

# VK on the Russian IT market: overview for 2023

In this blog, we have prepared an assessment of the markets in which our products operate over the past year to make our investors more aware of VK's development prospects. The presentation with an overview of these markets for 2023 can be found [here](#).

## Internet audience

In December 2023, according to Mediascope, the number of Internet users in Russia reached 102.7 mn people per month, which is 84% of the country's population over 12 years old. At the same time, 83% of the population uses Internet every day.<sup>1</sup>

VK continues to be the leader in terms of internet audience indicators in Russia. Users of VK services make up more than 95% of the monthly audience of the Russian Internet.<sup>2</sup> That is, almost all Internet users in Russia are users of the company's products. At the same time, on average, each user of VK services engages with two of the company's products daily.<sup>3</sup>

Last year, Internet users spent an average of 5 hours a day online, in 92% of cases they used mobile web and applications.<sup>4</sup> At the same time, users spend an average of about an hour a day in our services.<sup>2</sup>

In 2023, users of the Russian Internet devoted most of their time to social networks (18% of the time spent online), watching videos (18%), chatting in instant messengers (17%), and playing online games (9%).<sup>4</sup> VK projects such as VKontakte, Odnoklassniki, Dzen, VK Video, VK Clips, VK Messenger, VK Play, allow to fill most of the needs of the Internet users.

## Social networks

According to Mediascope, 81% of the Russian population visits social networks at least once a month, while 60% of the population does this every day.<sup>1</sup> AKAR notes the growth of users of domestic social networks: while in 2021 the total number of users of domestic social networks was about 70 mn people, then in 2023 the number of users of domestic social networks/online platforms increased to 101 mn, which means that 70% of the Russian population uses domestic social networks/online platforms.<sup>5</sup>

Social platforms and content services are VK's key business. The company develops VKontakte and Odnoklassniki (OK) social networks, as well as Dzen content platform. According to a study by Brand Analytics, last year VKontakte remained the leader among social platforms in Russia both in terms of the number of active authors and the volume of content they create, OK traditionally retained the second position in terms of content volume.<sup>6</sup>

## Advertising market

One of the key drivers of VK's revenue growth has traditionally been the online advertising revenue. Thus, in 2023, it increased by 40% compared to 2022.

According to AKAR, the volume of the online advertising market in Russia in 2023 amounted to RUB 386.6 bn, showing a 37% growth YoY. According to the Association, among advertisers, all leading positions were occupied by the largest Russian companies, while the audience actively changed its media consumption, after the exit of the largest foreign Internet companies from the market.<sup>7</sup>

According to ARIR estimates, in 2023, the Russian market for interactive advertising and online promotion showed a historical maximum. Its volume increased by 55% YoY and amounted to RUB 807 bn. Investments in traditional segments increased by 32% YoY and reached RUB 427.6 bn. Investments in innovative formats grew by 93% YoY; experts estimated their volume at RUB 379.6 bn. In 2023, the advertising market recovered compared to 2021.

<sup>1</sup> Mediascope, December 2023, Russia 0+, age 12+, desktop and mobile devices

<sup>2</sup> Mediascope, Q2 2024, Russia 0+, age 12+, desktop and mobile devices

<sup>3</sup> Calculated based on Mediascope Cross Web data, June 2024, Russia 0+, age 12+, desktop and mobile devices

<sup>4</sup> Mediascope, average for 2023, Russia 0+, age 12+, desktop and mobile devices

<sup>5</sup> AKAR – Research of domestic and foreign social networks/online platforms (December 2023)

<sup>6</sup> Brand Analytics – Social networks in Russia: figures and trends (autumn 2023)

<sup>7</sup> AKAR – Marketing communications market size in 2023

The exit of some advertising service providers in 2022 generated interest in new, experimental and alternative tools, which led to explosive growth in the innovative segments and significant growth in the traditional ones.<sup>8</sup>

### Video services and music streaming

In 2023, the legal video services market grew by 29% YoY to RUB 111.7 bn, according to J'son & Partners Consulting. Last year the structure of the market revenue by monetization models looked like this: the majority of revenue in the amount of RUB 74.5 bn was generated by SVoD (Subscription Video on Demand) video distribution, showing growth of 47% YoY; with the help of AVoD (Advertising-based Video on Demand) the market earned RUB 36 bn; TVoD (Transactional Video on Demand) distribution earned RUB 0.8 bn; and EST (Electronic Sell-Through) gained RUB 0.4 bn.<sup>9</sup>

The structure of market revenue by consumer segments was as follows: 75% of revenue came from online cinemas; 10% was both from social networks as well as aggregators and information services; and the remaining 5% was distributed between operators and TV channels.<sup>9</sup>

In the SmartTV market in 2023, the number of sales of smart TVs increased by 6% YoY to 7.4 mn units. Among SmartTV users, about a half watch content by subscription, the same proportion of users watch videos for free with advertisements. Very few users buy content once for all (4%) or pay for each view (3%).<sup>10</sup>

VK video services are monetized using the advertising model, consumers have free access to VK Video and VK Clips. In 2023, VK launched a standalone VK Video application and began to actively develop the availability of the service on SmartTV. It is among the viewers of the Smart TV application that the longest viewing time is observed – an average of 125 minutes per day according to the results of Q4 2023 (150 minutes according to the results of Q2 2024). In 2023, VK Clips became the most popular Russian platform for short vertical videos, according to Mediascope. More than 30.5 mn viewers watch VK Clips daily.

According to J'son & Partners Consulting, in 2023, the volume of the music streaming market in Russia amounted to RUB 25 bn rubles, showing a 19% growth YoY.<sup>11</sup> In addition to music, the audience is in demand for other categories of audio content: according to surveys, a third of audio service users also listened to radio, audiobooks and podcasts.<sup>12</sup> VK Music is a significant player in the music streaming market in Russia and contains a huge library of music and audio content, including podcasts, audiobooks and radio. In 2023, VK Music began actively developing the non-musical content line: the “Books and Shows” sections were launched, which united a wide base of podcasts and audiobooks, and the “Radio” with the main federal radio stations of Russia.

### Corporate software, including cloud services

VK is an active participant in the corporate software production market. Licensed products and cloud services based on VK technologies meet the key needs of businesses of any scale — from large companies to medium and small enterprises in various sectors of the economy. The product portfolio is structured in four lines: communications, interaction, productivity; cloud technologies and data management solutions; solutions for financial and operational management; automation of HR processes. The main growth drivers of the segment are the cloud services of the VK Cloud platform and the VK WorkSpace communication solutions.

The Russian unified communications market in 2023, according to J'son & Partners Consulting, amounted to RUB 81 bn. In addition to corporate communications software, this market includes corporate telephony and sales of equipment for video conferencing systems. In the next five years, it may double and reach RUB 164 bn, which corresponds to an average annual growth rate of 15%. At the same time, sales of domestic solutions for unified communications will grow fourfold in the coming years – to RUB 149 bn in 2028 compared to RUB 37 bn rubles in 2023, which corresponds to an average annual growth rate of 33% and more than double the market growth rate. This may lead to an increase in the share of domestic solutions from 45% in 2023 to 91% in 2028, which demonstrates a shift in the interest of the digital communications market towards solutions from Russian vendors. At the same time, sales of domestic software for corporate messengers will reach RUB 28.2 bn in 2028, compared to RUB 2.8 bn in 2023, and will grow by an average of 59% per year. Sales of corporate mail solutions (mail servers in the customer's circuit, etc.) will reach RUB 20.9 bn in 2028, compared to RUB 3.9 bn in 2023, the average annual growth rate will be 40%.<sup>13</sup>

As for cloud and infrastructure services, the market continued to experience growth and development in 2023. According to iKS Consulting, its volume could amount to RUB 121.4 bn, showing a growth of 34% YoY. The main

<sup>8</sup> ARIR – Interactive advertising and online promotion market size in 2023

<sup>9</sup> J'son & Partners Consulting – Research of the Russian legal video services market in 2023

<sup>10</sup> J'son & Partners Consulting – Research of the SmartTV market in Russia in 2023

<sup>11</sup> J'son & Partners Consulting – Research of the Russian ecosystem market in 2023

<sup>12</sup> Mediascope, BrandPulse, 2023, Russia 0+, age 12-64

<sup>13</sup> J'son & Partners Consulting – Research of the Russian unified communications market in 2023

market segments, PaaS and IaaS, are estimated at RUB 20.6 and 100.8 bn, respectively.<sup>14</sup> VK estimates the annual market growth rate for 2023 in the IaaS and PaaS segments at 28%. We estimate the total annual growth rate for cloud services and infrastructure software, including data management software, at 20%, as a result of which, according to the company's estimates, the market volume of cloud infrastructure services and software could amount to RUB 440 bn in 2027.<sup>15</sup>

According to the CSR study, in 2023, the DBMS<sup>16</sup> and data processing tools market almost completely offset the decline of 2022, and its total volume reached RUB 67 bn (an increase of almost 20% YoY). In recent years, the demand for Russian DBMS has accelerated: if in 2021 the share of Russian software was 36%, then in 2022 it grew to 66%, and in 2023 – to 82%.<sup>17</sup> The average annual growth rate of the DBMS and data processing tools market in 2023-2027 is estimated at 25%.<sup>18</sup> By 2027, the market is expected to grow 2.5-fold compared to 2023 and will amount to RUB 170 bn.<sup>17</sup>

## Online education market

VK is an active player in the online education sector and is strengthening its position in the children's education, as well as secondary and additional professional education segments by acquiring and developing using its own resources up-to-date products and solutions. In 2023, VK consolidated the largest educational platform Uchi.ru and the online school for classes with tutors Tetrika, taking a leading position in the individual learning and tutoring segments. VK also embraces the Skillbox educational holding, which unites the platforms Skillbox, GeekBrains, Skillfactory, Lerna and Skillbox English. The holding occupies a leading position in the additional professional education subsegment in Russia.

The total revenue of the top-100 largest EdTech companies in Russia for 2023 amounted to RUB 119 bn, showing a 32% increase YoY, according to Smart Ranking. Additional professional education and children's education remain the main segment of the Russian EdTech market (35% and 30% of the total revenue of the rating participants, respectively). However, the children's education segment demonstrated higher growth rates than additional professional education (39% versus 27%).<sup>19</sup>

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## About VK

VK is one of the largest technology companies in Russia by user numbers. Its products help millions of people with their day-to-day needs online. More than 95% of the Russian internet audience use VK services, which enable people to keep in touch, play video games, master new skills, listen to music, watch and create video content, discover and buy goods and services, and fulfill wide range of other needs. The company provides a number of solutions for digitizing business processes, from online promotion and predictive analytics to corporate social networks, cloud services and enterprise automation.

Since January 1, 2024, Mediascope has been using an adjusted algorithm for tracking user activity on websites, which has had an impact on VK audience metrics and time spent, as well as on all web-resources on the Russian internet segment.

<sup>14</sup> iKS Consulting – Russian cloud infrastructure services market in 2023. Data for 2023 – forecast

<sup>15</sup> Including an aggregated assessment of the cloud services market (IaaS and PaaS) and private clouds, as well as infrastructure software: within the framework of DBMS software and data processing tools, the company relies on the assessment of the CSR

<sup>16</sup> Data storage, processing and management tools

<sup>17</sup> CSR – Market of data management and processing systems in the Russian Federation (May 2024)

<sup>18</sup> Company calculations based on CSR estimates

<sup>19</sup> Smart Ranking – Rating of the largest companies in the Russian EdTech market in 2023