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Participants:

James Heaney, Equity Research Senior Vice President, Jefferies (Moderator)

Adam Foroughi, Chief Executive Officer & Co-Founder, AppLovin

Matt Stumpf, Chief Financial Officer, AppLovin

Introduction:

It is now my pleasure to introduce our opening company, AppLovin. We're delighted to be joined by Adam Foroughi, Co-Founder and Chief Executive Officer, and Matt Stumpf, CFO.

AppLovin is one of the most compelling technology stories in the market today. The company sits at the intersection of AI, performance advertising and the mobile ecosystem. And its Axon platform has become a powerful example of how machine learning can drive measurable outcomes for advertisers at scale.

Adam, Matt, thank you for being here. We're delighted to have you with us.

James Heaney:

Maybe just to start off, I think one of the things that's always defined AppLovin is just the focus on performance advertising – basically the idea that a business can come to you and spend $1 to make $2. Can you just talk about why that's been your focus, more so than brand advertising, and how that's ultimately gotten the company from over $10 billion in gaming ad spend on platform?

Adam Foroughi:

Yeah, we started the business in 2011, and at the time, advertising was predominantly brand advertising. In fact, over the history of advertising digitally, most dollars are spent on brand dollars. And the challenge with brand advertising is you can't really prove to the advertiser, in a measurable way, that the dollars they're spending are yielding them an actual profit. And therefore, if you can't prove that, you need to ramp up a sales force, you're bound by generally ongoing monthly contracts, and it's just a really tough process to scale a business.

Starting the company, I wanted to make sure that we were technology first, product first, and limited on sales investment. In fact, we have a very small sales team even to this day. And in order to do that, we knew that we had to be able to deliver advertisers actually measurable profits for the dollars that they spend.

If you tell a customer, you spend $1 million dollars on us in a month. you're going to make more profit from that million than what you spent and you're going to get the user, then they'll want to spend more than $1 million dollars. The value proposition is so strong in that case that you don't really have to sell that, do you? You just have to show it to them in numbers. And so, from 2012, when we launched, to today, that's really been the core value proposition in every category that we go into.

But starting with games, we really focused there. We built a product over time that could actually accomplish that. In the earlier era, when we were running from 2012 to 2020 – the technology was pre-machine learning – it had to do that in a very manual way, but we built dashboards and analytics to show them they were generating profit. The system was not as systematic but it still worked, and the company scaled.

Now, since we launched the Axon 1 model, and then subsequently in 2023 launched the Axon 2 model and the technology enabled us to really grow the business dramatically, we took that and automated the whole thing for customers. So now, customers come in, they plug in their goal – their goal usually translates to an IRR that they want to have. And all of these gaming companies think about their business model the same way any investor would with their dollars that they spend. If they spend a dollar they want an IRR from that dollar. And that IRR better beat the S&P, because otherwise why don't you just put your money in the S&P. So they're looking for healthy returns. And if we can systematically scale their spend, and achieve their return goals, then they will spend as much as possible, and try to generate the max amount of scale. We are truly giving them an arbitrage.

Now, if that's the framework of the business — both in gaming and now in these new categories that we go into in the consumer vertical — we don't really have to sell a whole lot. We're giving them such a strong return that they're going to come to us; therefore, we can scale this company to pretty large numbers. As James said last year, we disclosed – in Q1 last year – the business has grown a ton since, but back then, $11 billion in advertiser run rate, now much bigger. So the company is very, very large scale, we've been able to do it with a sales team that's probably, globally, well under 100 people on sales and business development. And so, you think about a business team that's that small supporting that much scale, with not a single commission-based person on payroll, that hasn't happened before in advertising and it's only because the value proposition is so strong.

James Heaney:

Great. Good place to start and good introduction. Maybe just talk about the Axon 2 rollout — obviously that was a huge kind of stepping stone for the company and has enabled these faster growth rates. Can you talk about what went into that, ultimately what's powering Axon and why is that sort of been the underpinnings of this growth?

Adam Foroughi:

We all talk about AI as large language models, but recommendation systems and ad revenue generation is one of the best outputs of these technologies. And if we talk about just a really modern understanding of how to use neural networks to create really good prediction and outputs, the advertising space has seen huge advancements over the past few years.

When we concepted Axon 2 in 2022 – and built it and delivered on it in 2023, and have grown up since – we really took our underlying technology from what I'd call machine learning 1.0 and upgraded it to machine learning 2.0, made it cutting edge, and when we released it to customers, it really was – to do exactly what I said in the prior response but do it automated at much larger scale.

The system now can take an advertiser campaign — if there's a new game that's launched and that game has never been downloaded by a single person in the world, and that developer comes to our platform and says, "I would like users at this return," the system is so powerful that it can achieve that return in almost no dollars spent. So you've got a scalable platform, fully automated, can work for any kind of game and now, in this consumer vertical for much more than just games, and can do it in this automated performance- and profit-based model for advertisers, and that really unlocked our ability to scale the business from where we were in '22, which I think was, if I recall on the advertising side of the business, hundreds of millions of dollars of revenue to this year analysts project us around $8 billion in revenue, so three years 10x because of this Axon 2 model.

James Heaney:

That's great. Before we bring Matt into the conversation – Adam, I did want to ask about specifically competition. Can you just talk about why the market for user acquisition isn't necessarily zero sum, and why you think there can be multiple winners? Because it's not kind of like a traditional brand model with fixed budgets, so maybe just explain how that works.

Adam Foroughi:

Yeah, there's not a lot of companies in the world that do this performance advertising model. And if I try to list them out, I mean obviously I think this has driven Facebook to become the most powerful advertising company out there. Google does more bottom-of-funnel advertising, so a lot of their search revenue is a user already knows they want to buy shoes and Google directs them to the right path and then captures dollars for it, and they're the world's best at that. But we try to play in the create discovery of a new product, that the user didn't know they wanted, and price it on this profitability type model. And Facebook does that well, a couple other companies in our space do that as well.

If you can deliver a profit to the customer that's true arbitrage, they don't have a reason not to spend with you. They will go, "Facebook, I want to spend and generate a profit on my $1 spent." They'll go, "AppLovin, I want to spend and generate a profit on my $1 spent. And anyone else who can offer that same solution, they will go spend dollars. And they won't constrain their budgets. Again, you live in a world of arbitrage; we all learn – if anyone took financial theory in undergrad; I mean that was my focus – arbitrages are maximized until they're gone. Well, the "gone" is, the scale limits the arbitrage at some point that these advertisers will go to every single channel to try to achieve their arbitrage goals, if that channel allows for it.

James Heaney:

Great. Matt, I want to bring you into the conversation. Maybe just take a minute to sort of talk about the gaming advertising business. Obviously, today is still the majority of spend on the platform – and you've talked about 20 to 30% sustainable growth, obviously been well north of that, but just help everyone in the room understand the core drivers of that.

Matt Stumpf:

Sure. So in order to understand our growth rate, you first have to understand the overall mobile gaming ecosystem that is underpinning our growth. So within the gaming ecosystem, there's a couple components. External investors have visibility into, obviously, the in-app purchasing market because it's posted publicly, so you can see that kind of low single-digit annual growth rate. But what you don't have visibility into is the in-app advertising component of the market, which we've mentioned several times, is growing at a rate that's much faster than that – multiples of the in-app purchasing market.

Behind those components as well, there's general market tailwinds that are also improving the mobile gaming ecosystem, so things like improving the value of the games, going from hyper-casual-focused gaming more to casual gaming, which improves the value of the users. You also have now something that we're starting to experience, which is in-app purchase-focused mobile gaming introducing the advertising. It's still relatively early, but that should be also a tailwind in the future, as these IAP-focused games start to move over to what's called hybrid monetization and bring in advertising to then improve the monetization of their users. So that's kind of the base level.

In addition to that, then, obviously, our technology is the primary factor of the growth that we're seeing. Since we're penetrated fully within the mobile gaming ecosystem, it's not growth from new advertisers — it's really the technology continuing to improve and us being able to drive more scale to spend for those advertisers.

Now, at the level that we're at and the scale of spend in the mobile gaming ecosystem, you can imagine that we're not going to be able to sustain that 20 to 30% over a 10-year period, so at some point on a percentage basis it's going to have to start to decelerate. But what we imagine is going to happen is, as we continue to grow on the consumer side of the business, at some point in the next 3 to 5 years, the mobile gaming business and the consumer side of the business are going to converge. So that consumer growth is going to offset any deceleration that we're going to see on the mobile gaming side, so we still feel very comfortable with investors expecting that kind of 20 to 30% over a very extended period.

James Heaney:

Great, and also can you kind of expand — could be Adam or Matt — on this concept of these model enhancements. Sort of take is under the hood of what are those changes? I know they're team-directed, but what are kind of specific types of unlocks that you'll get that drive kind of outsized growth relative to; kind of the normalized level – just maybe conceptualize that for people?

Adam Foroughi:

I mean, part of it is internal research, part of it is external research. We live in a world where AI technologies today are at level X, and then 5 years from now, how much better are they going to be? Is it going to be 1/2x? Is it going to be 2x? Is it going to be 5x? The field is getting better. You get more data, a better model, they can process that data, train to create a better output, more compute equals a better prediction.

And whether it's a large language model or a recommendation system, that catalyzes growth in a business. For our business, our model's job is to run a prediction to create that advertiser arbitrage at the largest scale possible for all the advertisers that we have in the system. So as the team goes and tweaks the model, and as we get more data into the system, more advertisers equals more data. More scale of ads served equals more data. We can write a more complex model that can process that data to create a better output. Every time that happens, it catalyzes a lift in our business. It increases the advertiser LTV at each individual advertiser because each one of them can now spend more at that arbitrage goal.

James Heaney:

Great. Moving beyond gaming — I think what's really exciting now is the expansion into categories beyond that, your core vertical, you're calling it now consumer. You started with sort of direct-to-consumer shops. Just explain to the audience what you're most excited about as it relates to this opportunity and how you see AppLovin becoming kind of a scaled alternative channel to Meta and Google.

Adam Foroughi:

Yeah. I mean, as we think about the business, we try to think about the business in very, very long-term thought – and I think it was about 3 years ago, the business itself was around a $1 billion of advertising revenue, and I said we would potentially be able to compound 30% a year for 10 years and 10x the business plus and get to $10 billion-plus of advertising revenue.

Analysts think we're going to get to $8 billion right now, this year, so it only took us 3 years. And then now add another year, assuming we keep growing at a nice rate to clear that mark. Now, where we are today — if we think about, okay, in 2026 we're at roughly $8 billion, then what are we going to get to in 10 years if we compound 25% growth? Well, get to $70 billion-plus of net revenue. In order to support that, because we're net revenue reported, you'd have to gross it up to gross spend. That'd be well over $200 billion of gross spend.

So, how do you get there? Well, the games category can't support that kind of scale. It can't even come close. Certainly, the game's user acquisition market, we hope, is going to grow a lot from here, and we hope to be able to be one of the companies that catalyzes that growth. We want that games market to be incredibly healthy and believe it will be.

But then beyond that, we need to have other categories that are much bigger – be able to support the type of dollars that we think we can collect on our platform, servicing this 1 billion-plus daily active users that exist inside games with a better advertisement. So how do we do that? Well, we launched into this consumer vertical with commerce 18 months ago; we're iteratively building a product.

Today, where that product is, is that typically we go to customers and go, "How much of your wallet are we able to capture?" Again, like that wallet might have grown in order to support the dollars that they give us because we're providing that arbitrage. But typically we get about 10% wallet and other companies get more than that. We know that at the highest end, the best in the field might get 50, 60, 70% share of wallet. In order to improve our product in that category, we have to keep writing a better model, we have to improve the ad formats, and we have to get more customers so that we have more data into the model so that our predictions improve. And we think that rate of 10% is only going to go up.

Then we also have to go and launch more categories of advertisers. We talked about on the last earnings call getting into cost per lead. The reason we're building a cost-per-lead model is to be able to support categories like health insurance, auto insurance, healthcare. So this unlocks much bigger TAMs, as well, outside of just the e-commerce category.

What we are doing today is to start laying the foundation of work that will take us a decade to complete. I mean, we'll never get to completion – everything is iterative – but a decade to get to a great place, but to be able to support what we hope is a 25% compounding growth rate over that decade. If we do that really well, this business will be a very large business. We'll have succeeded on trying to show a customer over 1,000 ads, 1,000 different products, that are so relevant for them that the advertisement feels like content, and drive a higher conversion rate and get this business to where we want to get it.

James Heaney:

And I'm glad you brought up the 10% — we hear that as well in our checks. I'm just curious, what do you think it's going to take to get to a bigger share of wallet, and is share even the right way to think about it if it's kind of growing the total pie for the amount that these customers . . .

Adam Foroughi:

It's a good scoreboard metric. I mean, when we talk to the customers, one of our conversation points is like, "what products do you want?" Today, we don't hear much as far as concern around the products and the targeting that we offer. So then the question is, "Okay, what else do you need?" Well, scale is an important indicator of success, so 10% is a starting point. I mean, if you think about this market, Google and Facebook are higher than 10% and then everyone else is below 10%. So it's not like we're starting at a bad place; we're starting in a place where we should be a requirement for anyone who's in this category buying advertisement to come to our platform, because we're already better than every other platform outside of Google and Facebook. Now, over time, as we get more customers, we get more data, the model gets smarter with time, both from the data from more customers but also from our team improving the model and pushing updates.

So, we're starting from a place where we have very little advertiser density, we have very little advertiser data. We have a model that's only 18 months old. As we go forward, we're only going to get better across all of those facets. And, if that happens, we're going to have a model that, in theory, should be able to capture more than 10% share of wallet.

What does that get to? Don't know, but again, to support a scale of a business in that 25% compounding case of $200 billion, where this becomes the majority of our business, we've probably got to be able to capture much more than 10%. And it's almost with certainty with time and these data advantages that we'll get because we're starting at such a low point, we'll be able to get to a higher point of wallet as we go.

James Heaney:

I get this question a lot from investors — what is it about the mobile gaming audience that's just such a compelling use case for e-commerce advertising? I feel like a lot of the pushback we get is like, "What data signal do you have?" What do you ultimately – what's your kind of right to win from that category?

Adam Foroughi:

Well, inside the mobile gaming category, we're doing pretty well – so I'd say, right to win is maybe we're right now winning in our category, but the audience is a 1 billion-plus daily active users. The audience of gaming is always going to be a subset of the audience on social. However, the power user inside casual games is materially different than the power user inside social. Someone who's scrolling Instagram for 8 hours a day or TikTok for 8 hours a day probably skews younger because they have the time to do it.

Someone who's playing Mahjong for 2 hours a day probably skews lower. I don't know a lot of 18-year-olds who know how to play Mahjong. So, if you think about the profile of that person – well, that person probably has more money, they're probably a head of household, they're probably a shopper. And so, we have a framework where the power users in casual games are a very good shopper audience. That's been proven through third-party audience studies. It's proven just conceptually by the type of games that are heavily played – the Candy Crush user, the Mahjong user, the solitaire user, the crossword user. These are very good users in terms of having consumer behavior.

The other part of the ecosystem that's very beneficial for advertisers is that the game customer is accustomed to a longer format. In between levels, the ad is like a television commercial but they can skip it after a few seconds. But a lot of the ads, in roughly half of our business, come from this rewarded ad unit, where a customer who's playing a game will say, to get another life on this level, and to play the level again, I'm willing to watch an ad.

Maybe it's one of the only places in the world where a consumer actually asks to watch an ad – and they have to watch that ad for up to 60 seconds. They're getting something of economic value, but in those 60 seconds of watching that ad they can't do anything else. They're on their mobile phone, they're watching a vertical video, and they have to complete that video in order to complete the transaction that they chose to opt into. Now, that's a great framework for an advertiser. If you tell a brand, "Where in the world can you actually know that the consumer saw your ad? You get 60 seconds of their undivided attention. I don't know of another place in the world where that exists."

And so, if you can give that brand that starting point to be able to create intent and drive a conversion, and then you power it with our machine learning technology, the possibilities are pretty great for that brand. And then underneath all that, you've got a great audience. You've got that head of household who's sitting there – and that's the person who's watching the ad. You can create a lot of shopper behavior.

James Heaney:

Great. And then, Matt, I think one of the most anticipated drivers right now, obviously, is the opening up of your platform to all advertisers sometime this month. I guess I'm just kind of curious – what does GA, general availability, ultimately represent for the company and what are the specific tools, capabilities that are coming together as part of this launch?

Matt Stumpf:

Yeah, I mean, we think about this launch not as a customer-focused launch, but more of a product milestone, if anything else. So what we've done thus far for the consumer vertical is tried to launch new products for them focused on what they care about – so prospecting and discovery models because advertisers within the consumer space target different subsectors of their consumer base, so we did that last year.

Now what we've been working on are tools for smaller advertisers to help them create new advertisements, generative AI creative tools that allow them to create interactive end cards, as well as the full video component of their advertisement. We're also working on MCP access so that if companies want to run agentic-based campaigns and analytics, we've got that available to them as well. And then Adam mentioned the other piece, which is a lead-gen model, which opens up new verticals to us that don't buy on a cost-per-purchaser basis, but buy on a lead gen basis.

The goal being that by the end of June that we've got at least a first iteration of a full suite of tools that are available to these consumers – the consumer vertical advertisers – so that anything that they could potentially want, they have access to. With the goal being that they can all come on board and basically just do one-click advertising. And obviously, it'll be a first generation. We'll continue to iterate and improve those tools for them in the future, but we just want to make sure that they have anything that they would potentially want to come onto the platform.

James Heaney:

Got it. And then in terms of the go-to-market and expanding access and getting more advertisers into the GA product that you have available – I mean, how do you think about that marketing investment? Is it something that's immediate behind the launch, or is it more kind of phased in the second half, and just how are you thinking about marketing in general?

Matt Stumpf:

Yeah. I mean, we think of it more organically, right? We could go and spend a ton of money tomorrow on performance marketing, but what happens if you do that is you sometimes stress the platform, you lower the quality of your product, and what we're focused on is the long term, not the short term. So we want to make sure that as we ramp up spend that the product is capable of handling that level of volume, that we're able to handle customer support requests, other things like that, so we continue to retain that level of high quality for the advertisers because it's tough to make a first impression twice.

So what you'll see from an external perspective is that we'll ramp up that performance marketing spend in a very measured fashion over time – increase it, call it 25% on a quarter-over-quarter basis – and we'll continue to do other types of marketing. Just overall brand marketing for the company. Adam's been doing some podcasts. Also get brand awareness out there and show his face a little bit more than we've done in the past, which has been none. So that's been good.

James Heaney:

Great, and what's the constraint, I guess, on a customer being successful, or even just getting a customer onboarded? I think in the past you talked about that breakage rate of a customer where maybe they see the ad or they're exposed, but they don't necessarily join the platform.

What's the constraint and how are you doing in terms of reducing those constraints to success on the platform?

Adam Foroughi:

There's two things that we identified, and we'll identify more over time as we optimize the conversion funnel, but one is that some customers just don't have ad formats built for our platform, whether it's video advertisement or our ads have another component that's called an interactive page. These advertisers may just not be accustomed to our format. So, we have something rolling out soon using generative AI tools to just have a one-click campaign creation, where a customer who integrates can click "launch my campaign" and they'll automatically get the video ad and the interactive ad out of the box, and hopefully good enough to meet their needs. They can hook up their credit card, off they go. That should solve one of the big roadblocks that exists in the system today.

The other one is this cost-per-lead model. The notion that today a customer comes in and they have revenue and they're optimizing for profit — great, that's what I talked about is the value proposition of the company. We already support that. That's most of our business. However, let's say they're trying to get auto insurance leads sold. That's not a revenue-based thing in the short term. And, therefore, how can they launch a campaign in our system? Well, there is no way for them to launch a campaign in our system. So, if we want to work with those companies, we have to allow them to buy leads.

And so, that is the point of the new model that we have in testing right now and we'll release. These are a couple areas we identified over time. It's our job to make sure that anyone who signs up who's a qualified lead, who can actually go live on our platform, has a good experience.

There's one reason, which is obviously revenue, but a lot of these customers that sign up aren't all that big. So you can say there's not a lot of revenue associated with them. The greater reason that we care about is sentiment. We want to have the best experience for every one of these customers. If someone who's a small business signs up and gets ads out of the box and is impressed with the ads, it could go live and starts growing their small business – well it's much more likely they're going to tell a friend about our business then if they came in and they didn't have ads and they walked away and said this system is way too complicated for me. That you end up with a bad net promoter score. So, we think of our own platform as something that can potentially grow on its own if we create a good experience for all the customers that sign up. So that's why we really focus on these flows and optimizing it over time.

James Heaney:

How much inspiration are you taking from some of your peers? I mean, obviously, Meta has kind of made it super easy for anyone, regardless of size – come up, start spending. Where are you guys on that?

Adam Foroughi:

Look, they're obviously the best. They've built a great platform over a decade. They've been the most innovative, so you always take inspiration.

James Heaney:

Great. I mean, I think you've talked about the ambition of getting to hundreds of thousands of customers – potentially, over time, even millions of customers – on the platform. And I think at the last earnings call you talked about the average self-serve customer that's coming on board is spending something like $70,000 annually, so when you start to run the math, it looks pretty exciting. Just curious – how do you think about longer-term monetization potential of the advertiser base and ultimately what the go-to-market looks like to get to those ambitions?

Adam Foroughi:

Yeah. I pulled that number off a few months live of the average customer cohort and you expect our LTV to go up over time as we improve our models. But even if you took that number, in my earlier example of saying, look, if we compound 25% a year for 10 years, this business has to support over $200 billion of ad spend, while 100,000 customers is $7 billion. A million customers ends up $70 billion. So to support that level of scale you probably need 3 million customers. We're going into a market where just in the consumer market of e-commerce, you have over 3 million shops that exist. So certainly the market can support it. Facebook and Google have over 10 million customers.

In order to get millions of customers, we have to do our job right on all the things that Matt talked about – in performance marketing our own brand, brand marketing our own brand, making sure that our perception is really good, making sure that the product works for every kind of brand that wants to sign up and go live, and making sure that our share of wallet is substantial and substantially higher than the 10% it is today. If we can do all those things over the next decade, then we can support, based on the math, the scale of the company that would be required if we're compounding 25% year over a decade.

James Heaney:

And curious — how should investors be thinking about supply expansion? I know, obviously, your core business was kind of advertising within ad-supported games, but you've talked more about going into in-app purchase games that have been in-app purchase historically. Curious how you're thinking about that expansion and where that fits in the timeline of the demand side that you're very focused on right now. How does that fit in?

Adam Foroughi:

Yeah, it's super important for us over the next decade to get more supply. And, the reason it's important for us is we want to take our demand to all the eyeballs everywhere that are qualified. There's a few vectors that we're working on today.

One is the publishers of games that are in-app purchasing games are very likely to start monetizing with ads. In-app purchasing monetization is maturing, ad monetization continues to improve. Now, there are two forms of ad monetization for them. One is, a lot of these game developers who monetize an audience with in-app purchasing have a mature audience and they don't want to run competitive games. Well, as we're scaling up our consumer vertical, we can show them and their audience ads for something that isn't competitive and intrusive to their own audience, and should not be seen as something that's risky.

So if you just size that market, you go, $100 TAM, and Candy Crush — when Activision was public on their own, reported that when they launched their ad division and went non-games only, and built up a 250-person sales force to do it, they started generating about 15% revenue from ads. Well, if you took the ecosystem and just said let's just halve it for the possible market, now you have $50 billion times 15%, you have $7.5 billion to-publisher market, which if we're servicing that with just consumer ads, you'd have to gross up to gross spend, but it doesn't become immaterial. That's a pretty big opportunity that is very beneficial to the in-app purchasing market and those developers. And also very beneficial to us.

The other piece of this is going outside of just the mobile gaming inventory. There's a lot of publishers in the world of apps and mobile websites that could use more advertising demand. There's just not a lot of companies that are focused on monetizing that demand with the true performance model like we have.

Games are probably not going to place well there, but if you think about that world — it's other social apps, it's other sports apps, it's other news apps, other media properties, people watch television on the phone, people watch movies on their phone. There's so much consumption happening in this sort of what people call the open internet or the open app space. And today, the monetization is a lot weaker than it is inside games. The CPMs that we see on games are multiples higher than what that world sees, because games is so performance-rich. Now, if we can scale this consumer vertical and then take it and place it outside, we should be a very compelling participant in those auctions.

The last area of this that we've talked about that's important to us is we do think that these brands deserve the shot to serve on television as well. Connected TV, IP-enabled device still sold the same way as linear TV. There is no true performance model like I've talked about that exists for brands on television today. Now, it's not trivial. You're missing a call to action, you're missing the same data that you have on a mobile device. You're going to have to cross up the television to the mobile device to close the loop. Nothing is trivial about that, but we're working on that problem.

If we can solve that, that creates a whole new space. It's challenging to grow something related to our current business if it's a whole new space, because you're starting from zero in a market and trying to grow the market. But if we're able to show customers that they can buy on television – and with certainty make a profit from that buy – that's a very scalable value proposition. So that's another area that our core engineering team is focused on.

And so, across these vectors, we think as you think about this business over the next 5-10 years, these are all very good growth vectors over that longer time frame.

James Heaney:

Yeah, just on the CTV point — what do you think is the biggest constraint to making that successful? I mean, obviously, it's a lot different – you don't have the same clickability. I mean, the only way to sort of measure performance, I guess, would be if someone used a QR code or something like that, but how do you think about ways to make CTV actually performance-oriented, and not just kind of upper funnel?

Adam Foroughi:

Unfortunately, no one uses the QR code, so you're missing that option — that would've been great if they did. You have to prove in an incrementality study that the ads served are better than the ads not served. So, in some form or another, the brand has to know with certainty that it works. Now, the problem with not having a QR code or a call to action is that the measurement becomes something brand new. So, when you have brand new measurement outside of the pre-existing measurement systems, and you have to prove incrementality, you're basically creating this market that didn't exist before, not trivial.

That's the work that we have to do. I mean, end of the day, when you're going into a market that didn't exist – it's like 15 years ago Cloud didn't exist, and now, obviously Cloud is massive, but it had to start with Amazon innovating and creating something new. Here, this doesn't exist. Nobody is selling CTV in this true performance model, and it's something that we think we can solve. It's very hard to do, but if we're able to do it, then we're going to sell it and it's something that in theory should be able to grow because, again, if the customer is seeing profit on the other side of it, they'll see it reflected in their numbers. They will scale, and then the question becomes how much can you scale each one of them to.

James Heaney:

Great. Last few — I think one of the things that stands out most about your business is just the margin profile. I mean, I think you're well north of 80% Adjusted EBITDA margin. I mean, we don't really have a lot of companies in our universe that have that kind of margin profile. So just curious how you're able to sustain that, where you think margins go over time, why is that the right margin level to have? I mean, obviously, I'm sure you get questions of why not invest more, why not hire more – like, talk about the ethos.

Matt Stumpf:

Yeah. I would look at it the other way around of where could we potentially increase costs to impact the margins. So you think about our primary components of cost, which are data center costs and headcount. So data center costs, we've been very, very consistent thus far over the past few years that around 10% of our revenue growth is reflected within the data center costs, and we've been, in fact, I think slightly under that recently, so we don't expect that should materially change. Obviously, the costs will grow up, they'll continue to go up. As we scale, there's more complexity to the model, there's more volume of traffic and everything else, so that'll continue to increase, but it shouldn't change in terms of the overall profile.

Headcount — we're just a very lean company in general. We have slightly north of 800 employees in total, but when you drill down into the kind of core components of the business, our adtech business and all of our corporate team we're around 400 employees, so we just run very lean in the first place. So while we're adding headcount in core areas to continue to support the growth — like in the consumer vertical, we're adding engineers if we can find engineers that meet our very high thresholds — that's really another component as well. We just have a very high bar.

So we're continuing to expand headcount there in the engineering team, as well as the business development team, to support more and more customers on the consumer side. But we're adding in the tens of headcount, not the hundreds, so we don't imagine that the overall margin profile is going to change materially from here. So around that 80% I think we're pretty comfortable going forward.

James Heaney:

Great. And then the last one, just on capital allocation — we saw kind of the increase in buyback in Q1, generating significant free cash flow right now. How do you think about just the general kind of capital allocation priorities between M&A, which I mean, you've done more of in the past, but maybe less so now? I'm curious how you're thinking about that.

Matt Stumpf:

Yeah. First and foremost, we want to make sure that we're not stifling the organic growth of the business — so that there's plenty of cash that's available to support the headcount growth and other new costs that come up like performance marketing that we mentioned. So we're doing that first and foremost, but then still generating significant excess cash. I think we're running around 70% cash flow margin, so pretty substantial.

We're looking at M&A on an ongoing basis and assessing the strategic benefit of potential companies, but we've got a very high bar there as well. Obviously, there are not many companies out there that are running at the same level of operating efficiency as we are, and none at the EBITDA margins – any company on those fronts would be dilutive to the business. So then it's well, is there a company that's out there that adds a significant level of strategic benefit – and we look at those companies as ones that would add material data for the model that would continue to improve our ability to scale up the spend for advertisers, or dramatically increase the volume of advertisers that we're bringing onto the platform and cross-sell those advertisers into the existing platform. And so far we haven't seen any companies that check all of those boxes.

Then what do we do with all the cash – and we've decided to return the cash to shareholders. We've done that since 2022. I think we spent almost $7.5 billion, probably one of the most successful buybacks in the history of the public markets. We've done really well there. We're buying back opportunistically as well. I mean, one of the downsides of the company is we're relatively volatile still, but the silver lining of that is it provides us an opportunity to take advantage of that dislocation and the value of the stock and ramp up the buyback. So we've been doing that as well. You saw last quarter that you mentioned, right? We ramped up to $1 billion in a buyback, and we plan to do that going forward as well.

James Heaney:

Maybe the last one before opening it up to the audience —just on, I mean, mentioned a little bit about M&A. I know you've done a lot of adtech deals in the past. You're in the business of kind of acquiring studios at one point and own that business as well. Obviously, expressed interest in TikTok and first-party traffic in general. How would you think about, sort of, prerequisites for a deal that would add value to your platform?

Adam Foroughi:

If you look back at the history of our deals, most of the deals were for data. The games companies were to build their Axon 1 model. Once we had the model and we had a good presence in the ecosystem, we stopped buying gaming companies, and then we subsequently offloaded those assets. When we bought MoPub and MAX, we were able to buy business relationships and effectively not people, culture nor technology. We rebuilt those stacks, and if you look back at the history and success of our M&A, the MAX business is a very large business now, so we made a huge return on investment in MoPub and MAX.

And so, if we buy in our wheelhouse and it's something that we think we can make a good return on, it would require a company that either can fit culturally with us, can provide us data or can provide us something that's commercially beneficial inside this advertising ecosystem that we understand very well. There's not a lot of that out there. And so, whenever we look at the space – and we're certainly required to look at opportunities out there; it serves us well to do so – it's hard to find something that fits that framework. And because our team is so lean, and we don't intend to change the lean structure of our organization, it's really hard to fit other cultures with ours and that creates a dynamic where if we thought we were going to buy and not have the ability to integrate, then we're not a particularly great buyer. The best transactions are those that you can integrate into a core stack and use our own pre-existing scale to scale their business faster.

So, we think about it around that framework, and if we see something great, again, we will do something. We haven't in four and a half years, and so in the absence of that, as Matt said, we think our stock is a good place to park cash, and we continue to do.

James Heaney:

Maybe with the last 10 minutes or so, if there's any questions, we'd be happy to take any questions from the audience, as well.