA in Q4, given our active investment, games segment EBITDA grew 28% year-over-year in 2020 with stabilization in profitability at 15.4% margin in 2020 versus 15.7% a year ago. Given the scale of our business and the already high mobile share of revenues, we expect 2021 to mark significant progress in profitability improvements in MY.GAMES and we remain confident in reaching RUB 10 billion in EBITDA for our games business in 2022.

Communications and social segment saw margin compressed to below 41% in Q4. This is due to the continued investments in new products and services as well as advertising revenues being below the plan set at the beginning of the year, with VK Clips being amongst the major areas along with investment in social commerce and key ecosystem projects which we see as incremental for our future growth and market position. These investments allow us to remain in the lead of one of the most competitive segments of the global Internet market, while also gaining advertising market share and progressing towards building an ecosystem and unlocking new major future monetization opportunities which should be revenue as well as margin enhancing over time.

**In terms of the joint ventures, on O2O JV. Delivery Club** outperformed guidance for 2020 having grown revenues 2.3x year-over-year to RUB 10 billion. Q4 revenue growth was 2.1x year-over-year with 2x growth in orders from its now around 40,000 vendors. The share of own delivery orders stood at 59% as of December. Non-restaurant orders are approaching 10% of total with over 2,500 connected grocery stores as well as delivery meal kits, non-prescription drugs, flowers, pet food and other items, with the majority of such orders done on the marketplace model. Delivery Club targets further solid growth in 2021 despite the very high base, but with also focus on improvements in profitability with positive unit economics before headquarters costs delivered in February of this year.

**Samokat** grew revenues by 19x year-over-year and orders by more than 12x year-over-year in Q4, with up to a 100,000 daily orders in December. For 2020, Samokat delivered 18 million orders and generated 9 billion in revenue, which means 15x and 23x respective growth. Samokat's dark store base reached 400 in December versus 90 a year ago. It is expanding its private label base and is testing a larger dark store format with the plan scope for further market share gains in 2021 and annualized revenue at 20 billion as of December last year.

**Local Kitchen** managed 45 dark kitchens across Moscow in December versus 29 in January of last year. The service generated more than 5 million in orders and RUB 2.6 billion in revenues, both growing more than 3x year-over-year. The platform aims to broaden the Moscow presence as well as expand geographically in 2021 with annualized revenue of RUB 3.9 billion as of the December run rate.

**Citymobil** increased rides and GMV by 20% quarter-on-quarter in Q4, reaching 185 million rides and RUB 46 billion in GMV in 2020, with 3x year-over-year growth on both metrics and up to 30% market share in selected regions. Citymobil continues to expand its C2C and B2C delivery, adding new partners and growing delivery rides by more than 75% quarter-over-quarter, also expanding with the premium and B2B areas. As part of the multimodal vision, Citymobil launched full consolidation with YouDrive with technological and operational integration plan for 2021. Despite the COVID shock and unparalleled growth of scale Citymobil has improved EBITDA burn as a proportion to gross revenue in 2020 and plans to significantly improve unit economics in 2021.

**AER.** The platform continues to scale with 29.1 million and 8.8 million daily users with a major focus on improvement of its level of customer service and value proposition. The expansion of local marketplace remains amongst the major focus areas with the number of local sellers rising 7x in 2020 and exceeding 35,000 and now exceeding 5 million SKUs and local share of GMV now around 25%. Combined the cross border and domestic business of AER are offering over 100 million SKUs from over 150,000 sellers. As of Q4, the share of AliExpress Plus GMV increased to 38%. The average delivery time of AER goods from China dropped by half to 15 days and delivery time inside Russia improved to 4.5 days. The network of available pick-up points including parcel lockers has increased to 18,000 with own pickup service now also launched. In a new partnership deal with Russian Post, AER will gain access to 16 fulfilment centres with a total area of up to 1 million square meters, which allow 47% Russian users to get next day delivery. Social commerce also continues to scale with over 8 million people interacting with AER monthly through OK and VK. You should expect to get a more granular disclosure around AER starting in 2021 following the end of the financial year, which ends in March and includes the Q&A session with the Co-CEO of AER planned for April.

**Payments and financial JV.** Last month we signed binding agreements to create the payments and financial services JV with partners, including Ant Group. The JV will work together to offer digital payment solutions and financial services designed to connect users and merchants by specifically designed and value-added financial and payment products for both sides of the marketplace. JV serves the broaden VK Connect usage outside of VK and will be accessible for online as well as offline payments, both inside and outside our ecosystem. We will share further details after closing during 2021.

**Guidance and outlook.** We reiterate our commitment to invest into our business to help drive future growth and innovation. At the same time, some of the margin pressure points we've experienced last year were COVID-driven and should not be in place in 2021 assuming further normalization. Combined with the expected progress of Youla towards breakeven, we anticipate positive margin trend for games and new initiatives, especially in games driven by the economies of scale, completion of our transition to a largely mobile driven business, further strengthening of our existing franchise title and potential for new franchises to come from our stories as well as time-management games and slightly less active launch pipeline, we expect further

improvements. Q1 is expected to mark the lowest point in profitability of games in 2021, with improvement over the following quarters. Key ongoing areas of investment include Clips and other video products, social commerce, VK Connect, VK Combo, Mini Apps and music, with communication and social segment to remain in the area of ongoing investment but with margins supported over time as new products see monetization and ad revenues normalize.

On a Group level, this should balance the result and we should see an improvement in profitability in 2021. We know that this year will face various different base effects for our businesses where Q1 presents a rather low base for games, games comps will get more challenging as the year progresses, the toughest being in the second quarter. At the same time, Q2 faces the easiest comps for advertising, which is our largest revenue stream and we should help drive growth for our Group in 2021. While visibility still remains somewhat limited, current trends suggest that further quarter-over-quarter acceleration in ad growth in Q1 and Q2 2021 should be expected. We are pleased with the start of Q1, with January and February ad growth of around 20%.

Edtech comps will toughen as the year progresses being the easiest interest in the first quarter. Notwithstanding this, we still expect to see 30+% growth expected for the year. Overall, we're aiming for 18%-21% revenue growth in 2021 to between RUB 127 billion and RUB 130 billion, with improvement in EBITDA margins versus the 2020 level.

**Finally, transparency in corporate governance.** We continue to evolve as a public company with corporate governance being amongst our major priorities. We have been more focused having disposed MAPS.ME as a non-core business. We've also been attempting to create global partnership around the eSports business, but this was challenged by the pandemic which has hit eSports businesses globally. As a result, we re consolidated ESForce, which is no longer held as an asset held for sale. We will continue to evaluate options for this business going forward. Since the beginning of 2020, we've successfully completed a local listing, the liquidity of our GDRs rising by over 600% and Mail.ru Group admitted to the major MSCI indices in December. We've also introduced regular ESG reporting. Going forward, we will provide more granular segmental disclosure, including through the introduction of online education as a separate reporting segment starting from Q1. Additionally, following extensive conversation with the analyst investor community, we'll no longer be reporting on a pro forma basis going forward.

And as was promised last year, net income contributions from significant associates in JV will be reflected in the management accounts starting from Q1, with a granular breakdown between the related contributions. This will allow us to continue to narrow the differences between management and IFRS accounts.

With that, I thank you. I'd like to turn over to Q&A.

### **Operator**

Thank you, Matthew. [Operator Instructions]. Our first question comes from Cesar Tiron from Bank of America. Please go ahead.

**Cesar Tiron, Bank of America**

Hi everyone. Thanks for the call and thanks for allowing me to ask a question. The question would be on the margin outlook. Thanks for providing a margin outlook with increasing margins for 2021. It's been a long time since Mail's margins have not increased, should I actually see that as a kind of inflection point and potentially new desire from the company to actually drive margins up for a number of years going forward or does the comment just really include 2021 and it's not more for the longer term? And if it is possible, I have a second question as well.

**Matthew Hammond, Chief Financial Officer**

Cesar, it's Matthew. Thanks for the question. The comment right now relates to 2021 obviously because that is the explicit guidance we're giving. Margin as you know, is largely a function of mix and timing. That said, we have invested in the business over the last few years, I think our expectation is that margins in 2020 are probably at or around the sort of low-end of where we would expect, and over time we are obviously committed to making the business as efficient as possible. So, the explicit guidance of margins rising is obviously around 2021 and obviously we're going to see better ad growth than we saw in 2020. We were very clear, I think that we continue to invest in the ecosystem even when ads were running significantly below budget in sort of Q2 and Q3 and even Q4, which saw a recovery, but it's still not back to what we would like. Clearly, we started the year well on ads, I think we're very happy with that January and February number that we just gave you. And clearly at the same time, we should move to profitability with Youla in 2022 and games margin at 20% plus going forward. Clearly, if you put all of that together, it would suggest that we have more of a focus on games – on overall margins going forward, and the ecosystem obviously should be margin enhancing. Put that altogether clearly 2020 probably represents low, but I don't want to make explicit commitments about '22, '23 at this point. You will understand it's very early in the year, and we need to remain somewhat flexible. I hope that answers the question.

**Cesar Tiron, Bank of America**

Yes, thank you. Would you allow me for a quick follow-up?

**Matthew Hammond, Chief Financial Officer**

Sure. Yes, we're very happy to have as many questions, we just asked you to ask one at a time, simply because it allows to manage.

**Cesar Tiron, Bank of America**

Thank you so much. The other question I had is, if you deliver on the numbers that you just gave us and if within 6 months or a year, the stock is still underperforming peers or various indices in which it is listed, would you consider actions to possibly help the market see through the value of some of the assets that are in Mail.ru, for example you have Youla which I think in the past, you wanted to sell and it's probably not a 100% core asset. It's a question. You have the JV as well, which probably is not reflected in the stock, would that be a candidate for IPO in the long term? And there were also I think you know some press articles couple of months ago on the games business saying that you might consider to IPO and others -- you answer that it's not something that you can really comment on at the time. If you can actually help us



understand if management would be keen to take any of these actions potentially to help us crystalize some of this value. Thank you so much.

**Matthew Hammond, Chief Financial Officer**

Cesar, I think you've seen with the formation of JVs we are very focused on shareholder value. We will always seek ways to create further value. Absolutely no options are off the table. I would say that we continue to evaluate all of the divisions and if there is an opportunity to create shareholder value through the separation of the division or through partners or through being somewhat imaginative with the structure, we are absolutely not opposed to it. So yes, I would say absolutely nothing is off the table. And we take these decisions obviously for the best, we do the best thing that we can for the business to drive the maximum possible growth at the cheapest possible price and to deliver the largest possible value to our shareholders. So, nothing is off the table.

**Operator**

Thank you. We will now move to our next question from Vyacheslav Degtyarev from Goldman Sachs. Please go ahead.

**Vyacheslav Degtyarev, Goldman Sachs**

Thank you very much for the call. Can you please elaborate, if you see additional cash injection needs for the joint ventures in the medium-term and where they can potentially go?

**Boris Dobrodeev, Chief Executive Officer**

Thank you for this question. I will take it. I think AliExpress and O2O both will need cash injections, and we are committed to fund both of the ventures because we see very good growth and progress in both of the companies, and we stay committed to funding them as shareholders. Of course, we will do it proportionately with other shareholders and over time.

**Vyacheslav Degtyarev, Goldman Sachs**

Sure. Thanks for that answer. My follow up would be, if you can highlight the number of Combo loyalty program subscribers or maybe dynamics there, and what are the key products propositions that customers are buying in your Combo subscription in your view? Thank you.

**Boris Dobrodeev, Chief Executive Officer**

We've got both the changes that we've made in later in last year in Combo. We have significantly increased the pace of Combo adoptions. So, now we have about 1 million Combo native subscribers, which is quite big acceleration from what we had in previous quarters. And also, what we are doing now is that we are merging Combo with VK Music subscription, so generally, you will have just one subscription for both Combo and VK Music and it will be called VK Combo. So, we are in the process of merging that. We think that post-merger as of now, we will have about 3.5 million monthly paying subscribers. We see great use in this loyalty program. Of course, the heart of this program, it is music, but we actually are starting to see other e-comm players to benefit from this. Generally, you see two effects; for example, for music,

you see better conversion and retention rates, and also for more transactional services, you see much higher frequency in transactions, for the transactional services. Generally, there is kind of a great synergetic reason to happen to be part of Combo. So, we are quite happy with current developments and we plan to continue to ramp this service up.

### **Operator**

Thank you. We'll now move to our next question from Kirill Panarin from Renaissance Capital. Please go ahead.

### **Kirill Panarin, Renaissance Capital**

Hi, everyone. Thanks for taking my questions. Two questions please, first one on food delivery. Could you give more details around the key drivers of anticipated margin improvement at Delivery Club this year? In particular, if you could comment on trends you've seen in subsidies and the current level of monetization versus your main competitor? That would be useful. That's the first question.

### **Boris Dobrodeev, Chief Executive Officer**

Thank you. Generally, I think we're having a lot of tailwinds across the board. So, I think there are two key drivers. The first one is around subsidies. We are starting to decrease the level of subsidies, and despite that we still have very good growth and very healthy user numbers and transaction numbers. So, this is number one. Number two its efficiency in logistic operations which are driven by two factors. The first one is the order density; since we significantly increased the scale of the business over last year, we see future efficiency in courier dispatching. And number two, of course, it's technological enhancements, dispatching algorithms, which also help us to make the logistic operations more efficient. Also, you should bear in mind that we have a lot of kind of post-COVID tailwinds residing in the business. So, one is we continue to see increased frequency in user monthly transactions – in transactions per user, which of course decrease the marketing cost and then increase the revenue. And also, we have significantly increased in 2020 the number of restaurants, which drives the overall quality of the offering for the user and hence conversion. So generally, we see a lot of tailwinds for this business. I mean for the profitability part of the business.

### **Kirill Panarin, Renaissance Capital**

That's clear. Thank you. And my second question is on the margin decline in social. Could you outline which two or three of the new products required the largest investments last year? And could you talk about the monetization outlook for them versus further need to invest, whether it's Clips or Mini Apps or anything else? And if possible, make a comment on the direction of margin development in social in 2021? That's it. Thank you.

### **Boris Dobrodeev, Chief Executive Officer**

There were a lot of products launched last year. I would name a couple of them. One of them is Clips among the major areas. We managed to create in quite a short amount of time service that has similar number of active users as Tik Tok in Russia. Obviously, it requires a separate team and it just happens now that this product is inside VK

segment, but generally, it's like a full-blown separate product which would also probably have a separate app in the future.

Another one is our ecosystem products, which to a large degree, sit inside also in VK accounts. So, it's VK Mini Apps, it's VK Connect, it's now VK Combo, which is starting to sit in VK as well. So, all of these ecosystem products are also part of VK. And of course, social commerce is another one part of SME projects that we launched for small and medium size businesses. And of course, to less degree because they are more spread across different initiatives but also we had a huge investment into video infrastructure, which we have almost completed and which already bringing a lot of fruit in terms of efficiency of our Video platform, as well as Group video calls, big part of this cost also sits in VK.

But obviously, we believe that these products will bring fruits and bring its value in future. And of course, we will start to see return on investments from these products, we anticipate.

**Kirill Panarin, Renaissance Capital**

Okay, great. Thank you very much.

**Operator**

Ildar Davletshin from Wood & Company. Please go ahead, your line is open.

**Ildar Davletshin, Wood & Company**

Good afternoon. Thank you for the opportunity. I actually wanted to follow up on the last question from Kirill on social communication. We've been observing that you were gaining market share in advertising, but at the same time, the margins have been declining. So, from your comments, I understand that majority of this decline in margins comes from these new investments into the platform, but could you maybe also provide any colour on any incentives or subsidies or other marketing kind of spending that you might have provided to SMEs, like to encourage them to use your advertising platform, in absolute terms or as a percentage of the margin, what could have been the impact for your decline, in 2020 relative to 2019? Or was it not really material?

**Boris Dobrodeev, Chief Executive Officer**

We think that the material were investments in the projects that we have discussed just before. I think these were the core investments, and all the other for the P&L -- P&L wise, all the other investments were not material for VK P&L.

**Ildar Davletshin, Wood & Company**

Thank you. And then as a follow-up, staying with this segment and looking into 2021, do you expect the margins to broadly match 2020 level or is it going to also recover as in other segments? And maybe mid-term, what would be the normal or the range of the margin that you could achieve in that segment? Thank you.

**Matthew Hammond, Chief Financial Officer**

It's Matthew here. As you know, we generally don't give line-by-line margin guidance and obviously visibility on ads does remain somewhat limited. What I would say, ad recovery and improvement definitely help margins, but in the very near-term, will be balanced by further investments especially into products like Clips and Mini Apps, as Boris said. So, in the very near-term, there are a lot of moving parts, we're focused on product development and it's not clear at this point what the speed of ad recovery will be and when we'll see a total normalization there. So, I would say broadly ads in the very -- margins in the very near-term for this division will broadly be around where they are. Over the longer-term, clearly, we would expect them to rise as these investments pay dividends, but that will take a little bit of time.

**Ildar Davletshin, Wood & Company**

Thank you.

**Operator**

Our next question comes from Miriam Adisa from Morgan Stanley. Please go ahead.

**Miriam Adisa, Morgan Stanley**

Thank you for taking my questions. Firstly, just on VK Pay. Could you share anything more about the ambition there in terms of what you hope to achieve? Should we think about this really just as being a wallet or are you also hoping to get into credit other financial services? Anything you can share that would be helpful. Thank you.

**Boris Dobrodeev, Chief Executive Officer**

Thank you, Miriam. It's definitely not just the wallet. It's a way to enter the fintech market in Russia. Now we are entering it with a couple of products; we have the wallet; we have just issued a virtual card with the cash back. So, we are in the early innings of deferred payment type of products and checkout products. I think our ambition is to create a fintech product which would take respectable market share and also which would, on the other hand, promote Mail.ru Group ecosystem. So, the current products that we launched, they are just the start.

At the same time, given that the Russian fintech market is actually pretty competitive, I would say, it is more competitive than a lot of other markets with traditional players having actually much bigger exposure to the B2C and online B2C market, we start with deferred payment product because I think this is just the best way to enter this competitive market. But in the future obviously, we want to enhance the offering. Generally, we want these first products to serve as user acquisition tool and then we'll work on broadening of the product line to drive more monetization and more exposure into the market.

**Miriam Adisa, Morgan Stanley**

Thank you. My follow-up question would be on the leverage in the business, given what was said earlier about the need to inject more cash into the JVs, what's your sort of attitude to raising more leverage for the company today? Do you think you might need to do that this year in order to fund some of these injections into AER and potentially O2O? And just broadly, how we should think about how you're managing the leverage in the business? Thanks.

**Boris Dobrodeev, Chief Executive Officer**

Fedor will answer it in more detail. Fedor, can you please answer.

**Fedor Rubtsov, Chief Financial Officer (Russia)**

Thank you for the question. I think we have currently a pretty comfortable level of both cash and leverage. Excluding lease liabilities, we're currently at about 0.3x debt-to-LTM EBITDA and we have quite plenty of cash on hand. So, at this point, we do not think we'll plan to further increase the leverage and we think we have quite sufficient cash to fund any initiatives, including the strategic joint ventures. However, given that the level of leverage is actually pretty comfortable if need be, we can always quite easily increase that and we have a very large number of potential ways, potential instruments to do that. However, right now, we don't consider increasing anymore in the near- to mid-term.

**Miriam Adisa, Morgan Stanley**

Great. Thank you.

**Matthew Hammond, Chief Financial Officer**

Miriam, it's Matthew. I would say and we said this in the statement that we will evaluate all options to make sure that our financing is at the best available rate possible. We do have a local credit rating now and so local bonds are clearly an alternative to bank lines and potentially cheaper, but this is about treasury management not increasing the leverage ratios.

**Operator**

Thank you. And our next question comes from Vladimir Bespalov from VTB Capital. Please go ahead.

**Vladimir Bespalov, VTB Capital**

Hello. Congratulations on the numbers and thank you for taking my question. My first question will be on your share of losses in JVs. As far as I can see for the full year, these were about RUB 20 billion, but there was a huge spike in the fourth quarter of about RUB 10 billion, which is half of the full year amount. So, maybe you could elaborate a little bit what was behind these figures, this looks a bit counterintuitive from the business perspective and maybe you could give the outlook for the losses of the JVs in 2021, given that you'll start to show those in management accounts as well? Thank you.

**Matthew Hammond, Chief Financial Officer**

Thank you. It's Matthew here. The Q4, this is a technical non-cash accounting treatment of the timing of the KPI-related payments for the O2O JV. As Sber disclosed today, they indicate to make that payment but given we didn't have visibility on the timing, we've taken the most conservative accounting treatment and hence the difference. If and when the payment is made this adjustment would be reversed in the accounts.

**Vladimir Bespalov, VTB Capital**

Does this mean that you are going to report some profits in 2021 on this payment if it's made?

**Matthew Hammond, Chief Financial Officer**

If the payment is made then obviously, yes, the charge that we took in Q4 which is obviously non-cash would then be reversed. Because as we say, we don't have visibility on the timing and hence we've taken the most conservative accounting treatment.

**Vladimir Bespalov, VTB Capital**

And apart from this, the outlook for joint ventures net losses in 2021?

**Matthew Hammond, Chief Financial Officer**

I think I'll hand over to Boris on that one.

**Boris Dobrodeev, Chief Executive Officer**

Yes, we generally anticipate increase in the efficiency in most businesses. Here the outlook is broadly positive.

**Vladimir Bespalov, VTB Capital**

Okay. Thank you very much. And my second question is on the games margins. Maybe you could provide some colour on what is behind your expectation of such a significant increase in EBITDA profitability. Are you going still to invest a lot in new studios, maybe consolidation of some of these studios where you have minority stakes or you're going to slow down this process and have the games which you have in portfolio reach the stage where you will see increased monetization and things like this. Could you maybe give more colour?

**Matthew Hammond, Chief Financial Officer**

Hi, it's Matthew. The first thing I'd say is 2020 was a slightly unusual year. Usually, we would have peak margins in the fourth quarter, but we had much higher margins than people expected in Q2 and Q3 from games; and we were clear with the Q3 results that we were going to remain somewhat flexible. We picked up a ton of new users during the COVID spikes and we talked a lot about that. We weren't clear initially about the sustainability of those users. I think we are much happier now on what we are seeing with those new cohorts. And as such we were prepared in the fourth quarter to invest and invest around them.

Looking forward, as I said in the statement, the economies of scale, the completion of the transition to a largely mobile-driven business and further strengthening of the franchise titles, all of those combined in 2021 to see improvements in the margin and then further improvements in 2022. But at the same time, 2021 should revert in terms of the shape of the year to more what you have seen over time. We would expect over time to be best-in-class of the mobile focus games companies, and that means a 20% plus margin over time.

**Vladimir Bespalov, VTB Capital**

Thank you very much.

**Operator**

Svetlana Sukhanova from Sberbank. Please go ahead, your line is open.

**Svetlana Sukhanova, Sberbank**

Thank you very much for the opportunity. I have actually a series of brief question, I would say, follow-up questions. Can you help us to understand what the current level of cash at O2O joint venture? Because we do see cash burn and we do see that current assets are around RUB 17 billion at O2O joint venture at December. Would it be fair to assume that cash, pure cash at O2O joint venture was less than RUB 10 billion at the end of December and might be even less now?

**Fedor Rubtsov, Chief Financial Officer (Russia)**

Actually, we have given some numbers in the notes to our financials. Since the end of the year, we are currently in the process of finalizing the budget for the O2O, and I will say, currently the O2O venture has enough cash to continue in the near term and subject to approving the budgets it will also be [line cut].

**Svetlana Sukhanova, Sberbank**

But can you disclose exact cash amount at the end of last year?

**Tatiana Volochkovich, Director of Investor Relations**

We cannot comment on the exact cash balance, but as Boris mentioned, we are committed to continue to fund our JVs, if and when is needed.

**Svetlana Sukhanova, Sberbank**

Okay. It was also answered for the previous question. Then my second very quick question would be, if I understand the answer to the previous question, right. So, you have about 1 million Combo native subscribers, but do I understand that 3.5 million subscribers from VK Music was on top of that or it's inclusive of Combo subscribers. So, all in all Combo plus VK Music is it 4.5 of 3.5?

**Boris Dobrodeev, Chief Executive Officer**

It is inclusive.

**Svetlana Sukhanova, Sberbank**

Inclusive. So, 3.5 overall. Thank you so much and my last third question would be regarding advertising growth. You gave us very encouraging advertising growth for January and February, but do I understand it right that you're well ahead of Russian market, and primarily because part of your ad revenues is including gaming revenues which are in hard currency? So, that's the first part of the question, the second part of the same question, where do we think market is growing, Russian online advertising market is growing in January-February? Thank you.

**Matthew Hammond, Chief Financial Officer**

Hi, it's Matthew. I would say, the effects from game ads is relatively small, less than 10% of games revenues come from ads. So, the overall effect on our ad growth is pretty small. But even if you strip that out, we continue to outgrow the market.

It's difficult to make estimates at this point about what 2021 will look like, obviously we'll wait for the usual AKAR numbers and other third parties. We would clearly expect to return to growth. But as I made the comment, what we've seen in January and February, we clearly think that we are performing materially ahead of the market again in 2021 as it sounds right now.

**Svetlana Sukhanova, Sberbank**

Thanks, Matthew and team. Very clear. Thank you very much.

**Operator**

Our next question comes from Anna Kupriyanova from Gazprombank. Please go ahead.

**Anna Kupriyanova, Gazprombank**

Good afternoon and thank you very much for presentation and opportunity to ask the question. My question will be regarding your e-commerce business and JV with Alibaba. Given this market is specifically competitive recently, how do you see future AliExpress development, if any plans for addition of new directions for local platform, do you plan to develop logistics part of the business? Also, how do you see synergies with O2O in terms of e-commerce development given that e-grocery is part of e-commerce business as well. So, could you please provide us some more colour on that? Thank you.

**Boris Dobrodeev, Chief Executive Officer**

Thank you very much. Actually, we're very encouraged by the way we see the growth in the local commerce of AliExpress Russia. I think the market is indeed competitive, but within this competitive market we see that AliExpress Russia manages to show exponential growth in their local commerce revenue. And it is important to bear in mind that it has some distinctive competitive advantages which is their cross-border business which is not present to a big extent within other big local commerce presence, which drives a huge user base of 20 million, close to 30 million annual transacting users, which is I believe the biggest transacting user base for Russian e-commerce players which is hence converted into local commerce. So, it is a huge driver for this business. Of course, the business -- I would not comment on the specific product launches, because I think it is up to AliExpress Russia management to do that, but you see this business rapidly evolving and launching new verticals and we are very happy about that. Of course, as for synergies, all the synergies made on arms-length basis, but I believe there are some corporations like delivering groceries, for example between Delivery Club and AliExpress. And of course, we will be happy if more synergies like this happen.

**Anna Kupriyanova, Gazprombank**

May I ask you how many of your ecosystem users use not just AliExpress e-commerce services but some other Mail.ru Group services, if you could provide such statistics.



**Boris Dobrodeev, Chief Executive Officer**

I'm sorry, I didn't quite get your question. Could you please specify?

**Anna Kupriyanova, Gazprombank**

My question is regarding number of users for convergence services specifically, the part who uses e-commerce as well, not so e-commerce users for AliExpress but users who are also active users of your ecosystem products?

**Boris Dobrodeev, Chief Executive Officer**

We cannot give you the exact number, but there is a huge overlap between the audience because both like Mail.ru Group and AliExpress Russia, huge federal players. I assume the overlap is huge. Now we have 8 million users who use social commerce on VK and these 8 million probably now can be considered as kind of synergetic user base between these two companies.

**Anna Kupriyanova, Gazprombank**

Thank you very much. And if I could put a quick follow-up, if you could provide GMV for e-grocery part of O2O business?

**Boris Dobrodeev, Chief Executive Officer**

Unfortunately, we do not disclose, we do not strip out this metric at this time. But obviously you can imagine that last year, it experienced very fast growth, but we cannot give you the exact number.

**Tatiana Volochkovich, Director of Investor Relations**

And if I may comment, if you're talking about Samokat, we disclosed revenues of Samokat.

**Boris Dobrodeev, Chief Executive Officer**

Yeah, you can disclose that. I thought you were referring to the Delivery Club grocery segment. If you were referring to Samokat of course we can.

**Anna Kupriyanova, Gazprombank**

Yes, I saw Samokat revenue, but I don't know which part of Delivery Club on GMV basis is coming from the grocery. So that's okay, I understand.

**Tatiana Volochkovich, Director of Investor Relations**

But just to clarify, we disclosed revenues of Samokat on gross basis, so the difference between revenue and GMV is strictly in VAT, so you can calculate GMV from the disclosed revenue numbers. And when it comes to Delivery Club, grocery orders account for less than 10% of total, but this is expected to grow significantly this year. And when it becomes scalable, we will of course provide more granular detail, but right now it's marginal.

**Anna Kupriyanova, Gazprombank**

Thank you very much for your comments.

**Operator**

Maria Sukhanova from BCS. Please go ahead, your line is open.

**Maria Sukhanova, BCS**

Good afternoon. I have a question on competitive landscape in social networks in Russia. Would it be fair to say that the only competitor which is growing aggressively in usage is Tik Tok, while for instance Instagram has reached some plateau? So, I am basing this statement on Mediascope data, so I wonder if that's what you see? And also, if this is true, have you seen already any positive impact from launching Clips, like user retention or time spent, something like that? Thank you.

**Boris Dobrodeev, Chief Executive Officer**

Thank you. I think if you look at the current Mediascope data, indeed it looks like this is the picture. And this is one of the reasons, we also think that short-form video is a very promising format, this is why we invest and grow Clips a lot. Indeed, I think we are still despite the size of the service, we're in the early innings and we see small but marginal increase in the engagement from using the Clips on VK platform.

**Maria Sukhanova, BCS**

Thank you for that, and a quick follow-up on AliExpress, AER JV. If you could disclose GMV for 2020 and if you can't, maybe could you tell us where you stand in versus competition? We have Ozone, which is around 200 billion; we have Wildberries, which is around 400. So, maybe at least roughly where you stand versus the competition in absolute terms?

**Boris Dobrodeev, Chief Executive Officer**

We do not disclose the exact number, but we believe that we should be around a player between number two and number three player in the market, depending on how you look at the data.

**Maria Sukhanova, BCS**

Thank you very much.

**Operator**

Anna Kurbatova, Alfa-Bank. Please go ahead.

**Anna Kurbatova, Alfa-Bank**

Good afternoon. Thank you very much. I would like to ask a question on your B2B technology, and the cloud business lines because it was very interesting to know revenue and dynamics there. So, first of all you say that your cloud business approached RUB 1 billion in the full year 2020. It is comparable with what Yandex also said about their business in cloud. And I wonder what growth rates you are expecting for this year in cloud; Yandex provided 3x growth outlook. Are you comparable or not in terms of cloud prospects here? And the second on the B2B technology, maybe you would be able to give more colour on type of projects which are in most demand by your corporate clients and what will drive growth this year and going forward? This is. Thank you.

**Boris Dobrodeev, Chief Executive Officer**

Thank you. Answering the first question, we continue to see similar, as you mentioned, similar sized growth rates. We continue to see cloud grow extremely fast and we're very happy with this growth. It reached RUB 1 billion as we state, growing multiple times year-over-year and we continue to see this growth.

As for B2B, there are couple of major products that we have inside. One group of projects it's cloud, the second group of projects, it's our database in-memory database called Tarantool, which we sell to a lot of Russia's biggest corporations like a couple of biggest telcos in Russia, for example, use Tarantool, couple of big Russian banks as well. So, number three, these are communication, different communication and integration projects that we do, for example e-mail for business, HR solutions for business. So, we have a plethora of B2B2C type of solutions, which is used by Russian small, medium size and big corporations.

**Anna Kurbatova, Alfa-Bank**

Thank you very much. And in terms of revenue recognition or contract type, are these projects with your corporate clients normally contracted on the annual basis or they are short time, or do you have good visibility for the future of this revenue? Thank you.

**Boris Dobrodeev, Chief Executive Officer**

It is very different. Part is subscription base, and the part is one-time fee plus support, and one part is license fee for the software. So, we have all the three components within this group.

**Anna Kurbatova, Alfa-Bank**

Thank you. Very helpful. Thank you very much.

**Operator**

Yulia Kazakovtseva, UBS. Please go ahead.

**Yulia Kazakovtseva, UBS**

Hi, everyone. Could you please comment a bit on Uchi performance in December 2020? Has it managed to achieve this RUB 3 billion revenue for 2020? And does it grow faster or slower than your Edtech business? Thank you.

**Boris Dobrodeev, Chief Executive Officer**

It was close to RUB 3 billion revenue for the entire year of 2020 and it continues to show solid growth in January from what we see. So, we're very happy about this investment. Also given that it is a profitable company.

**Yulia Kazakovtseva, UBS**

And you still expect it to grow with 30% CAGR in 2020-2023?

**Boris Dobrodeev, Chief Executive Officer**

Yes. At least.

**Yulia Kazakovtseva, UBS**

Thank you.

**Operator**

Vladimir Bespalov, VTB Capital. Please go ahead.

**Vladimir Bespalov, VTB Capital**

Thank you for taking my follow-up questions. The first one will be on your M&A pipeline especially in games and ad technology. Maybe you could comment, are you going in this Q2 acquire more assets or you are happy with what you have to develop your game segment and EdTech platform organically? And do you see quite a lot of opportunities on the markets, maybe M&A in some other areas as well?

**Boris Dobrodeev, Chief Executive Officer**

We continue to be opportunistic, if we see a good opportunity that would bring value to our shareholders, obviously we would go for it. And if you look at the track record, most of the investments have paid off like the Edtech, which we started to buy long time ago at a very cheap price, and some of the gaming projects such as Pixonic which were both effectively I think USD 30 million. So, we think it is a very fruitful strategy and we will continue to perceive it.

As for the games, I don't think that there is any distinct line between a do-it-yourself approach and M&A. We kind of pursue the 360-degree approach, so we build projects, we do M&A, sometimes as we buy a lot of projects at early stage, it can be a mix of M&A and building ourselves. For example, we can invest in studios and actually help them to build the products we want. So, it is a mix. If you look at what is going on in the gaming market, this is similar to what most of the gaming cos are doing. So, generally it's a function of portfolio, portfolio management.

**Vladimir Bespalov, VTB Capital**

Thank you very much. And one more question if I may. Last year the government approved quite a lot of measures to support the IT industry, but at the moment, it was not clear how that would impact Mail.ru and some other companies, maybe you have a better picture, as we are in 2021, maybe you could comment with many months being passed since the approval of those steps?

**Matthew Hammond, Chief Financial Officer**

Thank you. It's Matthew here. It's often difficult to have a strong visibility on what's going on the tax side. We continue to expect that the overall effect will be positive to us. But as it stands right now, there are a lot of steps that need to be taken on both sides in order to get there. So, visibility is very limited on that, we will update the market when we have some certainty, as ever with these things tax, both structuring and law is a complex thing. So, it's absolutely right that we get this 100% right. On balance, we expect it to be positive, but we don't have hard guidance, that we can give you at this point.

**Vladimir Bepalov, VTB Capital**

Okay. Thank you very much.

**Operator**

Alexander Tarasov, Alënka Capital. Please go ahead.

**Alexander Tarasov, Alënka Capital**

Thank you. I have a few questions. Why is Citymobil [Technical issue].

**Tatiana Volochkovich, Director of Investor Relations**

Hi. It's Tatiana here. Unfortunately, we cannot hear you very well, maybe we can take it offline as it seems it's about City presence and on so on. Just send us an email to IR and we will coordinate and have a call and discuss this offline, as we cannot hear you.

Operator, do we have any further questions?

**Operator**

No, there are currently no further questions in the queue.

**Tatiana Volochkovich, Director of Investor Relations**

Thank you all for joining us today. If you have any further questions, reach out to us at IR team. We will be happy to make any clarifications, which might be needed. Thank you again and have a great day.

**Operator**

Thank you. This concludes today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.