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ACRA assigns AA+(RU) to Mail.ru Group Limited, outlook Stable, and eAA+(RU) to the bonds to be issued by Mail.Ru Finance Limited

The credit rating of [Mail.ru Group Limited](#) (hereinafter, Mail.ru Group, the Company or the Group) is based on its strong market position — the Company is a successful player in the global game market and one of the leaders of the moderately concentrated social network, e-mail service, taxi service, and food delivery markets.

In addition, the strong business profile stems from the high diversification of revenues due to the rapid development of new segments. Unique products account for more than 50% of revenues. The Company enjoys good geographical diversification as business is carried out online, which means it has users abroad as well as in Russia. In the Agency's opinion, the Company's strengths include a high level of corporate governance. ACRA also notes the successful and consistent implementation of the strategy, well-established risk management practices, and a high level of financial transparency.

Mail.ru Group's financial profile is characterized by its high profitability and moderate leverage. The Company has a very strong liquidity position, which is based on its access to Russian and global equity capital markets and significant volumes of open credit lines. Mail.ru Group is also characterized by a high free cash flow (FCF) margin.

The Company's rating is partly limited by a certain volatility of demand — the Company's revenues from online advertising, which account for a fairly large share of total revenues, depend on the economic cycle, as well as the complex structure of the Group. The Company's financial profile assessment is also constrained by relatively high capital expenditures to revenues, which is due to increased investment in the development of social networks and music services, as well as the expansion of the games segment and investments in M&As and joint ventures. Although capital expenditures put pressure on FCF, the Company's FCF remains high due to the rapid growth of business (both intensive and extensive).

Mail.ru Group operates in a number of segments, including:

- E-mail services (Mail.ru E-mail and Mail.ru Cloud). Mail.ru E-mail is one of the largest free e-mail services in the Russian-language segment of the internet (Runet) with more than 100 mln active accounts;
- Mail.ru search engine, the Runet's third largest search engine;
- Social networks: VKontakte (72 mln active users per month), Odnoklassniki (40 mln users per month), and Moy Mir (5.4 mln users per month);
- Games (more than 50 projects). Around 740 mln registered users globally; Mail.ru Group is one of the leaders of the Eastern European online entertainment market.

The Company is also developing in such areas as business solutions, instant messaging, media, and e-commerce.

The pandemic's influence on the Company's operations. The pandemic and the decline in business activity associated with it led to a decline in the Company's revenues from advertising (-5.7% in Q2 2020) for the first time in the last six years. At the same time, growth in income from the games segment during the quarantine (+44%) compensated for the decline in income generated by advertising. As a result, the Company's Q2 2020 consolidated revenues grew by 17% compared to the same period

Key rating assessment factors

in 2019 and totaled RUB 23.1 bln. Total growth in revenues in H1 2020 amounted to 20% compared to the same period the year before. The Group expects its revenues to increase by 18% in 2020, with the pandemic having a minimal impact on total revenues.

Strong business profile. Historically, the lion's share of revenues has come from online advertising (38% in 2019), mainly in social networks. However, over the past year the games segment, which accounted for 36% in 2019, grew substantially. A considerable share is generated by user payments for social services. In recent years, there has been a trend toward a gradual decrease in the share of revenues from advertising and user payments for social services, along with rapid growth of the games segment, which contributes to an increase in the diversification of the Company's revenues.

The dynamics of the Company's total revenues to some extent correlates with the real GDP growth rate, which indicates a certain susceptibility of demand to the influence of cyclicity.

ACRA notes the high share of unique key products, which are difficult to replicate. For example, the key social network products VKontakte and Odnoklassniki are unique in terms of the Russian market and difficult to replicate due to the need to attract a wide user base. At the same time, global social networks Instagram and Facebook that are gaining popularity every year are capable of competing with these social networks. In terms of the games segment, it is not characterized by technological uniqueness, but instead by the vertical integration of the business with game development competencies on all platforms.

Moderate leverage. Prior to 2019, the Company did not have any debt. In recent years, Mail.ru Group has raised debt financing, including for M&As for business expansion. In October 2020, the Company placed dollar-denominated convertible bonds worth USD 400 mln. At the end of last year, the Company's total debt amounted to around RUB 50 bln, according to the Agency's assessments. There are no peak repayment periods scheduled for the next few years. ACRA expects that the planned bond issue will be used to refinance existing debt. The Group does not plan to increase its leverage in the medium term. According to ACRA's assessments, the weighted average ratio of adjusted total debt to FFO before fixed payments stands at 1.6x.

High profitability stems from the Company's large size. According to ACRA's assessments, the Company's revenues for 2020 amounted to around RUB 103 bln. High revenue growth rates are typical for Mail.ru Group: revenues increased by 46% in 2019 and by 32% in 2018. The Agency expects these high growth rates to be maintained in forthcoming years, mainly due to recovery and further growth of the advertising business, as well as the development of the games segment (through both organic growth and M&As) and new projects. The weighted average FFO margin before fixed payments and taxes is high and stands at around 27%.

Very strong liquidity position and rather high FCF. Very high liquidity is characteristic of the Company. It has credit lines open with banks to a total of RUB 16 bln; liquidity is supported by access to the Russian and global equity capital markets, as well as the fixed income market. Despite the significant volume of capital expenditures, Mail.ru Group has positive FCF.

The weighted average ratio of capital expenditures to revenues is 12.8%. Investments include acquiring new companies, developing joint ventures with Alibaba and Sberbank, and creating new service lines and developing existing ones. FCF is supported by strong cash flow from operating activities (the Agency assesses CFO at RUB 30 bln for 2020; as business grows in the forthcoming years this indicator is expected to increase to RUB 40 bln and RUB 47 bln in 2022 and 2023, respectively). Mail.ru Group has not paid any dividends in the past three years.

High level of corporate governance. ACRA assesses the Company's strategy as very strong. Mail.ru Group has achieved fairly high growth rates and stable market positions in its main segments due to the technological improvement of its products, as well as through expansion through the acquisition of other players. The Company has a functioning board of directors with 10 members, two of which are independent. The chairman of the board of directors is Dmitry Grishin (co-founder of Mail.ru Group). The members of the board of directors have extensive experience of working in the sector. An analysis of voting stocks shows that the largest share in equity capital (57.3%) is held by MF Technologies JSC. Mail.ru Group has a high level of transparency: the Group publishes IFRS reporting on a quarterly basis (auditor is EY) and discloses annual reports and presentations for investors.

Key assumptions

- Average annual growth of revenues at 25% in FY 2021–2023;
- Maintaining FFO margin before fixed payments and taxes within 24–30%;
- Investment program carried out according to the Company's plan;
- Maintaining access to external liquidity sources.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon

A positive rating action may be prompted by:

- Weighted average FFO margin before fixed payments and taxes exceeding 30% at the same time as leverage (weighted average indicator of adjusted total debt to FFO before fixed payments) declining below 1.0x and improvement of fixed payment coverage (weighted average FFO before fixed payment to fixed payments growing above 10.0x).

A negative rating action may be prompted by:

- Weighted average FCF margin falling below 10%;
- Weighted average adjusted total debt to FFO before fixed payments exceeding 3.5x;
- Weighted average FFO before fixed payments to fixed payments falling below 6.0x;
- Average annual CFO growth rates at below 15%.

Rating components

SCA: aa+.

Adjustments: none.

Issue ratings

Key properties of the planned issue

Actual issuer	Mail.Ru Finance Limited
Type of security	Uncertified non-convertible exchange-traded interest-bearing bond subject to centralized title registration
Issue volume	RUB 5–10 bln

Expected credit rating rationale. The planned issue represents senior unsecured debt of Mail.Ru Finance Limited (the issuer), a subsidiary company of Mail.ru Group. The grounds for assigning the expected credit rating are a public irrevocable offer from the parent company (Mail.ru Group), as well as an irrevocable offer from one of the largest operating companies.

In accordance with ACRA's methodology, taking into account the high level of creditworthiness and low leverage of the Group, the expected credit rating of the planned issue is equal to the credit rating of Mail.ru Group — AA+(RU) and is set at eAA+(RU).

Regulatory disclosure

The credit rating has been assigned to Mail.ru Group Limited under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The expected credit rating has been assigned to the planned bond issue of Mail.Ru Finance Limited under the national scale for the Russian Federation based on the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

A credit rating has been assigned to Mail.ru Group Limited and an expected credit rating has been assigned to the planned bond issue of Mail.Ru Finance Limited for the first time. The credit rating of Mail.ru Group Limited and its outlook are expected to be revised within one year following the publication date of this press release. ACRA will assign a final credit rating to the planned bond issue of Mail.Ru Finance Limited within 90 days following the publication date of this press release.

ACRA will assign a credit rating to the planned bond issue of Mail.Ru Finance Limited after the final documentation is presented. In case of any significant discrepancies between the final documentation and the preliminary materials, ACRA may change the issue's credit rating against the expected credit rating.

The credit rating and the expected credit rating were assigned based on the data provided by Mail.ru Group Limited and Mail.Ru Finance Limited, information from publicly available sources, and ACRA's own databases. The credit rating and the expected credit rating are solicited, and Mail.ru Group Limited and Mail.Ru Finance Limited participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by Mail.ru Group Limited in its financial statements have been discovered.

ACRA provided no additional services to Mail.ru Group Limited and Mail.Ru Finance Limited. No conflicts of interest were discovered in the course of credit rating assignment.

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