

# VK advertising business

in simple terms

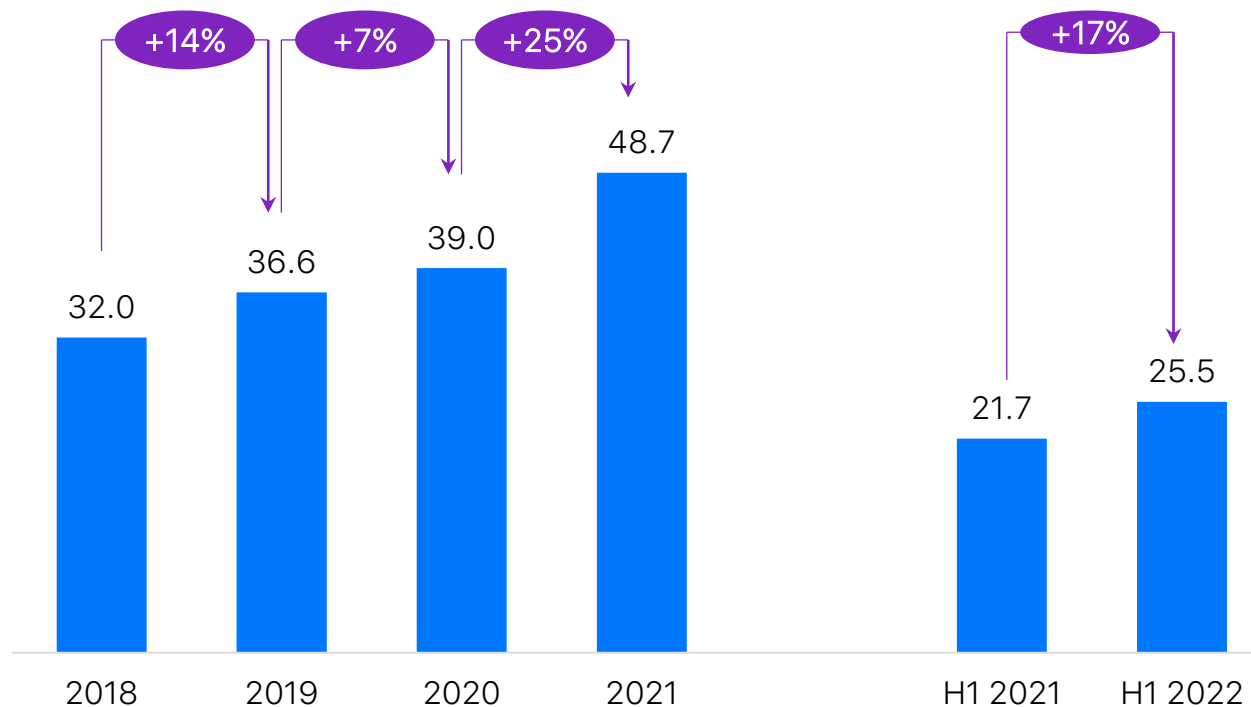
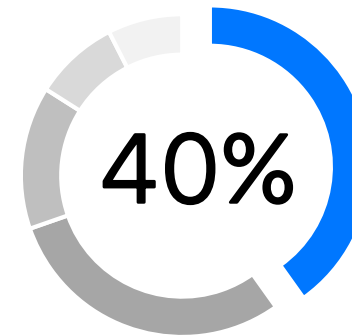


2022

# VK advertising revenue

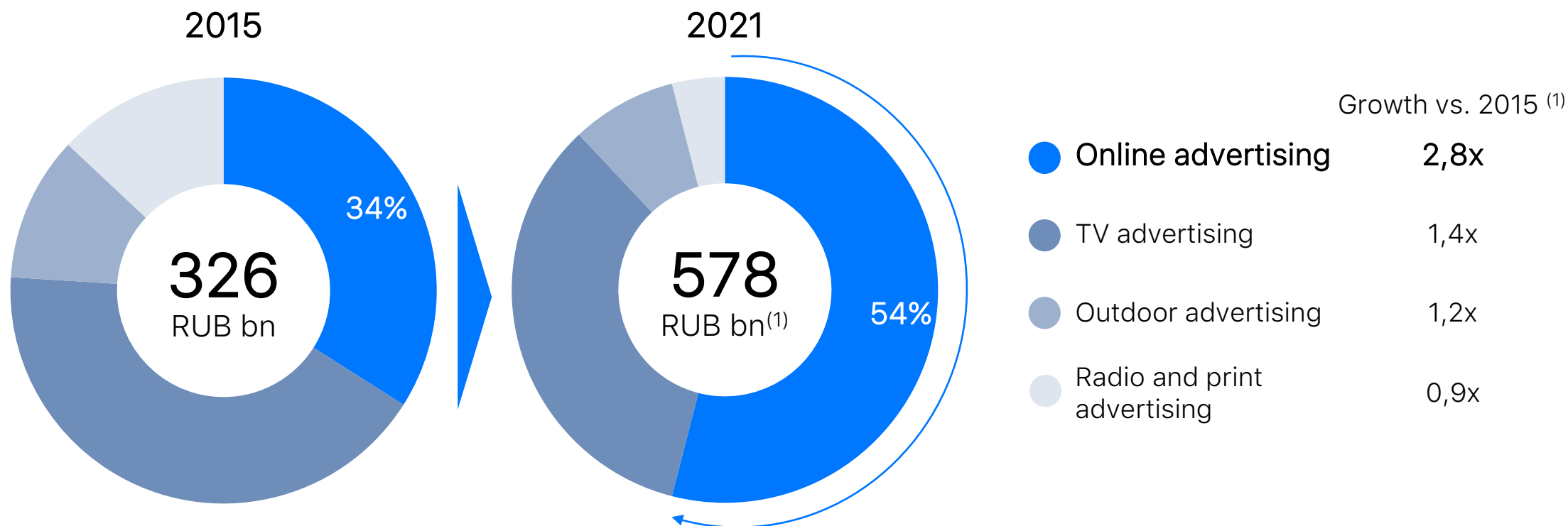
Online advertising is VK's largest source of revenue (~40% in 1H 2022).

VK revenue from online advertising, RUB bn <sup>(1)</sup>



Online advertising revenue share in VK's total revenue in H1 2022

# Advertising market in Russia



- Online advertising market in Russia almost tripled since 2015.
- The share of online advertising in total advertising budgets increased by 20 p.p. since 2015, having exceeded 54% in 2021.
- On average, globally, online advertising accounts for ~65% of the advertising market, with a projected increase to 70%+ by 2025.<sup>(2)</sup>

# Advantages of online advertising

- 1 Access to a large and growing Internet audience
- 2 A wide range of options for selecting the target audience (targeting)
- 3 Transparency and measurability of results: development of end-to-end analytics tools
- 4 Fast user path to checkout/purchase
- 5 Variety of ad technologies, formats and placements
- 6 Affordability/accessibility for medium, small and micro businesses

# Factors that affect the auction price

1

**Size of the audience** that visits VK resources and **time** it spends there

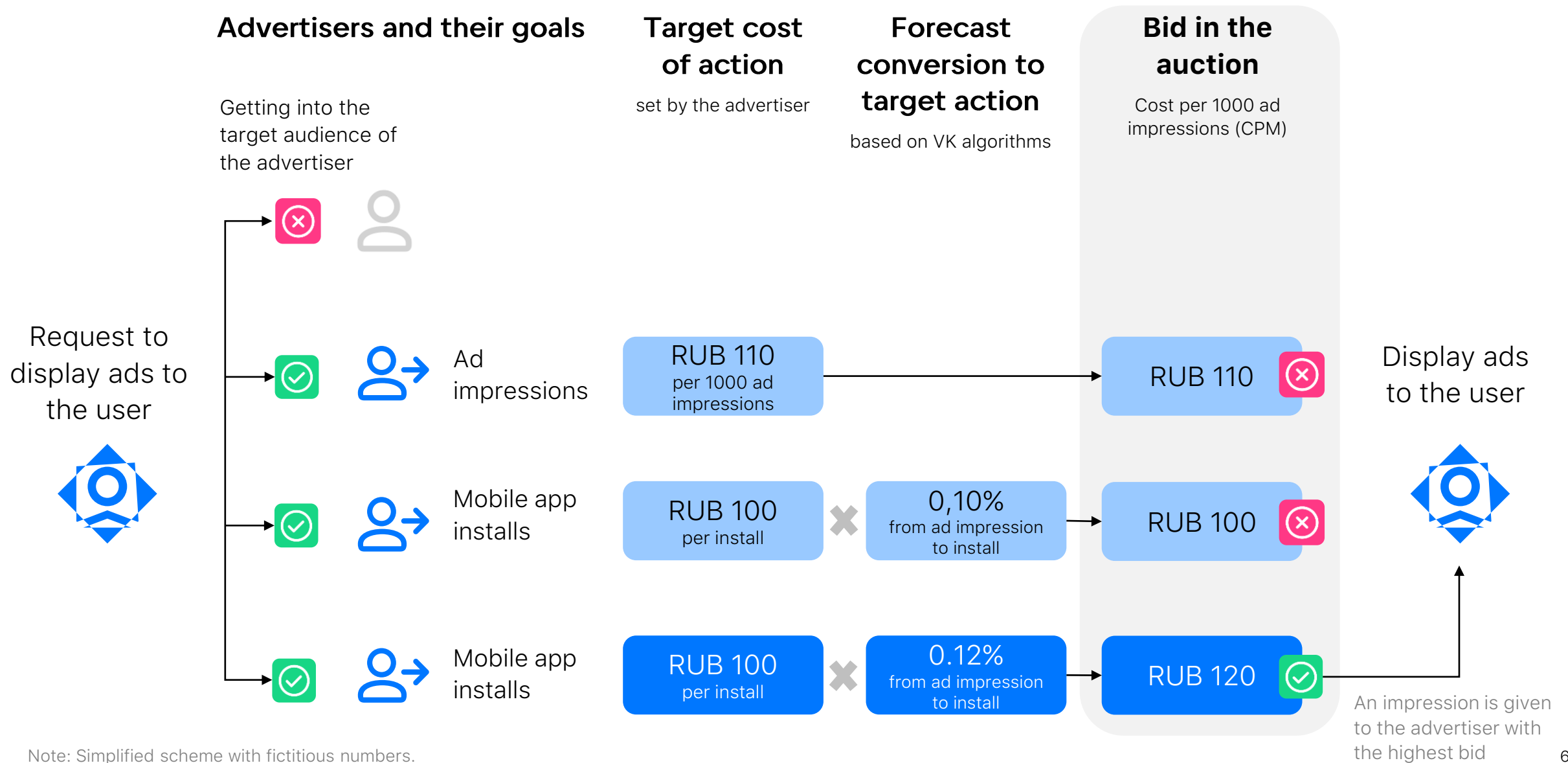
- These parameters determine the amount of advertising impressions that we can realize
- >90% of the Russian Internet audience use VK products and services, which is supportive
- Ad impressions in the ad network: >3K external websites and 18K mobile apps host ads from our advertisers on own platforms

2

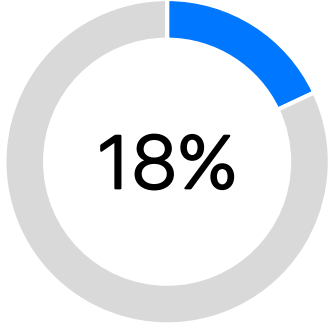
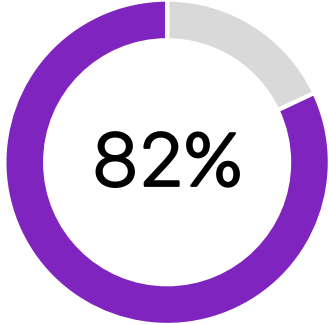
**Price** that an advertiser is willing to pay to display an ad

- The majority of our advertising revenue comes from the advertising auction
- The cost of each ad impression is determined in a real-time auction: the more advertisers claim to show ads to the user, the higher are their bids
- An impression is given to the advertiser with the highest bid

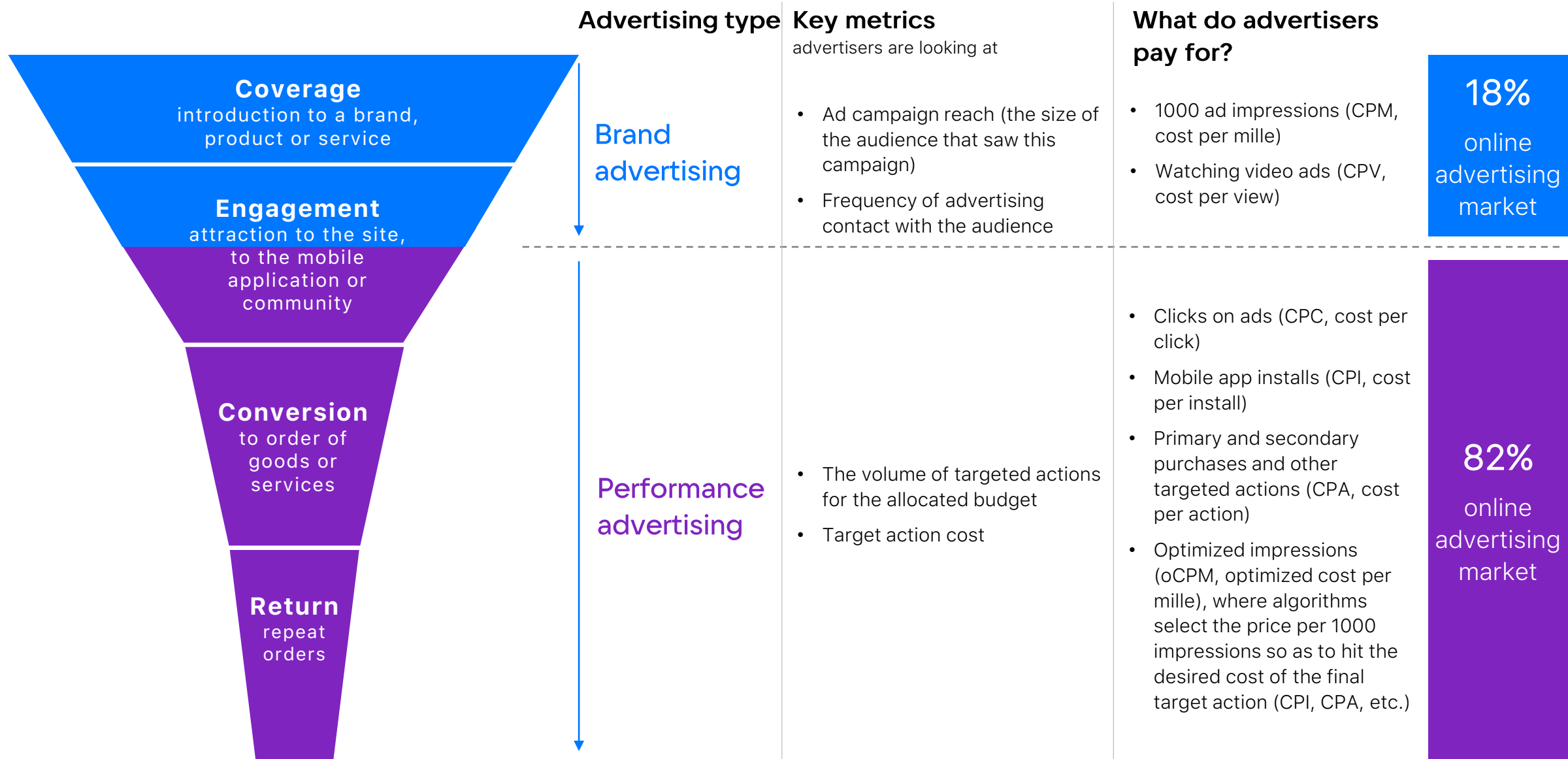
# Pricing scheme in an advertising auction



# Advertising effectiveness metrics

| Advertising type               | Market share of online advertising segment in Russia <sup>(1)</sup>                           | Advertising goal                                                                                                          | Examples of some of the key advertisers                  |
|--------------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| <b>Brand advertising</b>       |  <p>18%</p>  | Introduce own brand, product or service to as many people as possible, increasing brand awareness and preference          | FMCG, household appliances, electronics, pharmaceuticals |
| <b>Performance advertising</b> |  <p>82%</p> | Bring a client to a website, mobile application or community and encourage to place an order, submit an application, etc. | E-commerce, finance, online entertainment and gaming     |

# Advertiser goal funnel



Source: Market share according to Interactive Advertising Development Association (ARIR, former IAB Russia) data for 2021.

# VK technologies and tools for searching and interacting with the audience

## Platforms for advertising and interactions with clients



## Ad Technologies

- Targeting based on VK big data
- Audiences of external data provider (Data Marketplace)
- Customized audiences based on VK big data
- Customized audiences of e-commerce data providers (Sales Promo Ads)
- Customized audiences based on the client's data

## Channels Formats

- Online-advertising
- Digital audio ad
- Digital outdoor ad (DOOH)
- Digital Indoor ad
- Video ads Smart TV

## Non-ad tools

- Social-commerce
- Engaging community content
- Personalized communication

## Extended capabilities

- CDP to manage and process data
- App Marketplace (external apps)
- Innovative solutions
- Solutions for digital transformation
- Pulse content recommendation service
- Relap Native ad network

# Our approach to development of advertising products



Strengthening our position in the **Brand** advertising segment

## Competitive advantages

- Wide audience coverage (>90% of Russian Internet audience use VK products and services)
- High audience engagement
- Diverse targeting opportunities
- Wide pool of integrations with external partners: retailers, panels of research companies, verifiers



Growing market share in **Performance** advertising while maintaining leadership in Branding advertising

## Key goals in focus

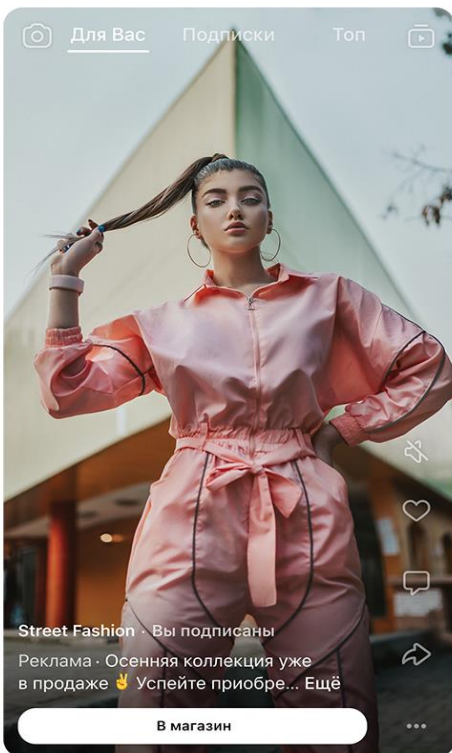
- 1 Launch of **new ad formats** in growing market segments (video ads, e-commerce ads, mobile app ads)
- 2 **Transition to automated advertising campaigns** that allow advertisers to show ads to users who are more likely to take a targeted action
- 3 Development of simple and effective advertising tools for medium, small and micro businesses

1

# Development of new advertising formats in growing market segments

## Ads in-between Clips

short vertical videos



An example of a media format that can also fulfill tasks of performance advertising

## Shoppable ads in long videos

Formats for e-commerce advertisers with a seamless transition from a product ad video to a purchase page(shoppable ads)

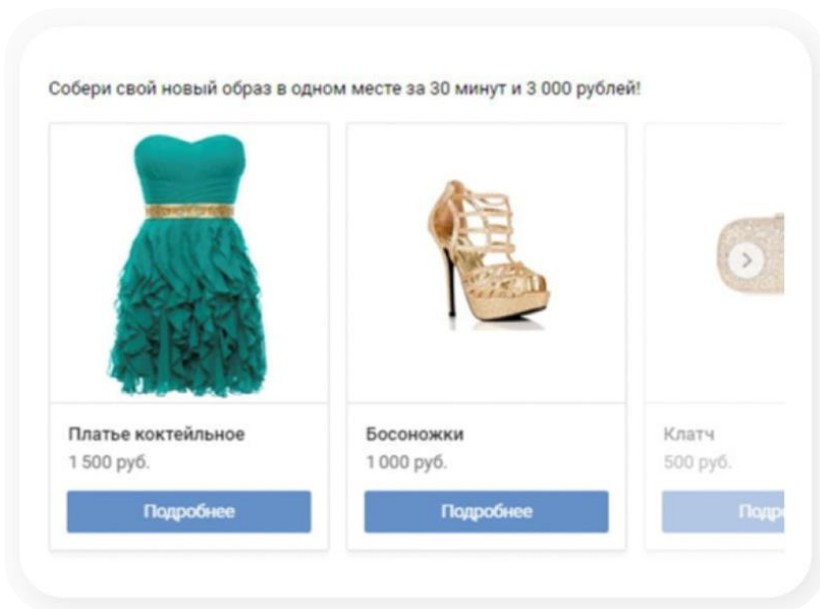


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# Development of new advertising formats in growing market segments

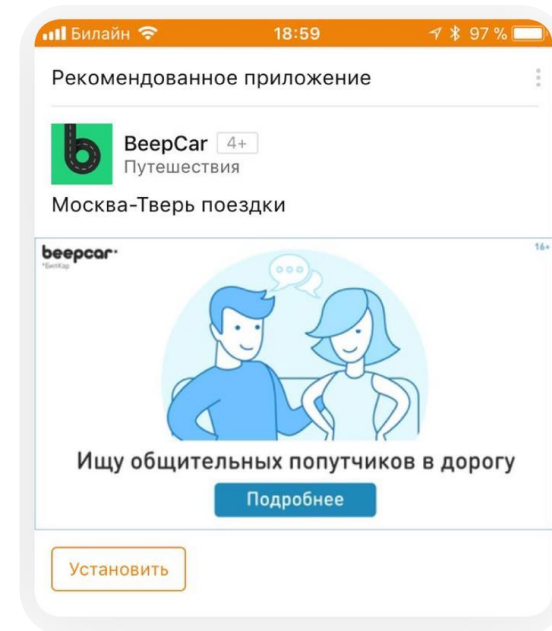
**Dynamic ads** are created automatically from product feeds and help to attract new clients on the site or into the brand's app

## Advertising with dynamic product cards



Formats for advertising **mobile applications** with a call to install or make a conversion within the app

## Advertising with a call to install the app



# Transition to automation



**VK Реклама**

new advertising platform  
launched in April 2022



**High  
performance**

through automation



**Ease of  
management**

thanks to the three-level  
structure of campaigns



**Quick launch**

by adapting ads to all  
platforms



**Smart targeting**

by displaying ads based  
on user preferences

- The first version of the platform is available for advertisers promoting **mobile applications**. In the future, it is planned to expand the functionality of the platform to all types of advertised objects.
- Integration of RuStore and VK Advertising for a promotion of mobile apps on Android. Tests have shown that the integration of the platforms tools allows to reduce an installation cost on RuStore users by 20% in average.

# VK Advertising

Combines modern algorithms that allow advertisers to show ads to users who are more likely to make a targeted action

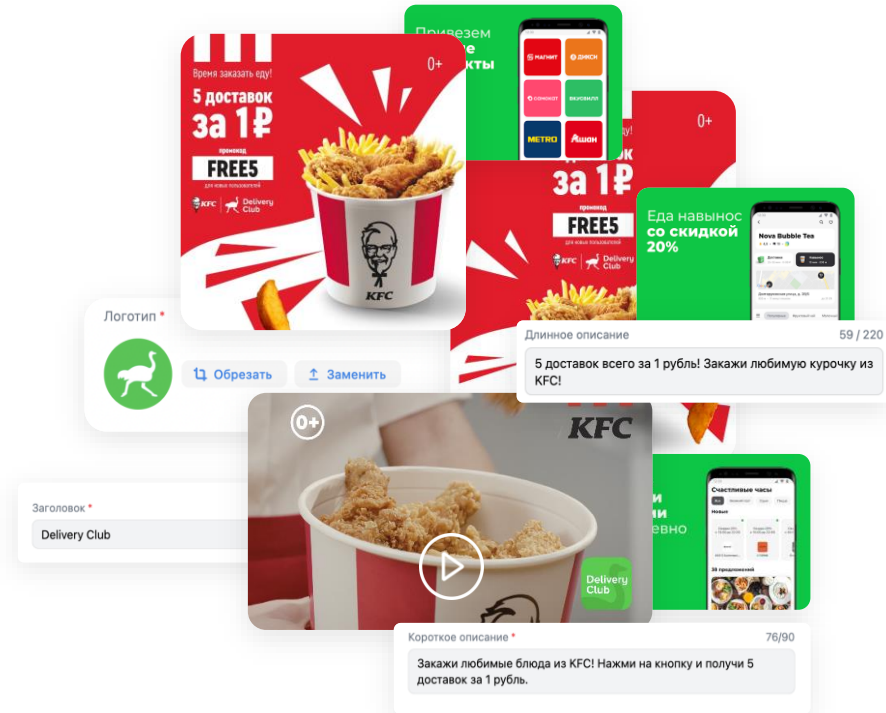
## Algorithms allow:

- 1 to adapt ads to available placements
- 2 to optimize campaigns on target actions automatically
- 3 to manage the bid automatically



# Algorithms for auto-generation of adaptive ad formats

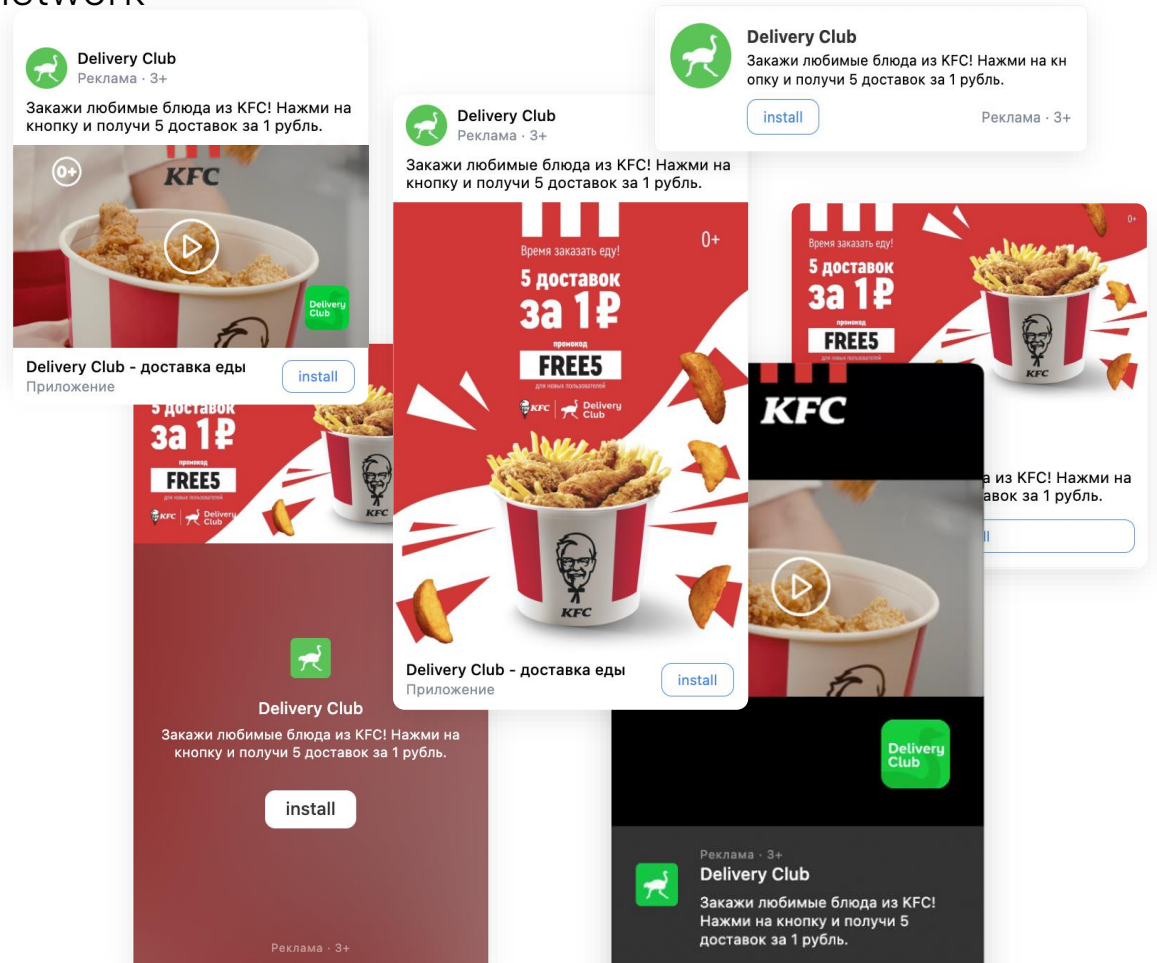
- 1 The advertiser uploads a set of pictures and videos of different sizes



Automatic import  
of app attributes  
from app stores

|                  |            |
|------------------|------------|
| logo             | app name   |
| text description |            |
| all videos       | all images |

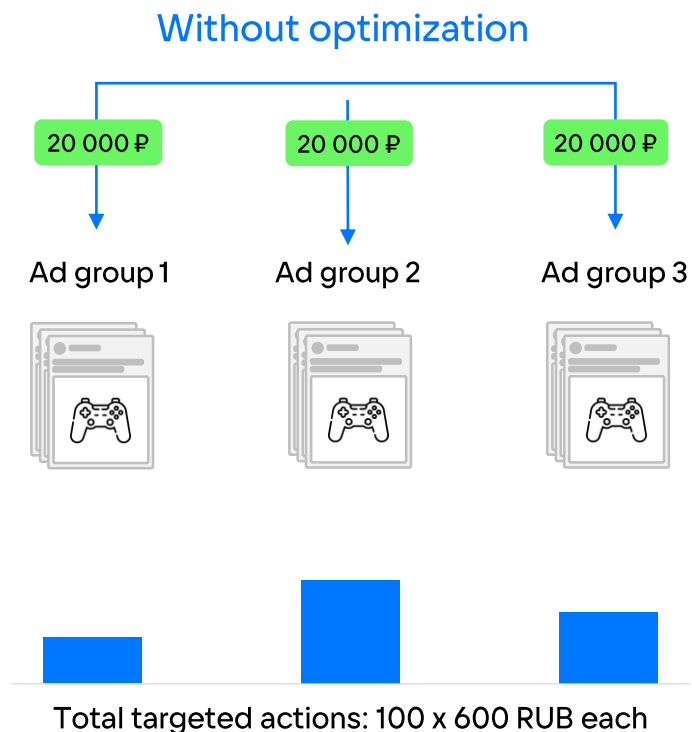
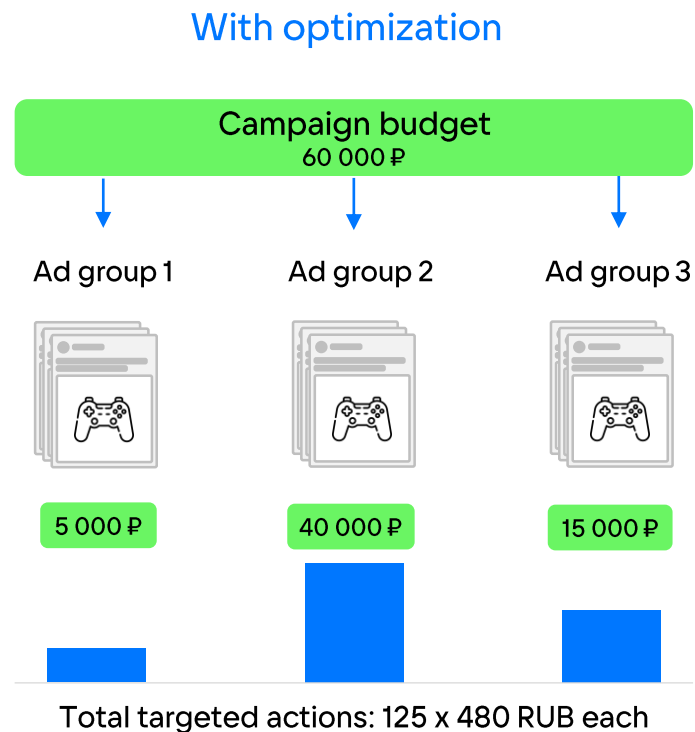
- 2 The system automatically creates different versions of ads for a placement on available VK sites and in ad network



# Optimization algorithms for target actions

These algorithms find users who are most likely to take the necessary action for the advertiser, and select the most attractive ads for them. The budget will be automatically distributed in favor of the most efficient ads.

## Budget optimization at the advertising campaign level

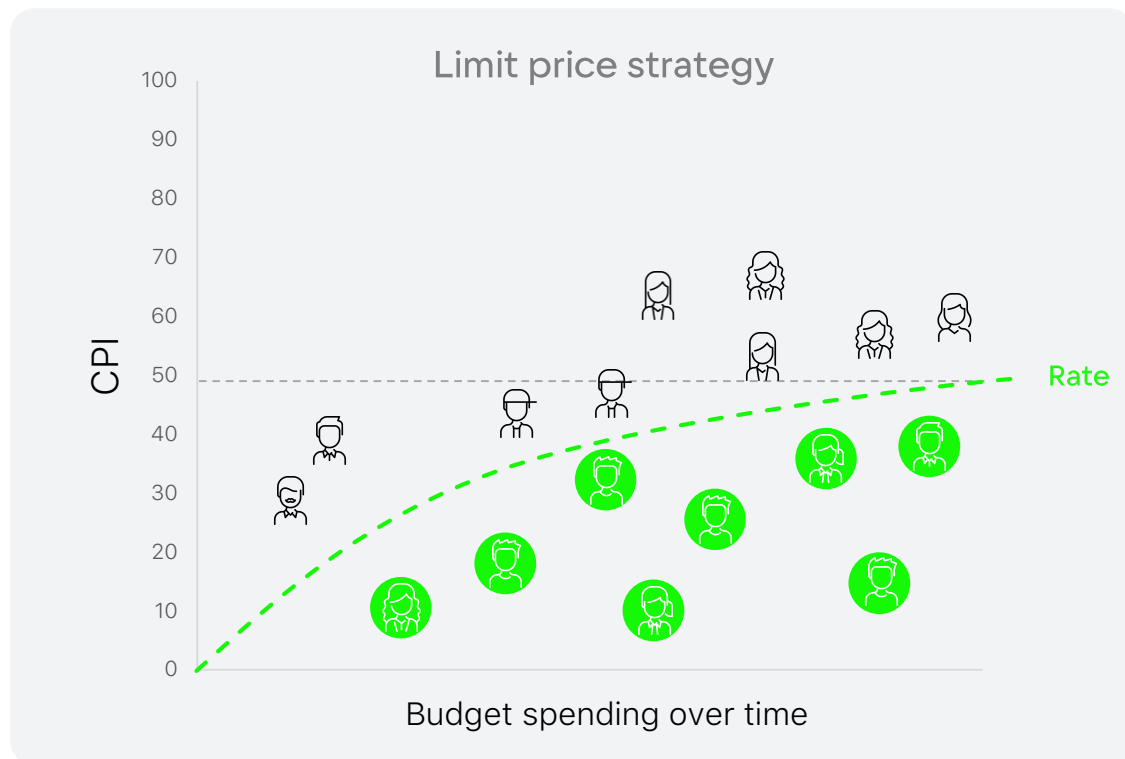


■ The number of targeted actions received from the impression of each ad group

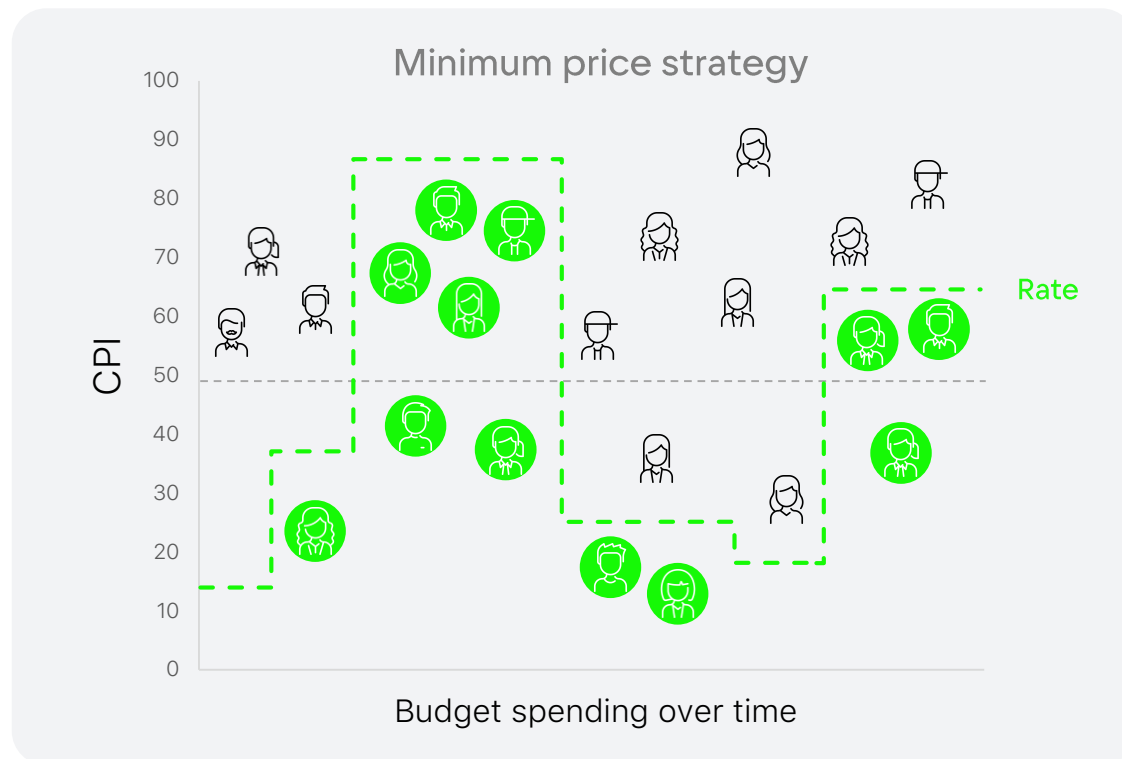
# Algorithms for automatic bid management

These algorithms monitor the advertising auction, raising or lowering the bid depending on the situation. The advertiser does not overpay for each conversion and gets access to a larger volume of the target audience, which previously remained outside the price range of its bid.

Goal "Maximum number of events with a cost limit"



Goal "Maximum number of events for a given budget"



3

## Development of advertising tools for medium, small and micro businesses



>3 mn

SMBs do business on VK sites



2x

Growth of active SMB advertisers in June 2022 YoY

# Drivers for further development of VK advertising business

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Further growth in share of online advertising in the overall ad market over time

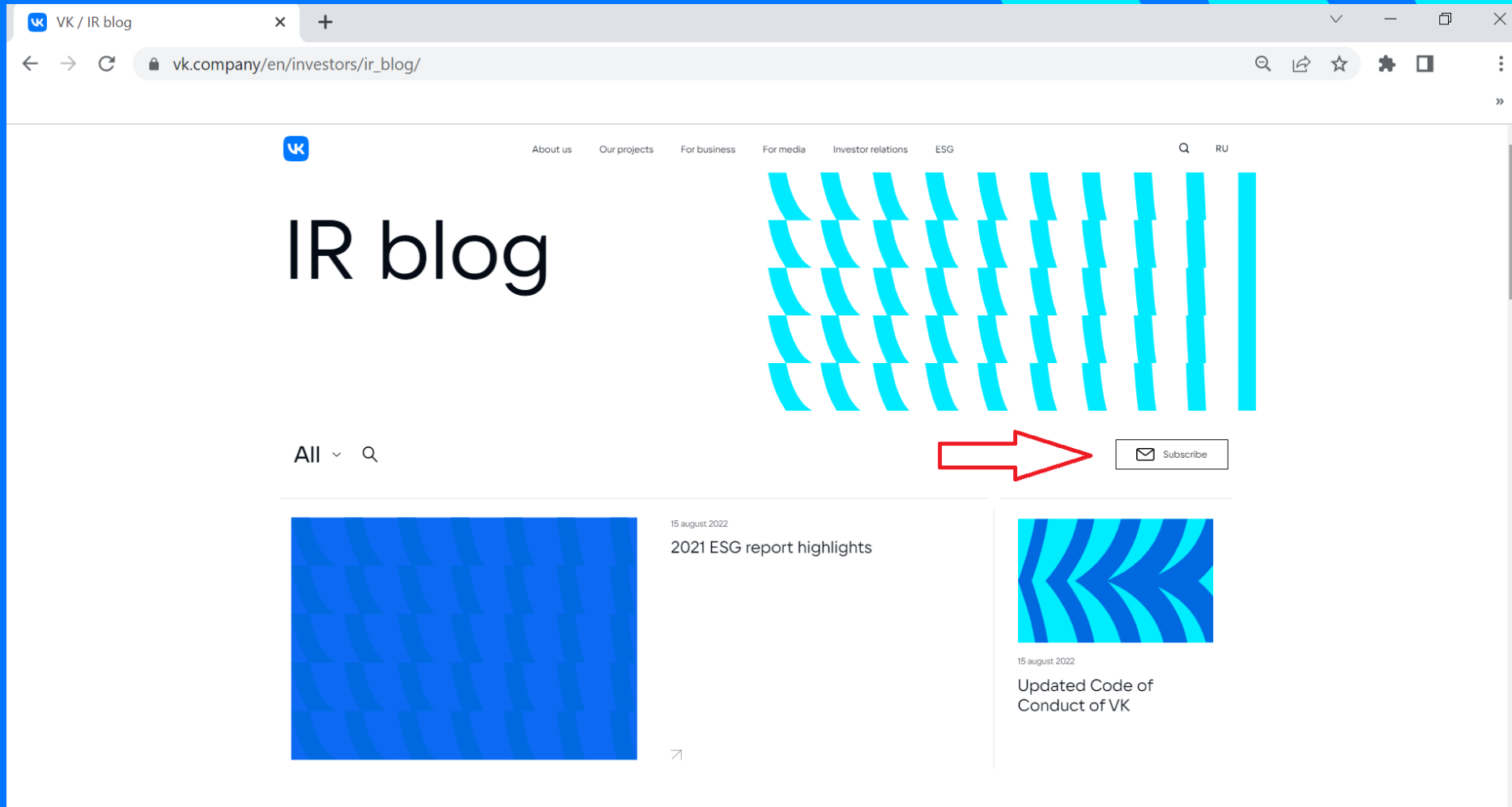
2

Design and development of branding and performance tools

3

Further automatization and simplification of advertising instruments

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