

Q2 2025 AppLovin Earnings Presentation

David Hsiao, Head of Investor Relations:

Welcome to AppLovin's earnings call for the second quarter ended June 30, 2025. I'm David Hsiao, Head of Investor Relations. Joining me today to discuss our results are Adam Foroughi, our Co-Founder, CEO and Chairperson; and Matt Stumpf, our CFO. Please note, our SEC filings to date as well as our financial update and press release discussing our second quarter performance are available at investors.applovin.com.

During today's call, we will be making forward-looking statements, including, but not limited to, the future development and reach of our platform including the expected timing of product launches, our expected growth opportunities, the efficiency of our operations, the expected future financial performance of the company, and other future events.

These statements are based on our current assumptions and beliefs, and we assume no obligation to update them, except as required by law. Our actual results may differ materially from the results predicted. We encourage you to review the risk factors in our most recently filed Form 10-Q for the first quarter ended March 31, 2025. Additional information may also be found in our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2025, which will be filed today.

We will also be discussing non-GAAP financial measures. These non-GAAP measures are not intended to be superior to or a substitute for our GAAP results. Please be sure to review the GAAP results and the reconciliation of our GAAP and non-GAAP financial measures in our earnings release and financial update available on our Investor Relations site.

This conference call is being recorded, and a replay will be available for a period of time on our IR website. Now I'll turn it over to Adam and Matt for some opening remarks, then we'll have the moderator take us through Q&A.

Adam Foroughi, Co-Founder, CEO & Chairperson:

Thanks, everyone, for joining us today. We appreciate your time and interest.

Q2 2025 was another great quarter, driven by continued strength in gaming advertising. Our growth comes from improved technology, increased demand, as well as supply side expansion.

The MAX marketplace creates the supply that drives our growth as well as the growth in the market. As marketing technologies in the industry continue improving, we expect the supply will keep growing quickly. While we don't disclose exact MAX marketplace growth rates, it has consistently been double digits, far outpacing growth in the in-app purchasing gaming market. The ongoing improvement in our models drives sustainable growth rates beyond the market growth rates, while we continue to expand our dominant leadership position.

Based on all the opportunity in front of us in our core market, we are confident we can sustain 20% to 30% year-over-year growth driven by just gaming. However, what gets us more excited now than ever before in our history is the opportunity to really expand outside our core market.

Recently, we took the first step towards opening up our platform broadly, quietly launching our new Axon Ads Manager — our self-service portal, which will serve as the foundation for our next decade of growth.

Our ads manager has many benefits. It puts day-to-day controls directly in advertisers' hands, reducing friction. It enables credit card billing, eliminating the hassle of monthly invoicing. It provides the architecture for agents that can eventually automate every workflow. It establishes the framework for automatically generated ads. It simplifies onboarding through our recently launched Shopify app. It deepens integrations with attribution providers, giving customers more accurate reporting.

With the rollout going smoothly, we were ready to widen access. On October 1, 2025, we plan to open the Axon Ads Manager on a referral basis, perfectly timed for the holiday season. Feedback from these partners will guide our global public launch in the first half of 2026. To date, web advertising campaigns have been limited to the United States. On October 1, we plan to open our platform to most major international markets.

Now stepping back, we have spent the last decade assembling the pieces: reach of more than 1 billion users, best-in-class optimization and now a self-service interface. Together, they position us to help any business of any size anywhere in the world grow profitably. That is good for our partners. It's good for economies around the world, and it's great for job creation.

The opportunity is so big that we will be launching the platform under its own brand, Axon. Once Axon is fully open next year, we plan to begin paid marketing to recruit new advertisers, which will drive predictable compounding growth.

We have been building performance-driven advertising products longer and better than most anyone. Operating at our current scale with an incredibly small amount of advertiser relationships highlights the magnitude of the opportunity ahead. Our strategy is simple: build world-class products, launch them when they meet our high bar and compound from there.

Patient, disciplined execution produces durable success, and we hope our track record gives you the same confidence we have in our future. We're incredibly excited about what's ahead. With that, I'll turn it over to Matt for a closer look at the numbers.

Matt Stumpf, Chief Financial Officer:

Thanks, Adam, and thanks to everyone for joining us today. Q2 was another exceptional quarter for AppLovin. At the end of the quarter, we closed the sale of our Apps business to Tripledote Studios. This quarter, the financial results for the Apps business are included within discontinued operations, and we will keep our commentary limited to the Advertising business only.

During the quarter, revenue increased by a very healthy 77% from last year to approximately \$1.260 billion, while Adjusted EBITDA nearly doubled to an impressive \$1.020 billion, achieving an 81% Adjusted EBITDA margin. The majority of our revenue growth in the quarter was driven by our core gaming business. While e-commerce continues to perform well, we limited onboarding of new customers to focus on the preparation for the self-serve launch in Q4.

Quarter-over-quarter flow-through from revenue to Adjusted EBITDA was a very strong 81%, illustrating our continued dedication to operating lean. At the end of the second quarter, we had \$1.2 billion in cash and cash equivalents, which includes \$425 million in net cash received from the sale of the Apps business.

In the second quarter, we generated \$768 million in free cash flow, up a staggering 72% year-over-year. Our free cash flow was slightly lower than last quarter due to the timing of payments for interest on our bonds, which are semiannual, and certain taxes associated with the prior year.

This quarter, we repurchased and withheld approximately 900,000 shares for a total cost of \$341 million, funded through free cash flow. As a result of our ongoing strategic share management activities, we were able to reduce our weighted average diluted common

shares outstanding this year from 346 million in the fourth quarter to 342 million this quarter.

Finally, turning to our financial guidance for next quarter. In the third quarter of 2025, for the Advertising business, we anticipate delivering between \$1.320 billion and \$1.340 billion in revenue, with Adjusted EBITDA between \$1.070 billion and \$1.090 billion, targeting an Adjusted EBITDA margin of 81%. We're confident these targets position us to continue driving strong growth and value for our partners and shareholders.

Now with that, let's move to Q&A.

Operator: *[Operator Instructions]* Our first question will come from Matthew Cost from Morgan Stanley.

Matthew Cost:

On your plans to start doing paid marketing next year – talk to us a little bit about how you arrived at this decision to market to acquire advertisers because I think historically, it's been mostly growth by word of mouth and sort of virality within the gaming industry that people become aware of your products

So why is now the right time to start marketing? What channels are you going to market through? And how are you going to evaluate the return there? A

And then I have one follow-up.

Adam Foroughi:

Matt, good to see you. So, look, we've got big aspirations with our platform. The advertising solution right now for web commerce advertisers and, more broadly, other categories we've talked about is looking really strong. Obviously, we have very small penetration in terms of advertiser base against what our global advertisers count. And the way we look at our business is, if the model works this well at this small amount of penetration, what happens when we can really open it up and go service all the small businesses in the world?

Our aspirations are to help any business of any size be able to acquire customers profitably.

And if we can do that, we'll achieve the goals that we've set for ourselves. So the value of us being able to go out in performance market the platform is that we've got one of the most lucrative financial models the world has ever seen.

I mean, obviously, you can see the amount of cash that we print. So we're very good performance marketers. It's plausible that we will be using our own models to recruit advertisers off of our own inventory. There's plenty of moms with small businesses and dads with small businesses sitting in games, playing games all day, that could use our platform to market themselves. You can imagine us running ads on Facebook, on LinkedIn, on TikTok.

But it really comes down to the fact that we've got such a lucrative financial model and we try to run lean and automate every step of that process. And we believe that if we can automate the onboarding of advertiser flow from when an advertiser can find out about us from an ad all the way through to going live and scaling on our platform, the model will be very lucrative on an LTV to CAC basis, and we won't have to staff up a large sales force.

Matthew Cost:

Great. And then on the supply side, you made some comments in the prepared remarks about some strong supply growth that you're seeing. Given that MAX is kind of already starting from such a strong position, is the further growth a function of just taking even more share in mediation?

Is it about ad load increasing to the customers you already have? I guess where is the supply growth coming from?

Adam Foroughi:

Yes, look, we talk a lot about the market in mobile gaming and people fixate on the in-app purchasing market. And what we're trying to do is just highlight the fact that our business grows from improvements in technology and demand, which drives CPM and expansion of supply. The MAX mediation platform is really high penetration into the market, so we're not going to be able to grow it particularly quickly by taking more mediation from other platforms at this point.

What we were highlighting was that the base platform — just the audience inside MAX — is growing swiftly, double-digit growth, so multiples greater than what you'd expect when people try to size up the gaming market growth rates of 3% to 5%.

The other thing that is super valuable to understand in that is that inside that marketplace, we historically have always talked about how there's not a share gain concept. As the marketing platforms improve, the platform grows. The eyeballs playing games play more games every single day. Inventory goes up.

That drives growth on our platform. It drives growth on the platforms that are the other bidders inside that ecosystem. And then we benefit the most because we're taxing every transaction for the most part that happens outside of us at the MAX fee. And then obviously, our own DSP is a super lucrative business model when we win the inventory.

Operator: Next, we'll hear from Ralph Schackart with William Blair.

Ralph Schackart:

Just two if I could. On the self-serve platform, Adam, maybe you could sort of frame this for us. The public launch is coming up, which is exciting. But could this be a pretty material impact to the overall business?

Obviously, it's of good scale today and growing pretty fast, but maybe frame that opportunity.

And then I have a follow-up.

Adam Foroughi:

Yes, sure. I mean let's look back over the last year at our numbers, and then I'm going to give you qualitatively sort of what was going on with growth in the business.

In Q4, we saw a huge ramp-up in the e-commerce category when we went into this pilot state — recruited hundreds of advertisers that we disclosed. And that was a big ramp-up in Q4, where in Q1 we got the full benefit of that run rate. And if you look at the quarter-over-quarter growth, Q4 and Q1 were really high growth rates. Now the reason is that the new type of customer that comes onto our platform is extremely incremental to our business, like we've talked about in the past.

Since then, we knew we had highlighted a whole bunch of things we had to go build into the platform to be able to service advertisers at the level that we like to do. And we like to set a really high bar for the products we deliver.

We wanted to build the ads manager, which we released and will continue to innovate and iterate through. We wanted to build dynamic product ads that came out in the last couple of quarters. We wanted to do better integrations with attribution companies, which happened inside the quarter. And we wanted to launch a Shopify app and other apps that allow for seamless integration across the advertiser base. So we ended up constraining the advertiser onboarding process for a couple of quarters while we made sure the product was at the level we wanted to get it to.

Now we're looking at, in Q4, a referral-based opening. That, in itself, I'm going to define that for you so you understand what we're talking about. But accounts on the platform, they obviously like our solutions because they're spending substantial amounts of money on our platform.

We'll get the chance to refer their colleagues into our platform and have them go live in a self-service way. We expect that will increase the advertiser count quite quickly and also allow us to go through live examples of advertisers coming in self-service all the way to scale on our product. Assuming all that goes well, then we talked about opening up the platform entirely to the world in the first half of next year. We think as advertiser count grows on our business – especially in categories outside of gaming – you're going to see a lot of upside in the numbers that we're able to report.

Ralph Schackart:

Great. Maybe one more if I could.

I think historically you've talked about e-commerce being around 10% or so of the business for this year. Maybe just sort of an update on that if that's current thinking.

And then I think in your prepared remarks, you talked about limited onboarding to e-com customers. Did that sort of limit the growth rate in the quarter had you not limited those customers being onboarded?

Adam Foroughi:

Yes, for sure. I mean, I'll take it in reverse. By constraining the advertiser count, we're limiting growth.

Now we're focused on growing the cohort that's live – which we saw growth from the cohort that's live that Matt, in his prepared remarks, said the majority of our growth came from gaming. So if you assume a large amount of the growth in the quarter came from gaming and you're at roughly 9% quarter-over-quarter, gaming is still a 30% to 40% grower for us – so well above our 20% to 30% long-term goal that we've stated.

Now e-commerce – we went from a state where we ramped it in Q1 and then controlled, as I said, on the advertiser onboarding while we got these tools ready to go. And so, where we were at was that sort of 10% range that we were targeting for the year.

There's a reason I expect it to have grown above that because gaming is growing so quickly. And for two quarters now, we've mentioned that gaming was a big contributor to growth.

As we go into Q4, that's a huge holiday shopping season. So not only are you going to see the cohort that we have live spend a lot more. You're also going to have new onboarding happening for the first time in our history at a rate that's much higher than we will have ever seen before. So we fully expect that e-commerce will see a pretty substantial ramp-up through that – what you can call soft launch period – and then, obviously, as we go into a broader release, the impact from that.

And then the last point to remember is another one of my prepared remarks highlighted that we have constrained the advertisers we even have live today by not allowing them to buy our audience that's international.

The vast majority of our user audience is outside the U.S. We will be releasing almost all markets once we go into the October 1 release.

Operator: Our next question will come from Omar Dessouky with Bank of America.

Omar Dessouky:

Can you hear me?

Adam Foroughi:

Yes, can hear you fine.

Omar Dessouky:

I wanted to take the conversation in a slightly different direction, if I could, and ask about game engine data. And one of your competitors, specifically Unity – which owns a game engine, which 70% or so of mobile games are built on – plans to use game engine data for ad targeting purposes sometime in 2026. Do other companies besides them have access to game engine data?

Do you know if your customers own their own game engine data, and you're able to access it and use it at some point? And do you think it matters?

Adam Foroughi:

Yes. Omar, we can't speak to other people's data. I mean we don't know what game engine data even means. But when you're integrated inside an application, both as a publisher and as an advertiser, you have a lot of data points that you're able to extract that are behavioral data points about how the consumer is playing a game.

We're obviously very good. Our models are cutting edge. AXON 2 has shown phenomenal growth for, I don't know, eight, nine quarters now since release. You have to assume we're pretty good at using the data we have available to us.

So what we don't know, as you didn't define game engine data, is, is there some magical data out there. But our market penetration inside gaming is really large at this point. It's materially higher than 70%. We've got very good visibility into what matters in the gaming category given how large we've become.

What's really going to matter for our business as we go forward is whether we can expand this offering the way we expect to across all businesses of all sizes in any category. If we're able to do that, we will have a much better sense of the consumer on the other side.

And I want to remind everyone: we have 1 billion-plus users, and they're not just gamers. These are human beings doing a whole bunch of things. But the share of wallet from gaming is going to be a minority of the dollars these people are spending outside of gaming. And that's what's really compelling to us as we go into this next chapter in the company.

If our models, already as good as they are with such small advertiser penetration, now go and get visibility into consumer behavior across every category, we're going to be way more predictive about the advertisements we could show the consumer.

Operator: Our next question will come from Chris Kuntarich with UBS.

Chris Kuntarich:

Maybe just on the referral program and how it's going to work functionally. Are advertisers that are currently on the platform going to be given referral bonuses? Is there going to be any restriction in advertisers that they could refer?

You've talked about opening up international inventory — will international advertisers be able to participate in the referral program? And just as we think about kind of this line out the door of advertisers you've been talking about for a while — are they going to get any special look here, potentially, to come in here if they don't get a referral?

Adam Foroughi:

Chris, I can't say we have all the answers to all those questions you asked. We're going to definitely go through an iterative period, too, on the release of the referral program.

But fundamentally, we don't think a ticket into our system is really worth paying for. If someone is a client of ours, they have a lot of benefit from being on the platform. People love using social media. You've already seen a whole bunch of organic posts about us from influencers.

We think as we give them the capacity to invite their peers, they're going to do it on their own because the platform has been restrictive and exclusive for so long. If we see that happen, it's much better organically. And beyond that, the line out the door, we'll still need to most likely get an invite into the platform from one of our customers to be able to get automatically cleared.

Chris Kuntarich:

Right. Okay. Just as we're thinking about the Q3 guidance here — maybe a little bit faster than what we've seen in the past couple of quarters — is there anything reflected here in the

faster sequential growth associated with the Apps portfolio divestiture? And any sort of quantification around that would be helpful.

Matt Stumpf:

Yes, sure. The one change we did make, Chris, this quarter – which is slightly different than our typical cadence that we’ve been doing every quarter – was to include the benefit, as well, that we’re going to see from the divestiture of the Apps business, where we have a slight pickup in revenue. So we incorporated that within the Q3 guidance.

Operator: Your next question will come from Jason Bazinet with Citi.

Jason Bazinet:

I think on the last call, you said that you’re definitely working towards building two AXON models, right? One that’s specific to games and one that’s more focused on e-commerce. You use a new term now. I can’t remember what it is, but I’ll call it e-commerce. But I know it’s more holistic.

When you think about all the data that you had to ingest and the models that you had to build to make the gaming model as good as it is, what’s the right runway that you have in your mind before those two could be at parity in terms of efficacy?

Adam Foroughi:

I mean, look, Jason, it’s a great question.

One, there’s no way to know that, right, because that’s future-looking and we’re going to go acquire a lot of data as we open up the platform. But in terms of architecture of the two models, the two models are distinctly different because, on the one hand, a user is going to a website and on the other hand, a user is going to an app store, and that app store isn’t even something that we can measure. And so you have two very different frameworks.

And then as you touched on in gaming, when we launched AXON 2.0 we already had pretty good market penetration. Now we didn’t work with the largest customers, so we continue to get better as we broke into the largest customers in the category. But I want to say we had 50%, 60% penetration — and now gaming penetration, as you all know, we’re almost a requirement at this point given how good we are.

In e-commerce, when we launched in the pilot, why we were so excited about the result is that the first beauty shop that went live — the model knew nothing about the shopper behavior inside the beauty category. And we talked about this. That was the big concern: Could AppLovin's tech actually go out and figure out predictively how to convert a user to go buy from a beauty store with no knowledge?

Now we've talked about the one disclosure we gave: hundreds of e-commerce businesses live on the platform. That's a pathetic amount versus the grand scope of how big these categories are. I mean, Shopify alone has millions of shops, right? So you have so much potential for data accumulation.

And then just remember, the data in our platform is not unique to one or the other part of the business. So we've always felt that games will benefit a lot from our ability to break into other categories. You can imagine if someone buys a \$4,000 handbag from a store, that person is probably a whale in a match-three game.

Now I can tell you that, but I can tell you the technology is going to come up with a lot of cross-correlations and conclusions that are a lot more powerful than that. So in terms of the opportunity for us, not only does opening up the platform get us more demand — which is going to be massively accretive and incremental to our business — it gets us more data.

And so, every single quarter, you're going to have that flywheel effect that, then paired with our engineers' ability to take added data and improve the technology and its interpretation of that data, creates a really strong foundation for growth for a long time to come.

Operator: Next, we'll go to Rob Sanderson with Loop Capital.

Rob Sanderson:

My question is on improving performance for your web-based advertisers. Again, as we speak to pilot customers, obviously, we hear you're highly effective at driving conversions, but really lacks a lot of basic targeting functions — small things like just excluding existing customers, et cetera.

They see — this seems pretty simple to solve for, but maybe not when you're multi-app inventory. I don't know. I mean the question is really targeting and other improvements that web-based customers are asking for.

Are these largely things that you've already seen and solved for gaming customers and it just takes time to collect feedback and work optimizations into product, et cetera? Or are you really solving for a whole new set of challenges, maybe some of both?

Adam Foroughi:

Yes, it's a great question.

So, look, when we got into the space, it surprised us how much of the market Meta advertising was in the D2C space — and it was the majority. And when you have one platform that's that big, everyone wants every other platform to give them the same exact tools.

Now, we don't have an e-mail address or that persistent identifier that matches up with their audience data. So technically doing an exclude is not going to be as accurate as what Meta can deliver to these advertisers.

There are other nuances and differences. We serve a full-screen advertisement, and then can pair the video with a dynamic product ad. That creates more intent for shoppers. So the vast majority of all the transactions we drive happen within an hour or two, and the vast majority of the transactions Meta drive — they take attribution for a much longer time frame.

So are these differences between platforms, but advertisers like comfort. They like what they know. They want to stick with the same processes. What we believe — because we can see it — our ads drive a lot of intent and drive to conversions very, very quickly. And we've been able to extract a lot of value out of the space.

I mean if you take the disclosure I gave you in — I think it was Q1, hundreds of advertisers, I believe it was in the 600s and a \$1 billion run rate. The market penetration in terms of market of scale of advertisers to total market is probably 1% or less in that number. And to get to \$1 billion run rate, clearly, even if they're complaining about missing features, the money is showing up at a level you wouldn't expect for that little market penetration.

Now the last thing I'll leave you with is we do believe in automation entirely throughout the funnel. We don't allow gaming companies to use any sort of manual targeting in our platform. The platform allows them to input a goal, put it in a budget and get that result. And

that's what they pay us for – the technology being extremely precise and removing that human mind out of the equation. We bring the same view to this category.

All these technologies in advertising are going to move to AI, automating most of the funnel in the future. We've already done that in our largest business, and we are committed to doing that in this category – and not allowing people to override what is a smarter system than the human being.

Rob Sanderson:

If I could ask a follow-up – you've said in previous calls that you're going to be patient and we want a great experience for all customers before you open up. And you said, I think, 80% are having good outcomes, but maybe 20% aren't.

But – so October 1, obviously, you're still referral-based, so you're not completely open, but it's definitely a big step forward. So can we infer that it's largely improving performance that's informing that decision to go bigger? And if so, how would you grade that? Or any commentary on performance?

Adam Foroughi:

Look, last call, I laid out a list that I thought would take quarters, and our team knocked out most of that list in a single quarter. We got the Shopify app integration live. We don't announce these things, but you can find the app in the Shopify App Store. It creates one click integration.

We got dynamic product ads live that made a material uplift to the ability for the advertiser to run a video plus inventory ad to then transact the user in a very short amount of time. We did more in-depth integrations with the attribution companies, which we talked about last time. It was really important so that we can report the same way that the advertiser looks at data and then let the model interpret data that way.

We're continuously improving the core underlying model. So as we looked at the advertisers that we have, the growth rate they're seeing is substantial enough and the feedback we're getting is strong enough that we have every reason to open up our platform as soon as we can now.

Operator: Our next question will come from Clark Lampen with BTIG.

Clark Lampen:

I have, obviously, I guess, some follow-ups on the self-serve launch. But I wanted to see, as you're thinking about taking on more customers that are in backlog, onboarding new cohorts and verticals next year — in the near term, is there any significant difference in the customers coming on from a size or product vertical standpoint? A

And then as we think about the referral dynamic, does that have any impact on expenses or margins? Will those customers be given credits or any sort of compensation for bringing on peers?

Adam Foroughi:

Yes. Second one first, Clark. I mean, obviously, the incremental value of a dollar in our business is worth a ton. So if we decide to pay a referral, you know we like to make money — so I wouldn't expect you'll even see it in the margin number. It's just the business is way too big.

But it's very likely that what we look at is what I mentioned earlier. The chance for our clients to tell their peers to come on our platform while we've been exclusive for this long is a perk in itself. So we're not going to see much need to pay for that client acquisition. And then on the first question, if you don't mind, quick recap.

Matt Stumpf:

Customer profile.

Adam Foroughi:

Customer profile, yes — it will vary because we're going to open up to much more count. So far, we've gone through a period where, at first, I think we were constrained to \$25 million, \$30 million of GMV. We dropped it down for a little bit, and we raised it up this quarter to \$100 million-plus to really constrain what's coming onto the platform.

As we open up, the goal that we have is to see that any small business of any type can market on our platform. If we clear that goal, we know we're going to be a product that can be very important to economies and job creation around the world. That's our goal.

Now if we don't see that, we're going to work on that. But we think the product is ready for that. We've seen cases where regardless of size, customers plug in and it works. They can find customers. They can measure the way they need, and they get the result that they would expect to grow their business.

And so if we see that in this referral state, then we're going to be quickly on our way to opening up the business and really pushing it hard.

Clark Lampen:

Okay. And then — not that this is something that's a huge priority right now, but in terms of, sort of long-run supply expansion — I think you guys, as you have more model improvements, will unlock supply across the existing gaming footprint.

But when you think, maybe years down the road, where does it make sense? Is there a way to expand MAX sort of logically outside of the gaming ecosystem?

Adam Foroughi:

Yes. I don't think it's going to be years down the road if we're able to go get the demand that is broad-reaching and drive up the client count substantially over the coming quarters.

Pretty quickly, we're going to look at new supply sources as well. There's absolutely no reason why we wouldn't want to plug into other properties — even if they're large social networks, music apps, news apps, sports apps, websites. The audience itself — this gamer audience — is a human being doing a whole bunch of other things, and games are probably somewhere in the neighborhood of 10% to 15% of their time spent on mobile.

And if we can access them outside of the largest walled gardens that won't let us in everywhere else — if we know them and have data on them, we want to show that ad to them every chance we get and we think that will be a very lucrative transaction moment for us and the advertiser — we're going to go after that.

And so, I wouldn't expect that to be a years-out initiative.

Operator: Next, James Heaney with Jefferies.

James Heaney:

Adam, have you seen any changes in overall user acquisition spend from gaming companies post the Apple versus Epic lawsuit? I mean, conceptually, it should be a great tailwind for your business, but I'm interested if you're seeing any benefits playing out currently.

Adam Foroughi:

Not yet. I think I mentioned this on the last call, but we sort of expect this one to take longer than people expect. Certainly, some apps are bypassing the App Store now to cut that rate down. But the biggest gaming companies tend to move really slowly and tend to operate in fear of the big platforms. And so, in order to really do it, I think it's going to take a few quarters for them to optimize the user experiences and go bank it.

And then from there, you'll start seeing it compound pretty quickly in terms of benefit to us as an ad platform because once the very large leaders start doing it, you'll start seeing the smaller to mid-sized ones will really pick it up quickly.

So no impact yet. And I would guess it will probably take two to four quarters for some impact. And by four to eight quarters, you're going to get pretty material impact in pricing on our platform.

James Heaney:

Great. And then maybe just another one on capital allocation. I mean, it looks like without the Apps business, you're generating a 60%-plus free cash flow margin. So just interested to hear how you're thinking about the use of cash.

Matt Stumpf:

Yes. I mean the approach we're going to take, James, going forward is very consistent with what we've done in the past. Obviously, first, continuing to allocate capital towards organic initiatives — continuing to hire on very high-quality engineering and business development talent to help continue to grow the organic business. And then after that, continue to return capital to shareholders via share buybacks. That's the approach going forward as well.

Operator: Our next question will come from Martin Yang with Opp Co.

Martin Yang:

One question on international expansion. Can you give us a sense of how you view the size of the U.S. market versus international when it comes to your ideal target customer in the near term? And then I have a follow-up.

Adam Foroughi:

Yes. Let's divide it into two things.

One, there's international businesses like a local shop in Japan versus domestic U.S. businesses. Second, there's the traffic.

And for us, historically, because we've grown by word of mouth, getting customers that were local to markets was always tricky. So it was much easier for us to get companies that were international buyers. And the revenue was driven by where the audience is and how monetizable it is. To date — and Matt can correct me if I'm wrong — it's roughly half-half on domestic U.S. versus rest of world. And remember, we don't tend to operate inside China.

And so you start with that. And the only disclosure we've given you on the e-commerce vertical — that \$1 billion run rate — I look at that and go, well, if we open up all these other countries for the most part, is one going to become two overnight? Probably not, because most of these western companies can't go out and buy Japan and Korea and things that are really localized in language.

But there's a lot of markets that look and feel similar to the U.S. So once we open it up, one is going to become much more than one. We just don't know exactly where it's going to land.

And then as we open up the platform, that local Japanese company should be able to come onto our platform. And like we said, if we don't see them organically coming in, we're going to market to them and ensure they come in. The one in Korea is going to come on the platform, and we'll start getting penetration in every one of the markets that our users are in.

And the incremental advertiser in these categories, as I touched on — the revenue from that — is worth so much to us that we have the type of financial model that will allow us to get coverage all over the world.

Martin Yang:

Got it. My follow-up on that is on the pace of onboarding international customers. Do you see pent-up demand among those? So when it comes to pacing, should we see a sudden uptick similar to 4Q last year in the U.S., or international onboarding will be more gradual in line with your overall rollout?

Adam Foroughi:

Yes. I can't say I know. I mean, I haven't looked at the queue of domains. You'd have to infer where the company is based, and we don't ask like country of origin.

But the reality is, as we open up the platform, the customers that we have inside gaming are global. So as they invite their peers, their peers are going to be wherever their headquarters are, right? The companies that are live inside of e-commerce are predominantly U.S., so probably their peers are going to be in Western markets. And so you'll have a mix of referrals going out.

And I don't think it's going to be like everyone's focused on the user only in the U.S. to invite. It's going to be broad-reaching, and there are no constraints that we're going to be setting as we start opening the platform up.

Operator: Our next question will come from Jim Callahan with Piper Sandler.

Jim Callahan:

On e-commerce, you're working with a lot of different types of advertisers with different bidding goals and purchase windows. What have you learned through that process so far if that's informing the self-serve tool set?

Adam Foroughi:

I mean it is much more fragmented when it comes to attribution and integration than the mobile app ecosystem. The mobile app ecosystem has two major MMPs — mobile measurement partners. We own one of them. So integration is pretty easy across the advertiser base, and everyone has the same attribution model. Everyone looks at things on a last-click basis, and so everything is standardized.

When we got into web, not only did we have to contend with the fact that most of the media buying was happening on Meta, so everyone wanted things the way they looked at

things on Meta. Secondly, we had to contend with the fact that the space was completely fragmented. So this was one of the bigger lifts that we had to accomplish over the last quarter or two – was do all those integrations that I laid out on the last call get us ready to really open up the platform.

We wouldn't be able to if every shop came on to our platform and couldn't integrate one click. That's how they integrate everywhere else. So we needed to have those deals struck and have that app integrated in their store and already approved and functional.

We needed to ensure that we were integrated with the major attribution companies, so numbers line up and the advertisers can see things the way they need – and also the model gets the data that it needs to be able to optimize on their behalf.

And we've gotten through it. We've seen, obviously, positive reception, which gives us the confidence to get going on our journey to open up the platform.

Jim Callahan:

Great. That's helpful. And just on core gaming in the quarter, anything to call out in terms of model enhancements, tweaks, performance improvements?

Adam Foroughi:

Yes. I mean nothing that's like a double-digit step function. But, look, the numbers are getting bigger now. So we're now in a place where we continue to put up big numbers every single quarter.

Q2 isn't particularly strong seasonally in the category, but we still grew at a really healthy rate. We continue to have iterative lifts, and we continue to deliver advertisers a lot of value. So every quarter, they come back to reinvest more as they continue to see strong return on ad spend on our platform.

So what gives us confidence is that as our numbers are getting bigger and without something we would call the next big model enhancement, we're still growing at really healthy rates. So everything else that we're talking about just creates this upside opportunity on the business – not only the incremental data flywheel from the new category, the new demand from the new category – but also the fact that inside gaming, there's more improvement to our technology to come.

And some of that improvement at times will be those model enhancement, substantial lifts that no one expects.

Operator: Our next question comes from Bernie McTernan with Needham & Company.

Bernie McTernan:

Incremental margins of the business are obviously pretty incredible. Should there be any changes that we expect as e-commerce expands — whether from marketing to acquire advertisers or the economics if you're looking to plug into other supply sources — like 80%, 90%, 100% incremental margins? Is that still the right way to think about the business?

Adam Foroughi:

Well, the latter when we plug in will be net revenue reported, right?. Because still, we're going to report revenue rec the same way.

The former will be a cost line item, but as you've seen, we're really responsible with the dollars that we spend. One, you'll see it in the sales and marketing line, so we'll talk about it as we go and test it. Two, we'll test it. And three, we're only going to spend the dollars on performance marketing if we're printing cash on the other side and it's creating the growth upside we expect.

So it's going to be a cost line item that wouldn't have existed before that will, and one that I think every shareholder is going to love to see growing because it will imply we're going to make a huge spread on the LTV to cost of user acquisition on the other side.

Operator: Our next question comes from Arsenije Matovic with Wolfe.

Arsenije Matovic:

Adam, with Meta reintroducing advanced mobile measurement and Adjust supporting it, do you see that maybe as an opportunity to showcase APP's engines and incremental performance for e-commerce campaigns versus Meta?

And could your advertisers opting in drive stronger traction with e-commerce advertisers, especially with the referral-based rollout in October? Is the timing of that rollout also still keeping that 10% of that revenue being e-commerce intact for the year?

And then, Matt, just a quick follow-up.

Adam Foroughi:

You blitzed those questions. They sort of ran together for me. So let's start with advanced mobile measurement, and then let's jump into the next one.

So advanced mobile measurement, Meta – I mean, we don't comment on other companies' measurement, integrations, but they've always been integrated as a self-attributing network with Adjust. Adjust is no different than AppsFlyer. We run that business completely separately. So they do support attribution models across all these companies.

I don't think there's any overlap with our business on these integrations, at least not that we've ever seen in the past. And therefore, that's something that happens on a team that we don't closely manage and really runs their business to maximize the SaaS business that they have.

On the percentage of e-comm revenue in the future, we're just starting at 10. Now we've said – I think on the last earnings call I said 0.5% market penetration. It's probably – I mean we're certainly sub-1% – Meta reports over 10 million advertisers, and we're going after all businesses of all sizes. We don't have a lot of advertisers. So the opportunity in that category, both in terms of advertiser count and in terms of scale of TAM, is much greater than gaming.

So as we go forward, if we're doing our job right and performance is as we would expect based on the data that we have so far, it's going to quickly become more and more of our business. And will one day our business become 90% web-based advertising and 10% mobile gaming? I don't know.

But what I think, because of the data flywheel and the system that benefits both sides and the improvements that we continue to have on gaming, is that gaming is going to get bigger and that other category is going to get really big.

Arsenije Matovic:

Got it. And then, Matt, just on the actual guide – I think 5% sequential growth. Conservatism last quarter was 4%.

Do we just say, hey, the incremental point that's kind of the UA spend tied to the studios being off book and getting some of that revenue? Is that a fair way to think?

Matt Stumpf:

Yes, I mean historically, what we were doing was trying to guide towards the component of growth that we feel very confident in. That's very predictable – which is when you look at kind of the components of overall growth in our technology, it's the directed model enhancements that Adam mentioned, changes that the engineers are making, and then the ongoing reinforcement learning within the model.

And that ongoing reinforcement learning has kind of generally trended towards 3% to 5% per quarter. So the difference between that and the guide this quarter is the incremental uplift from the additional revenue that we're going to get from the Apps divestiture.

Operator: Our final question comes from Alec Brondolo with Wells Fargo.

Alec Brondolo:

I think what everybody is trying to figure out is, when self-service goes live on October 1 on a referral basis, or perhaps broader general availability next year, there's some notable amount of latent demand that's waiting to get into the program – advertisers that have asked you to join but maybe meet the GMV thresholds or perhaps you didn't have the capacity to onboard in the past.

Can you help us understand how big that list of advertisers is? You mentioned a queue in response to a previous question. So it seems like there's some amount of demand that you've already identified and waiting to come into the program.

Adam Foroughi:

Yes. Look, the referral program is to make sure that our advertisers who find success on our platform thus far are effectively curating the next set of advertisers. And prior to that, it was our team doing that, and we were very, very restrictive. So we think our advertisers are going to cause an onboarding moment that will be multiples bigger than what we were manually curating.

Now it's not necessarily true that we're going to take our queue that's built over the last year and just say, everyone you're in. They're still going to have to get invited to get into the platform. So it will still be curated onboarding.

The reality is Q4 is going to end up being a fun quarter. You've got the advertiser cohort that we didn't have last Q4 that was growing in the quarter to the point where we reported huge numbers and then had huge numbers in Q1. But we're going to have those advertisers primed and ready for the full Q4. We're going to have advertisers inviting their friends onto our platform in Q4, and we're going to be opening up international all at the same time.

So, there's going to be a lot of exciting moments for us and our customers in this e-commerce and web-based category that will set sort of a new baseline for that business. And then, obviously, we'll go through hopefully another inflection when we truly open up the platform and try to get into a state where we're more stable long term.

Alec Brondolo:

And then maybe just one more, if I could.

You've articulated a vision for the self-service ads manager where there's a lot of agentic capabilities built in, in the campaign workflow. Is that live on October 1? Or is October 1 a version of the product that has credit card, that has measurement, but then we add kind of the AI stuff later, maybe?

Adam Foroughi:

Yes, parts. I mean, look, there are different levels of agents. There's an agent that can respond and answer questions and help you along. That's sort of an onboarding widget that – whether we want to call this AI or not, now AI has made it a lot more capable – is something that's probably going to be present early in the release of this product.

The more complex level is an agent that does everything for you. You're an advertiser and you wonder how your campaign is doing, analyze the performance, talk to me about the ads I'm running – that's a complex agent task. But analysis task at the advertiser level is not trivial. That will be on the way, too.

And then you've got a third form, and I wouldn't call it an agent. I call it tools – but I keep referencing this generative AI-based ad creative tools. We're going to give our customers

the ability to automatically create advertisements, whether video or end card. What that will do is create way more diversity of advertisement on our platform for the model to go use to personalize the ad to the other side, and hopefully much higher response rate from the consumer.

In particular, small businesses don't have the resources to go build ads that adapt for our platform, given the ads that adopt for our platform tend to engage the user for 30 to 60 seconds instead of three to six seconds like they do on social. And so we want to give them those tools so that they can have the same capacity the larger brands do so they can buy at the maximum capability their business justifies on our platform.

All of these things will come. And then we'll talk about the next tools behind it because no product in our world stops being iterative. We launch. We then add tools. We try to make the advertiser's life seamless and fully automated, and we will keep giving them tools that benefit them, which in turn benefits consumers and us.

Operator: And that concludes the question-and-answer session for this quarter. We thank you all for joining us today. Have a good afternoon.

Adam Foroughi:

Thanks, everyone.

Matt Stumpf:

Thank you.