

Q4 2025 AppLovin Earnings Presentation

David Hsiao, Head of Investor Relations:

Welcome to AppLovin's earnings call for the fourth quarter and year ended December 31, 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 fourth quarter and annual 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, our expected growth opportunities, 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 third quarter ended September 30, 2025. Additional information may also be found in our annual report on Form 10-K for the fiscal year ended December 31, 2025, which will be filed later this month.

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 reconciliations 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. I want to start by addressing what's clearly on many people's minds. While I prefer to ignore short-term fluctuations in the stock price and focus on maximizing value over the long term, the recent volatility warrants addressing.

For the past few weeks, there's been a lot of discussion about how AI and competition will challenge our business. But when I look at our internal dashboards, we are delivering the strongest operating performance in our history. What's fueling that growth is our own AI models. And as research and AI, both internal and external, continues to improve, our

business will grow with it. There is a real disconnect between market sentiment and the reality of our business.

Before I talk about the opportunity ahead, let me explain how we think about competition in AI. First, on competition. Since day one, we've competed against many companies. We've never feared competition because it forces us to innovate to serve our gaming ecosystem even better. We operate a foundational piece of the ecosystem, the MAX auction. It's critical for the ecosystem that the MAX auction improves through more competition, which in turn helps publishers make more money, leading to more user acquisition. Now in a typical zero-sum auction-based market, if one improves, another loses. In our case, as bid density goes up, the pie expands. And while our share of the auction may shrink, our economics actually grow. There are impressions our model understands extremely well and it values highly, and others where we have less signal and value them less. When competition wins an impression, it's very likely to be the one that we value less. This leads to the publisher making more. And in many cases, we do as well because instead of winning a low-value impression, we get to charge the winning bidder 5%. When you hear about a start-up coming for our business, you should be asking how their value proposition can be stronger than ours.

If our value proposition wasn't strong with our partners, we would have lost those relationships long ago. We have competed very well in mediation against giant companies. The network effects in this business are very real. We scaled our network by providing the best monetization and even more importantly, the best advertising tools to publishers. The combination is not something peers can overcome.

Second, let's talk about AI and game creation. The bearish view assumes that if AI makes games easier to build, the value of our ecosystem declines. Well, we believe the exact opposite. AI will dramatically lower the cost of creation, which means content will explode. And when content becomes abundant, discovery becomes a scarce resource. Even in the past, as mobile games were built by human teams, the content was plentiful and, in many cases, commoditized. That is actually what allowed us to deliver such a strong value proposition through our advertising solutions.

In a world where anyone can create an app or a game, millions of experiences will compete for attention. The winners will be the platforms that can efficiently match the right user to the right content at the right moment. That is exactly what our models are designed to do. We are not tied to any specific genre or format, casual, mid-core or beyond. Our systems follow engagement and AI only increases the potential of that capability. Furthermore, we don't see any evidence of a declining mobile gaming. Casual gaming serves a different human need than console, PC gaming, AAA games or any other form of deeply immersive game experience. People will always look for entertainment that fits naturally into their day.

What's changing is how well that attention can be monetized. Even today, we convert only a small portion of those impressions that we serve. We view that not as a limitation, but as a large long-term opportunity as our models continue to improve.

Now that brings me to what we control, performance and culture. Our performance. Our business is executing extremely well. We continue to grow very quickly despite the numbers getting much bigger. We delivered strong growth in Q4. And despite typical seasonality where Q1 should be softer than Q4, we are guiding to meaningful sequential growth. That reflects both continued strength in gaming and the scaling of our e-commerce and our self-service customers.

On culture, we embrace being underestimated. A skeptical market sharpens our focus and pushes our teams to execute. Our revenue per employee remains among the highest in the world because we build the best and most scalable products in our category. If the market chooses to price our stock based on fear, while we continue to compound revenue, cash flow and product capability, we'll stay focused on execution and let our results speak over time. From where we sit, we are still in the early innings of what this platform can be.

With that, I'll turn it over to Matt to walk through the financials.

Matthew A. Stumpf, Chief Financial Officer:

Thanks, Adam. Q4 marked what was not just a strong quarter, but the most exceptional year we've ever delivered and one of the strongest performances in the public markets. At our scale, the combination of growth, profitability, free cash flow and capital returns we are delivering is extraordinarily rare. Revenue in the fourth quarter was \$1.66 billion, up 66% year-over-year, driven by continued technology advancements to our core mobile gaming business, seasonal strength and the expanding impact of our e-commerce initiative. Adjusted EBITDA was \$1.4 billion, up 82% year-over-year, representing an 84% margin. Margins expanded over 700 basis points from the same period last year and quarter-over-quarter flow-through to Adjusted EBITDA was approximately 95%, again, demonstrating our relentless dedication to execution and how efficiently incremental revenue converts into earnings for our business.

Investors often reference the Rule of 40 in software. On that basis, our 66% revenue growth and 84% Adjusted EBITDA margin translate to a score of 150. That level of profitability at this growth rate is almost unheard of and reflects the fundamental operating leverage of our model.

Free cash flow for the quarter was \$1.31 billion, an 88% increase year-over-year, growing our cash balance to \$2.5 billion and reinforcing the strength of our balance sheet.

This was a truly remarkable year for AppLovin. Revenue reached \$5.48 billion, growing 70% year-over-year. Adjusted EBITDA was \$4.51 billion, up 87% year-over-year at an 82% Adjusted EBITDA margin, a margin profile that very few companies ever achieve, let alone sustain at the scale. Free cash flow totaled \$3.95 billion, up 91% year-over-year, underscoring not just growth, but the exceptional quality and durability of our earnings.

Simply put, very few public companies are scaling faster, more profitably and with greater cash generation than we are today. That strength directly translates into shareholder returns. During the quarter, we repurchased and withheld approximately 800,000 shares for \$482 million. For the full year, we repurchased and withheld approximately 6.4 million shares for a total of \$2.58 billion, funded entirely by free cash flow.

As of the end of the year, we had a remaining share repurchase authorization of approximately \$3.28 billion. Over the last 4 quarters, we reduced our weighted average diluted shares outstanding from 346 million to approximately 340 million, while simultaneously investing in organic growth and maintaining substantial liquidity. Our share repurchase program reflects our conviction in the value and durability of the business. Turning to our outlook for the first quarter of 2026. We expect revenue between \$1.745 billion and \$1.775 billion, representing 5% to 7% sequential growth. Adjusted EBITDA is expected to be between \$1.465 billion and \$1.495 billion with an Adjusted EBITDA margin of approximately 84%, maintaining best-in-class profitability as we continue to scale.

To close, AppLovin represents a combination that is exceedingly rare, sustained hyper growth, exceptional margins, massive free cash flow generation and disciplined capital returns. We believe this puts us in a category of our own and positions us to continue delivering outsized value for shareholders over the long term.

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

Operator: We will now begin the question-and-answer session. *[Operator Instructions]* Your first question will come from Benjamin Black with Deutsche Bank.

Benjamin Black:

So my first question is on the e-commerce opportunity. So could you perhaps sort of reflect on the self-service launch? What were some of the key learnings, what worked? What didn't? Where is there room for improvement? And to the extent possible, it would be

great if you could sort of share or quantify the e-commerce contribution to revenue or gross ad spend this quarter and in the guide? And then I have a quick follow-up.

Adam Foroughi:

Yes. So the e-commerce business obviously has been live with us for 1.5 years. It's doing really well. In Q4, we opened up the self-service platform, referral only. So we're not at the point yet where we're sort of a GA type launch. We'll get there. We said first half of this year, that's still on track. What gets us excited are a couple of things. One is the current customers that had lapped Q4 2024 into Q4 2025 saw material increases in spend as our models just keep getting better. Now remember, this business and the model around this business that drives the value for the advertisers is really in its infancy.

It takes us a while to continuously iterate to improve the model. In fact, just a few weeks ago, we had a pretty sizable uplift. So those same customers from the prior year cohort saw big growth. Then you ended up with new customers coming in from the referral program. I mentioned on the last earnings call, we were seeing substantial growth there. We're not going to see anything that's going to impact our overall numbers for a while, but we're seeing great trends. And I'll talk about advertising, leading advertisers into our platform later on the call, but we're just seeing numbers that get us excited.

On the breaking out e-commerce, we're not going to do that because we think of our platform as a unified platform. Let's say, tomorrow, the engineering team improves the gaming model 50%. Well, e-commerce would go down, but the business would be ripping. That wouldn't mean that there's anything wrong with our platform. Fundamentally, we're one single auction, but getting more diversity will give the model more ways to serve the end consumer and should drive up our overall conversion rate. But we think if we start talking about verticals in a marketplace like ours, you start getting really misleading information that will throw investors off.

Benjamin Black:

Great. I guess. And then sort of my second question is sort of related to a feature set that you're rolling out. So I think in the past, you mentioned the conversion uplift your partners could see if they have the ability to not only optimize for the best performing creators, but also sort of really scale and automate the creation of these video assets. So, I guess, with that backdrop, how far along the automation curve are we now and where could be in the next, call it, 12 to 18 months?

Adam Foroughi:

Yes. Great question. We're still pretty early. I pulled some numbers earlier just to compare where e-commerce companies are when they upload ads and how many they upload to our platform versus the gaming companies that have really had a decade plus to optimize for our platform. Top gaming companies run tens of thousands of ads at any given time. The top e-commerce companies are in the hundreds. So you've got a huge discrepancy here. And if you throw more ads in our system, the model does much better. That's just a fact. It gets the chance to diversify what the end user sees and try to find something that's going to eventually convert that user.

Now how do we bridge the gap? It is twofold. One is the customers have to get more accustomed to our platform to know what types of creatives work so that they can build up production around the things that work and multiply out the count. More importantly, though, generative AI tools to build creatives in a really low-cost way in an automated way is on the way. We already have in a pilot with over 100 customers, generative AI-based tools for one part of the ad unit. Our ads are a video plus then an interactive page and then follow-up of a shop preview dynamic product page.

But that middle one, the interactive page is not something that these advertisers are accustomed to building because they don't need them on social or search. We're now generating those automatically for over 100 customers. We'll roll that out soon as it's showing good performance to the broader set of customers. And shortly, we're going to have the video model go live as well. We're going to run the same pilot process. We're going to make sure the video output looks good.

But if we get to a place where the video model can help these customers create new video ads in bulk in cost of dollars versus cost of thousands of dollars, we expect the count of ads for these new customers on our platform is going to go up a lot, and that will make them more competitive against the gaming customers that are on our platform.

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

Jason Bazinet:

How are you guys doing? I think one of the things that investors have always struggled with a bit is just sort of what they would call the black box nature of the model, like they can't get comfortable sort of doing a P times Q and sort of extrapolating the model out there. And I know you're not going to break out, as you said, e-commerce from mobile. But as investors are sort of looking at these e-commerce accounts that have your pixel on it, what counsel

would you provide to the buy side in terms of using those numbers and trying to do some math to get some sense of how well you're doing?

Adam Foroughi:

Yes. I mean, look, it's really, really hard because we're just getting started. Facebook's probably pixelated over 10 million sites. You've been publishing our pixels in the thousands. So it does correlate to the count of advertisers that we have on the platform, but we're just starting out. We can't build a P times Q model in a period of time that we expect to have really outsized growth. Once we open up the platform, start running marketing to the platform, start doing more sales, you're going to end up having a ton of advertisers coming in. We can't predict it. It's not going to be stable until we get to a much further into the future point.

But what gets us excited, like I mentioned in the last answer is we're already testing in advertising to get customers on the platform. So what you're seeing right now is just referral-based advertiser count. But if we start actually being able to market our platform and get customers to convert through the funnel, that's going to help us really catalyze faster growth to go get advertisers in the absence of a sales team. And one stat that's really cool that I pulled earlier, we're testing in light volume on ads on social and search, and then we're doing referral programs. But right now, we're seeing somewhere around day 30 LTV to cost of user acquisition.

So if you think about lead gen models and if you know lead gen models and also if you understand the life of value that we create for advertisers, which is in the many years, to be able to break even on the media buy in 30 days is exceptional. We've got arguably one of the best business models the world has ever seen, and we're seeing the ability to market our platform and small testing at that level. That gets us excited. Now we're not ready to go to GA yet, and you can ask why. And the why is because we still need to optimize our conversion funnel.

We're no different than any social network that's going out and trying to get users. We want to get users into this advertising platform. Right now, we're seeing qualified leads, 57% of advertisers go live. That's 43% breakage. We think we can get that number much closer to 100% before we open up. And despite that, we're seeing this 30-day breakeven roughly on LTV to CAC. So we're really excited about where we are. We think we're going to go through this hyper growth phase as we open up and really start pouring advertisers in.

Once we get to a stable place where we could start predicting the count of advertisers in quarters to come, then we'll give you the P times.

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

Omar Dessouky:

I wanted to ask a more general question because the market seems to be having an AI moment here. So let's just forward three to five years in the future to potentially a world where consumers interface with the Internet through natural language-based agents. LLMs are different than performance advertising neural networks. But how would your business be affected by potentially a change in how consumers interface with the Internet. So that's the first part of it.

And then the second is, how do you expect -- again, over the long term, three to five years, how would you expect mobile game developers to casual mobile game developers to adapt their content to a world where they compete for time with these sophisticated chatbots?

Adam Foroughi:

Yes. So great question. The way I see the LLM is that it's going to enable anyone to be able to type out ideas for a game and get a game created. That doesn't mean you're going to get users to play your game, but that means you can create content in a very low-cost way, not being an engineer. That will accelerate content production for studios that are developed, that are sophisticated. It will also create a flood of content that's more personalized across people who could just become game developers with no engineering background. That's a good thing for us.

In the talk track I mentioned, as you get more content, that content becomes commoditized, the discovery platforms, of which there are very few become the true value because those customers are going to have to come to MAX to monetize and they're going to have to come to our discovery platform to run advertising to get users to their space. Now if humans just want to talk to a chatbot, do nothing else. Of course, while there's nothing else that they're going to do, we would lose time spent in games. That seems far-fetched. The games that people play today in our domain are not very immersive games.

They're quick-to-play relaxing games and people play things like a Solitaire, people play things like a Mahjong. This audience skews older, it skews female. This is an audience that's very unlikely to stop playing crosswords in 10 years because they're talking to a chatbot. So not only do we think that the base audience is going to keep playing games, you're going to need relaxing outlets. If LLMs increase productivity, people likely have more time to go to

outlets like games. And if LLMs increase production quality and production capability of games, you're going to have more content, which leads right into a business model like ours.

Operator: Your next question will come from Bernard McTernan with Needham.

Bernard McTernan:

I wanted to follow up on e-commerce. Given the self-service launch, are you seeing any changes in the type size of customers that are entering because of self-service versus the prior managed service? And then also as a follow-up, we've seen some examples in our own tracking of apps that aren't e-commerce with the pixel. Is this a one-off or a new growth vector that you're pursuing within this?

Adam Foroughi:

Yes. I mean, obviously, with opening up self-service, we're not gating to a minimum GMV anymore. So in the prior year, we had pretty high minimum standards for businesses. Now you're getting companies that have a few hundred thousand dollars of GMV, a couple of million dollars of GMV a year buying on our platform. What's nice about that is not only do we see the ability to track performance very clearly on a brand that's small, but they start spending money, the money translates to revenue. And it's really obvious in their numbers that their pre-existing revenue was a few hundred thousand dollars. I'll give you an example.

We had, a year ago, this Israeli cookware company come live that did \$4 million of revenue. And these types of stories make us really proud. Last year, they scaled on our platform. 65% of all their user acquisition spend was on our platform. They scaled to \$16 million of revenue and are profitable in doing so. And we can see the results directly translated from the spend on our platform to their growth. This year, they're ramping so quickly, again, putting most of their UA spend on our platform. It's looking like they're projecting that \$80 million of revenue.

So you start seeing that kind of ramp-up in certain specific customers, and we know the product works and it works exceptionally well. That makes us proud. We think what we really like to do at this company is service the smaller businesses, help those smaller businesses become big businesses. That's how we built into gaming. We help the indices first. Now every gaming company in the world that's in mobile that's substantial is probably working with our platform in a major way. But in e-commerce and these other categories, we feel the same way, help the smaller businesses, help them scale their business, and then we'll get to all the brands over the coming years.

In new categories, again, we're not gating anything. So if you end up in auto insurance and you sign up for our platform today, you can go live. We're still early in these other categories because for each one of these cases, we have to tune the model somewhat, and we're focused right now on anything that's transactional-based business versus a lead-based business. So think if you're a transactional-based business, you're not e-commerce, but you're fintech or something. That could work really well out of the box. That's another category of growth. But then there's a huge sector of lead gen businesses. You want to collect the user's information and sell them in a call center.

That's going to come too for us in the coming months where we really focus on a category like that. It's our job to service every transactional category that buys on a performance basis and do it well so that the 1 billion-plus daily actives we see on our platform can get a diverse set of content that they can enjoy.

Operator: Your next question will come from Matthew Cost with Morgan Stanley.

Matthew Cost:

I guess starting just to put a finer point on some of the comments from your prepared remarks. because the data points from the channel were a little unusual and thin, did you see a test from Meta doing more advertising in the in-game ad environment? And whether or not you did, how should the market think about what potential impact a scale player like Meta, for example, getting more aggressive in that market would mean? And then a second question just around MAX. You've been in the business of convincing people to switch mediation platforms for a long time. I guess in light of that experience, how would you characterize the moat around MAX?

Adam Foroughi:

Yes. So, two good questions. So the Meta thing, Meta was a launch partner of MAX. They're a good partner. They've been in the MAX platform for a long time. They are a bidder on anything that has an ID today, and they're not a bidder on anything that does not have an ID. So think IDFA off. That's about 2/3 of the full-screen ad units that they currently bid on. They started bidding more on that, as you saw on LinkedIn. They did not start bidding on no ID traffic, and they might very well bid on no ID traffic in the next couple of quarters.

As you know from our business over the last couple of years that you've been following, there have been numerous times where we've added more competition in the MAX auction. Unity has grown with Vector, Liftoff rolled out Cortex and it's growing really quickly. Moloco has been growing and we turned them into a bidder in the last year. You had Google switch

to bidding. Every time this has happened, there's been this confusion around, well, in an auction dynamic-based system, competition should decay AppLovin's edge. You've never seen that happen. And this is what I tried to cover in the talk track. The reason is that, one, we're really big and really good at what we do.

But two, every impression is not worth the same thing. Our model is exceptionally good at valuing the impression for what it is. for our data and our customers. Sometimes it values it really high where we make a lot of money. Sometimes it values it low where we make less money or potentially lose a lot of money. And what happens when you get these bidders getting better is that they take some of those impressions that we value low where we might not have made any money or any material money and now we get a 5% amount that we can tax the bidder in our ecosystem.

So growth in the ecosystem allows the MAX market economics to improve, and we've never seen growth in the ecosystem cause harm to our AppLovin bidding environment since we got so good. Now this is post AXON 2, where we became the market's dominant player. So I do think it's an important point that people are getting lost on. So I want to see if you have another question on that before I go on to the mediation discussion. Okay. So on mediation, look, we got in the market with MAX when we bought it and built that technology. We didn't buy technology. We just bought a way into the market. That was in 2018.

The MAX platform before we bought MoPub, had already grown to become #1 in the space. When we bought MoPub, we put the two together. As everyone knows, we're very dominant in the sector. We took the MoPub technology in sub-90 days, threw it out, migrated everyone that we could over to our platform, rebuilt the best features of MoPub, put them on top of the best features of MAX and ended up with a very dominant position. At this point in mediation, there's been a few players that are sort of out of business, and then there's Google, Level Play and us. And then obviously, you have the start-up that people have been discussing.

So in a world where Cloud X becomes a start-up that comes into the space, you have to talk about like what are they walking into? How is the world different today versus what it was? The moat around our mediation is not because of the mediation. We're very good. We've got the most bid density. In any mediation A/B test, if you talk to publishers, you'll hear MAX does better. But we don't blow it out of the water. We're a few percentage points better than other mediations. If someone wanted to pay a bonus to cover that, they could potentially pay a bonus to cover that.

Where it gets really expensive for the publisher and where we're really locked in is that we have the best advertising solutions on the market. In fact, for a lot of these publishers, we're

over 50% of all their user acquisition spend. They can't go get that anywhere else. If they go off MAX, that decays. And so they're left in a world where they have the best buying tools. They have the best monetization tools. It becomes a really strong 360 solution and their growth depends on it.

And then the MAX ecosystem is not growing slow, as we've talked about in prior calls, this is a double-digit, very strong growing category where these publishers are seeing their businesses improve because of the improvement in our technology. When you've got that in the foundation and you've got a really strong moat with technologies that no one else can replicate or have, then you end up with a sticky solution, and we're very confident our solution is just that.

Operator: Your next question will come from James Heaney with Jefferies.

James Heaney:

How are you thinking about the AXON marketing investment in 2026? I know you talked late last year about a goal of maybe \$1 million of spend per day. Is that still the right way to think about it? And is ultimately GA kind of the biggest prohibiting factor to you guys doubling down on that investment?

Adam Foroughi:

Yes. I mean, look, right now, we're testing. So numbers aren't that big. You didn't see anything reflected in our EBITDA margins. In fact, you saw them go up to 84%. We think the growth in the business is so high and our LTV to CAC is going to look so juicy that you're not going to see much decay in our EBITDA margins from ramping up marketing. If you do, then that would be a great thing. It just means we're ripping on the marketing side, and we see a ton of customers that we can bring in to accelerate growth.

But it's much more likely that we're going to go controlled on this because we do want to take our time to build out tools. When we start buying and go GA and bring customers in, if we don't have good content creation tools for them, create the video with generative AI tools, create the interactive pages with generative AI tools and do it in an exceptionally strong way, they won't have as much success on our platform. So that's a long way of saying we're in no rush. We're seeing 30-day LTV to CAC roughly.

If we see that at scale, we're going to scale, but we're not in a rush because we want the tools to catch up to the opportunity.

Operator: Your next question will come from Alec Brondolo with Wells Fargo.

Alec Brondolo:

I appreciate it. I want to double click on the Meta thing because I kind of think that's the most -- out of all the noise in the market, I think Meta is by far the most important. Right now, probabilistic targeting is the basis of competition between all the mobile game and app networks. I think there's no doubt that you can definitely compete effectively against Meta on a probabilistic basis. When I talk to investors, I think the concern in the market is that Meta could find a way to bid deterministically and opt out ATC traffic with their audience graph, which would give them an advantage over the vertical ad networks.

Do you think that's possible from a tech perspective? And if it was, would you still be confident that market expansion can offset the loss of market share?

Adam Foroughi:

Yes. I mean, look, I think it's possible from a technology perspective. I think it's bluntly against Apple's terms. I don't think the space is big enough for Meta to say they want to violate the platform they depend on terms. So I'm skeptical what you said is going to happen. It makes no logical sense. In a world where they're bidding deterministically or probabilistically on no IDFA, they're still competing against the AXON 2 model. Five years ago, when Meta was really big in the space, and I think this is what's throwing people off. People recall a time Meta was half the space. They think it's going to be half the space again.

Meta has been on IDFA-based and Google ad ID-based traffic since that no IDFA change. Nothing has changed for them. What's changed in the marketplace is that the other ad platforms that are built for this category, Unity, Liftoff, Moloco, et cetera, have gotten better. Now we've gotten the best. AXON 2 was the biggest breakthrough in a model in this category period, and we were able to end up becoming the #1 by a lot. AXON 2 didn't exist five years ago. So there's no world where Meta is going to end up becoming that kind of a dominant player in the face of this competition.

In fact, I don't see a world anyone else can because they're going up against that dominance. And these models, as they build more data, it's a closed-loop model that's continuously reinforcing itself and getting smarter. Our model is so far into getting smart for this niche. The niche isn't that small, and we've got such a strong position. It's highly unlikely that someone else is going to come in and materially disrupt it. So a long way of saying, again, no, we don't see what people are so afraid of. We think psychologically, people just index on numbers from five years ago and think, oh, Meta is going to ramp to that.

But just ask the customers you talk to, what's the share of wallet between us to them and to everyone else on IDFA-based traffic, and that will give you an indicator of how good we are.

Alec Brondolo:

Perfect. That's super helpful. And maybe just one additional question. On the marketing dollars that you're spending against AXON today, where you're earning the 30-day LTV to CAC breakeven, what are the most effective channels? Like I see the ads on Google Search, I see the ads on Facebook and Instagram. Where are you finding the most success? Which platforms are you finding the most success in leveraging to acquire customers today?

Adam Foroughi:

We're -- it's a great question. I mean we're too early in testing to really assess or give anything directional because we don't want to be misleading. But I'll say some of the coolest yields that we've seen and coolest partnerships are these partnerships with the measurement companies. So if you talk to triple, they've got a sponsorship from us, TBPN, the podcast branded their Gong with our brand, and that's driven a bunch of business. So stuff like that, we're at such an early point. Part of the direct response channel here is actually just building the brand. So when we get placements like that, people start hearing about this Axon Ads platform.

Then they go to Google, and we don't have any SEO yet. Once we get history and it put more content out on our blog, which we're committed to do and get more link backs, we'll also have SEO. But today, in the absence of Google search words are also great. We're starting to get brand recognition. People know our platform is critical. They go search Google and we're the first ad word now. We're not the first organic link because we don't have that history. So all this stuff is going to improve over time. And we think our job is to combo brand advertising alongside this direct response to really unlock growth in this thing.

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

William Lampen:

At the risk of, I guess, just sort of overdoing it around this Meta point, I wanted to see if you guys can just -- that's lapping. So I think I am overdoing it right now. But just remind us, I guess, the sort of scale of bidding that you guys are doing right now. I think the \$11 billion or over \$11 billion number that you provided in the blog post is the most recent example. Is that something that really needs to be replicated in this segment of the market for probabilistic

bidding to really drive signal or capture a signal that would allow somebody to replicate the same sort of degree of efficacy.

I think it would just be helpful for people to understand maybe even if somebody wanted to move in this direction, what are the sort of capital constraints of doing something like that?

Adam Foroughi:

Yes. I mean, look, first of all, like at the base, there are different approaches to modeling these businesses. Meta has a model that's fantastic, super sophisticated. They're built for social. Most of their training data is on social. We've got a model that's cutting edge, very sophisticated, built for our ecosystem. Our training data is predicated on that ecosystem. Our customers are perfectly tuned for that ecosystem. We started in gaming, where the biggest there is in game UA dollars. So those dollars aren't just going to shift because someone else comes into the space. The dollars are already locked in on us, and our model is very smart.

When there's a high-value user, sometimes our model bids thousands of dollars on a CPM basis. The model knows what works for these customers. So it's just not something that's conceivable in a marketplace where you have budgets that are already given to us. and we're on cutting-edge technologies for someone else to come in. Now if we stop innovating and we decay on the technology side and we stop providing the service to the customers where they start looking around, yes, those things could change. But that's not going to happen overnight. And the one thing we can say confidently 14 years into being an engineering product-led org is you've seen us move incredibly quick. We are innovators.

Engineering team is top-notch, second to none in this field. And so we're very much focused on continuing to push our models forward, and we're doing it from a very strong leadership position.

William Lampen:

Okay. And if I may just ask sort of a very quick follow-up. prospecting campaigns. This was a product launch that sort of came about recently. There was a lot of very strong feedback in the channel throughout the quarter around the efficacy for some customers seeing full shift in sort of repeat versus new customer mix. Could you talk about the way that, that product -- I know you give sort of specifics around your non-gaming business versus the gaming one, but would it be possible to sort of contextualize the impact for us or maybe what you're seeing with advertiser behavior heading into 2026?

Adam Foroughi:

Yes. I mean you've probably talked to some of the advertisers, so you hear positive commentary on it, but it's really hard for advertisers to understand the incremental value of retargeting. It's really easy to understand the incremental value of a new customer. And so it wasn't lost on us for 1 year, 1.5 years when we got into the market that just a universal campaign that had a split of new customers in retargeting wasn't the final answer. We needed more targeting for these customers to map to their goals. So we rolled out this product in Q4. We let them upload their historical purchases.

Using that data, our model can start tuning away from purchasers from the past and towards users that they've never seen before. Results were fantastic. It takes a while in advertising marketplace. for every new product to get adoption, but we've seen really quick adoption on this one because when they flip the switch, they instantly start seeing many more new customers.

Operator: Your next question will come from Robert Coolbrith with Evercore.

Robert Coolbrith:

Adam, you mentioned a couple of times now the connection between ad ROAS and MAX. Just wondering if we could maybe put a finer point on it. If a publisher were to give another platform first look at inventories something like that, would that significantly degrade that connectivity between A ROAS and MAX from a UA perspective for that publisher. The I'll just have a quick follow-up.

Adam Foroughi:

Yes. I mean our terms are that they can't do that. So that's not part of the equation.

Robert Coolbrith:

Got it. Perfect. And then I think there's also a notion out there that demand partners might bid differently in a different environment or something along those lines. Do you have any thoughts on that just...

Adam Foroughi:

I mean, look, MAX is fully fair, transparent. We get audited by the bidding partners. It's the vast majority of the marketplace. Wouldn't it be a foolish business decision to bid differently

in a very small platform versus the platform that owns most of the space doesn't make any sense. So if someone is going to be a competitive bidder, they're almost certainly going to want to be a competitive bidder in the marketplace leading market.

Robert Coolbrith:

Got it. And then just one last quick follow-up on the breakage that you mentioned in terms of the qualified leads to go live or launch. Just wondering if you could talk about maybe some of the inhibiting factors today and how you plan on solving some of those.

Adam Foroughi:

Yes. The biggest one is that they just don't have video ads for our platform made to the type of format that we need. So those generative AI tools should be able to raise that to a much higher percentage of customers going live.

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

James Callahan:

Just a follow-up on the market growth. You've kind of talked about this double-digit framework through the back half of '25. Can we expect that through 2026? Is that like a step function change that we think can continue?

Adam Foroughi:

Look, MAX is growing really quickly. It's -- a lot of it's driven by the strength of our platform. So when we're growing 70% plus year-over-year, a lot of the dollars spent on our platform are the publishers buying customers. So it fuels growth in the ecosystem. So long as we're doing a good job and the other marketing platforms in gaming are doing a good job, the MAX market is likely to be growing really quickly. And this is now no longer a case where you just don't have other data points. Unity Vector is growing really quickly. You've got a company like Moloco that's private, but talking about going public that's growing quickly.

Liftoff did testing the waters in a road show. So those numbers were out there that are growing really quickly. When you've got all these market players growing quickly, that MAX market is growing in a way that people I don't think understood or would have expected, and we're not seeing any slowdowns there.

James Callahan:

Got it. That's helpful. And then just you've talked about this reinforcement learning framework for gaming. Now that we're, I guess, like 1.5 years into e-commerce, how does e-commerce reinforcement learning kind of compare? Is it faster, slower? Does it take longer?

Adam Foroughi:

I mean what we've talked about is that the gaming model based on its own results can improve. So it creates its own memories, it gets smarter. The e-commerce model is the same thing, but I do just remind people that we're much earlier in e-commerce. We have very little data in the marketplace. So if you think about the transactional volume that we have in gaming, we've got most of the market inside our system. So the model is pretty complete from a data perspective. And then also, we've had now, I think it's roughly three years to continuously improve that model. And as you've seen, we've continuously improved it many times over the last 12 to 14 quarters.

E-commerce is newer. It's starting from an earlier place. We have much less data penetration. So we can't go and track like, okay, in a stable world, how much is the model improving because the model is going to be improving much more so from our team improving the model with changes and then just customers coming on. Every new customer that pixels their site passes data to us, both engagement data and transactional data. So as we get customers ramped up, our data penetration in the market is going to go from very little to much greater. And as that happens, that's going to be a big catalyst for improvement in that category.

Operator: Your next question will come from Stephen Ju with UBS.

Stephen Ju:

I think you've previously talked about AppLovin being demand constrained versus supply constrained. But can you help clarify particularly, yes, there's yourself and the private company you just called out as well as Unity all out there getting better as well. And I think investors are so accustomed to thinking about all of this being zero sum. So can you help us think about how much more supply there can be with perhaps new publishers and what existing publishers who already accept that can think about doing?

Adam Foroughi:

Yes. I think we're a long way from needing new publishers. I mean we've talked about, one, I think at this point, people should believe it's not a zero-sum market. This isn't rideshare

where one person takes a ride and another loses. So if that was the case, with our growth and our market position being this dominant, there'd be no conceivable way these smaller gaming ad networks could be growing the way that they are. So if we set aside the notion of zero sum, then you have to ask, well, how many transactions can we drive to this one billion-plus users.

One billion users playing mobile games, casual games every single day, shopping users because they're adults, they skew female, are not done at this number of dollars. I mean if you just translate to Meta's users, it's 3x more users, a little bit more time spent. But the revenue that they're driving to advertisers over what we're driving and the whole space is driving to advertisers is probably 8x. So there's a lot of room to go on monetizing this audience. We've also given you historically that our conversion rates on 1,000 impressions were about 1%. They're obviously higher now. We talked about that a year or two ago.

The conversion rate is higher, but we think that could go as high as 5%. That's what we see when we're serving an ad where the model is confident that the user is going to take an action. Now why isn't our whole business converting at 5%? Why aren't we doing \$50 billion of revenue on the system? Well, we don't have enough advertisers yet to know what the user is going to be into at that moment. So we constantly serve them gaming ads, some users are into a new game, they're converting at 5%, 50 over 1,000. Other users aren't and the conversion rate is atrocious. It might be 2 over 1,000, and it dilutes you to 1%.

E-commerce has given us a path to diversity, but we only have a few customers. Once we get deeply penetrated into the space and we've got really diverse content to show the customer, we think that conversion rate is going to keep rising, and it's going to keep rising really quickly.

Stephen Ju:

Got you. And secondarily, I think you've articulated a desire to go after advertisers of a certain size. So first, before targeting the advertisers with perhaps larger budgets, but maybe more upper funnel. So is that part of the market in addressable right now? Or is that something that might be in the road map in the future?

Adam Foroughi:

I think we're going to be going after anything that's not brand dollars. So, by brand, I mean, companies that aren't optimizing to point of transaction, whether they optimize point of transaction or something performance-based like a lead, we're going to go after them. Now we're not going to build out the sales force to go after the -- even in the performance

space, advertisers then need you to go to their agency that need you to take a lot of time to go get a lead to go get an advertiser live.

When I talk about this Israeli cookware company, it was a business that was probably spending a couple of thousand dollars a day ramped up to many tens of thousands, possibly hundreds of thousands of dollars a day on our platform. They ramped up really quickly. They scaled their business from near \$0 to \$16 million to now hoping for \$80 million this year. That's an example of taking a customer that didn't have much of a business, plugging them into our tool set, letting our technology do the job and creating a huge business for them and a great relationship for us.

That's the type of stuff that really cascades into much more value creation over time because it happens quickly, they become dependent on our platform. We love those stories because we're helping them build the business. If we help Coca-Cola place more dollars in advertising, we're not moving the needle of anything in the economy. Coca-Cola is sort of blindly putting dollars out there. But if we can help customers spend the dollars, see the direct correlation of that revenue, hire people, grow their business. It's a fantastic story for us because it shows that we're growing the world's economy, we're creating jobs, and we're really creating this dependency on our platform. So really, that's what we're focused on.

And in games, that was indie game developers and brands that's going to be these performance D2C companies, much more of the Shopify merchants, much less of those big brands that people talk about that buy through Madison Avenue agencies.

Operator: Your next question will come from Cory Carpenter with JP Morgan.

Cory Carpenter:

Matt, I got to give you a question before the call ends. So I'll ask about the 1Q guide, the 5% to 7% sequential growth. It's above what you typically guide to in 1Q. Of course, this year, you have the added headwind, if you will, from the e-commerce business seasonality. Could you just talk about some of the assumptions you're making in that outlook and the trends you're seeing so far in the year in e-commerce and gaming?

Matt Stumpf:

Yes. So, consistent with kind of our normal practice, Cory, we're guiding to the level where we have a very high level of confidence. For Q1, obviously, coming from Q4, we had a very strong exit rate. So given the factors that Adam was talking about before, the performance of the mobile gaming business, the e-commerce launch as well as the prospecting model,

we had a lot of growth in Q4. So the exit rate was quite good. And then that's partially offset by just seasonality going from Q4 into Q1 normally being a weaker seasonal period. And then we also had a couple of days less in Q1 versus Q4. So it's partially offset against that.

So that's how we kind of landed in that 5% to 7% sequential.

Cory Carpenter:

And then, Adam, you alluded to, I think, an unlock that you saw a couple of weeks ago in the e-commerce business. Anything you can elaborate on what that was would be helpful.

Adam Foroughi:

Yes. Look, the team is constantly improving the model. We do a lot of testing. We saw a material lift in the model. We rolled it out. Advertisers saw a huge improvement in return on ad spend. They started putting more budget into our system quickly. So those are the types of things that really catalyze growth for us. When we talk to advertisers and say, test the product in our system, it's test now, but be patient because understand performance today is not going to be indicative of performance in six months. Our system is constantly improving because our team is improving these models. They do internal research, they use external research published in the AI field.

These techniques can apply to what we do. And when they apply well, these advertisers see gains. In gaming, they've seen gains very consistently since we launched AXON 2. In e-commerce, again, we're starting from a lower point because you need to get more data and you need to get more time to make the models more complex to use that data and create a better value for the customer. We're now doing our job. We're improving the model. They're seeing the result. They put more money into our platform.

Operator: Your next question will come from Ralph Schackart with William Blair.

Ralph Schackart:

Adam, maybe just staying on that, the model unlock for a second. Maybe kind of frame it. Was it sort of like consistent with other unlocks that you've seen before? Was it different maybe in order of magnitude? And then I'm not sure if it's for you or Matt, but can you give us a sense once self-serve rolls out and rolls out to GA, how meaningful of an impact can this have on the business? Will this be a slow build? Could this be something that could potentially be additive to second half growth? Just any way you can kind of frame that for me, that would be great.

Adam Foroughi:

Yes. I mean on the second one, look, our growth rates are really fast right now. And our business is really big. So taking a self-service platform and opening it up, I wouldn't imagine day one or month one or month two is really going to move the needle on the overall numbers. It's going to build over time. Now certainly, if you're bringing in dollars that you just didn't have before, it's going to add something. So I guess it depends on what our overall growth rates are, but the scale of the business at the growth rate that we have is getting to very, very large numbers quickly. So I would expect that to build over time.

I wouldn't expect it to be immediately impactful as a major growth catalyst. It will be noticeable in our numbers. When it comes to improving the models, we don't call it out anymore. We're constantly improving the gaming models. It happens every single quarter that we find something. And then the e-commerce side is starting from a worse place. It's just earlier stage, less data like we've talked about. So the model uplifts from the team improving the model can be much more substantial. However, the e-commerce business, as you know, even if you took disclosure from last Q1, last Q1, it was roughly 10% of our business.

So if you improve 10% of your business, 40%, you're still only getting a 4% uplift on the whole, right? So it's a much smaller potential today. Now what we know about scaling a business is that we've got to compound these gains so that our performance is unquestionably the best in the market to these customers. If they see that, they're going to invest more and more into us. Most of these customers have scaled businesses. Most of these customers already buy on social and search. We're a new entrant. Most new entrants in the field over the last few years have had done a bad job improving performance.

So we know that our performance has to be top notch. We're working towards that, and these types of lifts can compound to get us to that answer.

Operator: Next, we'll go to Martin Yang with OpCo.

Martin Yang:

In the past, you referenced expanding supply sources. Where do you rank among the growth drivers? Where do you rank that among the growth drivers for your overall performance now?

Adam Foroughi:

I mean, look, our supply is growing very quickly because MAX is growing very quickly, right? So like I do like fix A B on the marketplace that we have. It's a really large marketplace. If we go get a big publisher tomorrow, it's not going to move the needle in the business because the percentage growth from that publisher to the whole of our market isn't all that much. I mean you're talking about a marketplace, if you know the scale of our business and the ad dollars that we gave you and then we're not the whole market, the MAX marketplace is well over \$10 billion a year.

There's not a lot of publishers that could put a dent in those overall numbers. We will eventually go out to new publishers. We get calls all the time. Every publisher wants a monetization platform like ours to help them monetize their business unless they're Facebook, Google or Amazon. And so there's a lot of opportunity out there for us to expand supply. But right now, we're focused on the demand side because that conversion rate can go up so much more than where it is today. We've got a lot of growth in front of us just by doing the demand generation well and improving our core models.

Martin Yang:

Got you. A follow-up on the creative side. Do you view AXON for e-commerce, the creative format and the overall flow with the end cars and elements as an area of differentiation?

Adam Foroughi:

Yes. I mean, look, our ads force attention. So it's a lot different than ads that people are used to. You'd say the closest to our ads is television because you get a 30-second clip. But as we know, most people are ADD and don't really watch the ad on TV these days. Our ads are over 30 seconds of engagement. The user can't do anything else. They're already on their phone. It's a full screen lockup, and it gives the advertiser somewhere between 30 to 60 seconds plus to engage the consumer with their content. They can't get an experience like that anywhere else.

So I'd call like the starting point in our business in terms of ad quality, the best that an advertiser can access anywhere in the world.

Operator: We'll take our next question from Vasily Karasyov with Cannonball.

Vasily Karasyov:

Just to follow up on what you said earlier, Adam, about e-commerce model being at a stage where it can't learn as fast now. And I think in the blog post you made recently, you mentioned that the e-commerce targeting is different because there are many more parameters and they're different, right? There is a different LTV calculation. There is no advertising component. So I guess it's unfair to ask you to compare where the e-commerce model is at this point in its existence compared to where AXON 2 was, right, because there isn't just enough data. But what gives you confidence that once you get enough data, it will work as well or competitive.

Adam Foroughi:

Yes. I mean, look, if you talk to the customer base, a lot of the customers are seeing equal performance on us to any other top-of-funnel discovery channel, including the largest social platforms today. So it's not like we're starting behind trying to catch up. We're starting in a competitive place trying to become the best in the world. Now we're starting with very little data penetration. This is an important point. If you think about the gaming model, I made this point earlier, all the transactions in the space, say, all the IP in the space, all the ad impressions in the space, our model sees the vast majority of everything in the world of mobile gaming today.

That allows our engineers to take that data and translate it into exceptional predictions on the other side. In e-commerce, we're starting with -- I mean, the reports show thousands of sites, right? So we're starting with thousands of sites in a world where we can pixel 10 million plus. We have a long ways to go to get to the same data place in e-commerce as we are in gaming. Now the good news is these models are exceptionally smart, and our team that's putting them together are exceptionally smart. So we don't need to have 100% market penetration or anything close to gaming to really make an impact.

We're already proving it works with very little market data penetration. Once that number starts growing quickly, you're going to start seeing this model just improving itself because it gets more data. And off of that incremental data, the same model is going to make better predictions, both for gaming and non, and that's really going to help catalyze growth in our business as we bring on advertisers. We think about every new advertiser as dollars, but just as importantly, data into the model.

Vasily Karasyov:

So I guess it's more fair to say that what you have now in terms of the e-commerce model is already competitive. It's not like you're behind and need more.

Adam Foroughi:

Yes. I mean like we're not an e-commerce brand, but if you talk to them, if you talk to 10, at least five are going to tell you our performance on our platform is really good.

Operator: We'll take our last question from Tim Nollen with SSR.

Timothy Nollen:

Tail end of the discussion. So just a few tidying up questions actually. For Adam, first off, we're talking about e-commerce all this conversation, but there are other sectors beyond e-commerce that you're servicing. Can you just clarify, I guess, e-commerce is, by far, the largest nongaming sector, but what other sectors are you servicing? And how meaningful are they?

Adam Foroughi:

Yes. It's -- look, the other sectors are still early. We started calling it e-commerce, I call it web advertising now. Anyone with the website with a transactional business model should be able to work on our platform. However, we're much earlier in the model evolution for other businesses outside of e-com.

Timothy Nollen:

Yes. And then a couple of bits for Matt actually. You've done a great job bringing costs down quite a lot. A lot of that is SBC, I think. You had a slight step-up, I guess, sequentially in your R&D number in the cost lines in Q4. I guess the question is with such a high Adjusted EBITDA margin, you seem very confident in maintaining that. What do we need to know in terms of other cost items that could rise? How much could they rise in the coming several periods, not just Q1? And then last question is regarding cash. You've got now \$2.8 billion of cash with \$3.5 billion of debt on your balance sheet. Just wondering what your capital structure thoughts and your use of cash priorities would be from here?

Matt Stumpf:

Yes. In terms of the margin, I mean, we feel very confident in the margin level that we're at today. The kind of X factors that could potentially change that in the near term or in the short term would be potentially performance marketing that we were talking about before. So to the extent that we see really great performance with some of the campaigns that we're running and we scale those up pretty significantly, we could see kind of a shorter-term impact in margin. Obviously, we're going to be doing that in the way that we spend, generally speaking, which is very disciplined and then obviously looking at the returns. So we'll run return-based campaigns.

So we'll get the spend back in a relatively short period of time. Adam mentioned 30-day return from those. So, overall, that's why we can feel so confident in the overall margin level that it shouldn't change materially from here. And then in terms of use of cash, obviously, our first priority is spending on the organic growth initiatives. So that's ensuring that we're continuing to retain our talent, compensating people very well. hiring to continue to support our growth initiatives like e-commerce and our engineering team, et cetera. But that really hasn't moved the needle, obviously, in terms of the cash and the cash balance growing. So then it's really what do we do with the cash after that. And we've been very active with our repurchase program, and we continue to plan to be.

Timothy Nollen:

Okay. Thanks. I'm right at 60 minutes exactly. So good timing. Thanks.

Adam Foroughi: Perfect. Thank you.

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: Thanks, everyone.