

## **Q2 2024 AppLovin Earnings Presentation**

### **David Hsiao, Head of Investor Relations:**

Welcome to the AppLovin earnings call for the second quarter ended June 30, 2024. 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 shareholder letter and press release discussing our second quarter are available at [investors.applovin.com](https://investors.applovin.com).

During today's call, we will be making forward-looking statements regarding our products and services, market expectations, the expected future financial performance of the company, and other future events. These statements are based on our current assumptions and beliefs, and we assume no obligation to update them except as required by law.

Our actual results may differ materially from the results predicted. We encourage you to review the risk factors in our most recently filed Form 10-Q for the first quarter ended March 31, 2024. Additional information may also be found in our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2024, which will be filed later today.

We will also be discussing non-GAAP financial measures. These non-GAAP measures are not intended to be superior to or a substitute for our GAAP results. Please be sure to review the reconciliations of our GAAP and non-GAAP financial measures in our earnings release and shareholder letter 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:**

Welcome, everyone, and thank you for joining us. We had another strong quarter in Q2. Our software business had 5% revenue growth quarter over quarter because our models continue to improve. As you'll recall, in Q1 we had a big step-up in growth, so continuing that trend to grow quarter over quarter is a really promising sign.

As we've stated in previous earnings calls, if we keep growing the software business, the flow-through to EBITDA and cash is very high, and our business margins and cash conversion will continue to improve. We've also consistently said that the slower-growth

market we're in, mobile gaming, doesn't constrain our opportunity to grow our software business. We've noticed that at times this concept needed a little bit more explaining for our shareholders and prospective investors, so I wanted to take the time to do that here.

Our platform is entirely performance-based. In other words, gaming advertisers who market on our platform generate a measurable revenue and profit from the dollars they spend on our platform.

Our customers run marketing campaigns with target return goals but tend to have a much higher appetite for spend on our platform than we can deliver today. And why can't we deliver more today? Because our current system can only find a limited number of users who will meet their revenue goals. As our technology improves, we will continue to find more users who achieve these goals, increasing advertiser spend resulting in materially higher growth than the growth rate of the mobile gaming market.

Last quarter, I talked about a goal of growing our software business 20% to 30% for the long term. I typically don't communicate externally about our goals if I don't have confidence in it. I'm communicating it now because I do have strong confidence in it, and I see many years of growth ahead of us.

Here are the primary drivers of that growth goal.

Continued improvement from our models as they learn from more data. As our models gather more data, they'll become more accurate and find more good users for our advertisers.

Gains that our team delivers to the efficacy of our models through enhancements. Our research, science, and core engineering team members are exceptionally talented and consistently deliver lifts to the performance of our models.

Demand expansion into new verticals. We just launched the first web advertising campaigns for shops this quarter. And while in pilot right now, we think it will unlock a lot of demand expansion opportunities for us.

And then supply expansion. As we broaden our demand base outside of gaming, we expect the new categories will really help grow our CTV footprint. We continue to be very excited about our prospects and the performance our team is able to deliver.

We will work tirelessly to achieve the goals we set and hope that over the next many quarters and years together, you will have a better sense of how an AI-driven marketing platform creates growth opportunities that just weren't possible in advertising before because technologies were not this sophisticated. With that, I'll hand it off to Matt to run you through the financial highlights.

**Matt Stumpf, Chief Financial Officer:**

Thanks, Adam, and good afternoon. I'm pleased to report we had another strong quarter with total revenue reaching \$1.08 billion and Adjusted EBITDA of \$601 million, achieving a 56% Adjusted EBITDA margin.

This marks a 44% increase in revenue and an 80% increase in Adjusted EBITDA from the same period last year, translating to an impressive 81% flow-through from revenue to Adjusted EBITDA. In the second quarter, we generated \$446 million in free cash flow, which is a 74% flow-through from Adjusted EBITDA.

Quarter over quarter, our free cash flow grew 15% compared to 10% growth in Adjusted EBITDA over the same period as we benefited from a relatively stable base of cash tax and interest.

During the quarter, improvement in our AXON technology driven by ongoing self-learning contributed to further growth of our software platform, which generated \$711 million in revenue and \$520 million in Adjusted EBITDA, retaining our 73% margin and growing 91% from the same period last year. This represents an 87% flow-through of revenue from the prior quarter, illustrating our ability to remain disciplined with our costs, growing revenue while remaining lean and efficient.

Our Apps revenue for the quarter was \$369 million, an increase of 7% from last year, with \$81 million in Adjusted EBITDA, representing a 22% margin. During the quarter, we readjusted our user acquisition return goals, resulting in an 11% quarter-over-quarter decrease in total App segment costs, while revenue decreased by 3%. We expect our future margin profile to normalize to approximately 15% over the long term, consistent with industry standards.

Looking ahead to capital allocation, we plan to focus on three key areas.

First, investment in organic growth initiatives, specifically our engineering and business development headcount to support the development of our AXON technology and

expansion into e-commerce. We do not expect significant capital investment here since we plan to expand our teams in a very lean and targeted manner.

Second, continued share management activities with the combination of withholding cover on future share vesting and strategic repurchases.

And third, strengthening of our balance sheet to enhance operational flexibility and liquidity while reducing net debt.

In Q2, we used \$356 million to withhold 4.2 million shares, allocating about 80% of our free cash flow in the quarter to share management. Since 2022, we have invested nearly \$3 billion to repurchase and withhold a combined 83.6 million shares.

Finally, in the third quarter of 2024, we anticipate delivering between \$1.115 billion and \$1.135 billion in revenue, with Adjusted EBITDA between \$630 million and \$650 million, targeting an Adjusted EBITDA margin of 57%.

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

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**Operator:** Thank you so much, Matt. We will now take your questions. *[Operator Instructions]* Our first question is going to come from Jason Bazinet with Citi.

**Jason Bazinet:**

I just had a quick question on some of the initiatives you guys are pursuing outside of gaming. I know it's still a little bit early, but you said some of these products are in beta.

Can you refresh us on what your ambitions are, anything you've learned so far, and when you think it might be something that is large enough where the Street could care about it? Is it a '25 or '26 event? Some sort of dimensionalization of the timing. Thanks.

**Adam Foroughi:**

Good to see you, Jason. In the quarter, Q2, we launched the pilot of our web advertising program. Let's talk about e-commerce first. This allows an e-commerce shop that has a website to buy on our in-app inventory — the billion-plus daily active users we see in mobile gaming. A video advertisement routes that user to their shop and purchase that

user in the same way that mobile gaming companies like purchasing users on our platform. So – doing it on a performance basis, and we’re delivering them measurable revenue and results.

This is brand-new. I’d say it’s been in pilot for a few months now. Results are looking really promising – materially better than what we would have expected this early in our progression in trying to get into web advertising.

So, this product, we think, is something that we’re going to invest heavily behind, start scaling out, and hopefully will show a material impact in ’25 and beyond. And it is not limited to just e-commerce. It opens the door to advertising for any website of any type that wants to drive transactions that are measurable on a performance basis on our platform.

**Jason Bazinet:**

Thank you very much.

**Adam Foroughi:**

Thanks.

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

**Clark Lampen:**

Hey, guys. Good afternoon.

Adam, if we look at the third quarter guidance and assume that Apps trends are relatively similar to what we saw last year, there’s sort of an implied comp-adjusted reacceleration in the software business. And I’m going to guess it’s going to be driven by that first primary driver you mentioned – model improvements and the learnings that go on.

But one, I’m curious if you could give us a sense of what’s actually driving acceleration against tougher comps now. And then, what does that look like for the back half into ’25?

**Adam Foroughi:**

Look, when we've talked about this growth goal — if you just think about it in terms of the mobile gaming business we have today — we just grew 5% quarter over quarter, and the numbers are getting pretty big. Q1 was materially more; it was in the teens quarter over quarter.

We've always talked about how the model is going to continue to improve itself and pick up a few points of growth every single quarter just from that enhancement. But then the team is also applying enhancements on top. When we get lifts from the team, those can be step-function. Like we saw in Q1, you wouldn't expect double-digit growth over Q4.

And so, we're seeing really good trends in Q3. The business is still very strong. We've got a lot of momentum with our customers. They continue to see us as really the main channel in mobile gaming advertising.

And behind that, we're also now seeing exciting trends in the web advertising category. So, we've got a lot of optimism going into the next quarter.

**Clark Lampen:**

OK. And if I could, Matt — year to date, you've repurchased around \$1.1 billion of stock. The guidance implies both an uptick in margins and higher incrementals if we take Apps margins at 15%, I think, as you just said. How do you think about — as the free cash flow profile of the business improving — being a little bit more tactical with the buyback in periods where there is a bigger dislocation between the market price and what you guys view as intrinsic value? Thanks a lot.

**Matt Stumpf:**

Sure, Clark. Our plan currently is to continue the historical trend of managing our shares through withholding cover on shares that are vesting each quarter. And then on a strategic basis, we'll continue to do supplemental repurchases in addition to the quarterly investing.

**Operator:** Thanks, Clark. We'll move on to James Heaney with Jefferies.

**James Heaney:**

Great. Hey, guys, thanks for taking the questions.

Could you talk more about the 20% to 30% long-term software platform growth that you referenced? And I'm curious how dependent that goal is on verticals beyond gaming.

And I have one more follow-up.

**Adam Foroughi:**

We don't think it's very dependent on outside of gaming at all. You've got a mobile gaming category. It's got a few percentage points of growth a year now. So let's call that low-single digits.

You've got a business that as these models continue to improve from gathering more data, we think that's an extra 3%, 4% a quarter as well. So that sort of gets you to the low end. And then we've got a team that's constantly working on improving the models, and any improvement that's actually developer-driven enhancement to the models that makes them more accurate then steps you up into the higher end of that range.

So, we've got a lot of confidence in the growth goal we put out there just on a baseline basis the current business. Now, we do with the current business sit on 1 billion-plus daily active users. We've got one of the most sophisticated advertising platforms in the world, and we're driving billions of dollars of performance value in gaming.

There's nothing about the technology we have that would disallow it from going outside of just mobile gaming, and we're already seeing positive trends in that pilot. So, as we start putting these pieces together and broadening out our platform over time, we're really excited about how big the numbers could become.

**James Heaney:**

Great. And then just one more follow-up on the overall health of the mobile gaming market. I think you've talked in the past about 3% to 4% industry growth. So, curious if you're seeing any change in those trends.

**Adam Foroughi:**

No. And we're not seeing any change in the aggregate. But you also have to remember our market is a little bit different. We're driven in large part by advertising-based applications'

growing audience. So, that 1 billion-plus daily active users inside of apps that run advertisements.

You monetize those apps partially with games that generate purchases, and partially with games that generate both purchases and advertising revenue. And so, that number isn't documented anywhere but we're seeing the overall IAP market – everyone can look at industry reports and see it growing low-single digits. We're also seeing the advertising-supported market grow faster than that.

**James Heaney:**

Great. Thank you.

**Operator:** We will now hear from Omar Dessouky with Bank of America.

**Adam Foroughi:**

Great. Hey, Omar.

**Omar Dessouky:**

Hey, guys. I'm on audio only. Thanks.

So, just looking at your third-quarter guidance – if I were to back out the Apps business, I kind of get a number that's sort of 50% year over year in the third quarter, which is still pretty far off from the 20% to 30% long-term growth you talked about.

So, I think myself and a lot of people would want to know what is potentially the trajectory going from a software business growing maybe 50% year over year next quarter eventually to that 20% to 30%. Do you have any visibility into the first couple of quarters of 2025 yet that you're able to share with us?

**Adam Foroughi:**

So, we don't provide long-term guidance. Obviously, we're only looking a quarter ahead. As Clark touched on, you can sort of deduce where that software business we're guiding to on the upcoming quarter.

If you start adding up the quarters to get to 20% to 30%, you want to see 5%, 6%, 7% quarter-over-quarter growth. We think we can be confident in those ranges for quite some time — we see a lot of opportunity to grow.

Now, that removes any opportunity for step-function gains and model enhancements driven by the team. That also does not include really any contribution from new categories because, frankly, again, they're in pilot. So we're not backing those numbers into longer-term views on the business.

So, we think we're going to be in a place where this business is going to be steady — it's going to be growing at a very nice rate, and the conversion to cash flow is only going to improve. And we've got a lot of other exciting things that are going on that give us confidence we could even be above those ranges.

**Clark Lampen:**

OK. Could I just ask you another quick question?

In terms of the opportunity for in-app advertising — some of the checks I did suggest there were some improvements there. So I think the in-app purchase market is somewhere around \$100 billion. The in-app advertising market, a lot smaller, is somewhere maybe between \$20 billion and \$30 billion, is my estimate.

Does your technology really drive advertising revenues for publishers as well and potentially turn that into a growth market, and could that make a major difference in your software business?

**Adam Foroughi:**

Well, look, that market is already growing much faster than the in-app purchasing market because it's at a smaller base. The MAX platform we've touched on this in the past — the majority of the mobile gaming and app advertising market is running through the MAX auction. The MAX auction has gone from the inefficient world of waterfall to programmatic bidding. The vast majority is now in a bidding state, and so it's continuously gotten more efficient.

Our advertising has also gotten a lot more efficient. So as you've seen our business doubling in the last year, there are billions of dollars of more investment happening for mobile gaming

companies and user acquisition and user discovery. Some part of that is in-app advertising advertisers, and that's helped be a catalyst to regrowing this industry as a whole, in-app purchasing.

But some portion of that is also publishers that are buying more users now because our systems are more effective for advertising-based applications. But all of this is intertwined together and we're one of the main catalysts of growth in this category because our scale is so large inside this category on both fronts.

**Omar Dessouky:**

Understood. Thank you very much.

**Operator:** Vasily Karasyov with Cannonball has the next question.

**Vasily Karasyov:**

Good afternoon. Adam. On the previous call, you mentioned that the big publishers started spending with you, and before that they were not because they saw you as a competitor.

So I was wondering how that trend continued this quarter. Do you still see them coming in bigger, bigger buckets? And does that open up a significant corner of the market that you sort of could not address before?

Would appreciate your thoughts here. Thank you.

**Adam Foroughi:**

Look, at this level of scale — with how big the software business is — if you backed out total advertiser dollars that you think are on our platform, it's in the many billions of dollars. So we've always worked with some of the very large publishers. We've usually had pretty deep penetration in mobile gaming, but there are some very well-known large publishers that did look at us as a competitor.

At this point, our platform is so successful in mobile gaming, it's very, very hard for any publisher to look the other way. And so, we've gotten a lot more adoption across even those publishers. There isn't really a customer that I know of in mobile gaming that does not find success — scalable success — on our platform at this point.

**Vasily Karasyov:**

OK. Thank you.

**Operator:** Moving on to Mohammad Azharuddin with HSBC. Mohammad, do you want to turn your video on? Mohammad, if you can hear me, go ahead and unmute yourself, so we can at least hear you to ask your question. Well, hearing no response, we'll move on to Matt Cost with Morgan Stanley.

**Matt Cost:**

Great. Hi, guys. Thanks for taking the question.

When I think about e-commerce advertising in an in-app or in-game environment — as I understand it today, the AppLovin Exchange should allow people like Google or Trade Desk to access the inventory on MAX to run e-commerce ads today. That should be possible, but it doesn't seem like it's a very big business today.

So, what are the impediments to running e-commerce advertising in an in-game or in-app environment that are preventing others from doing it already? And then how are you solving those problems, or aiming to solve them, with your e-commerce product? Thank you.

**Adam Foroughi:**

We can't speak to other people's technologies or things that prohibit them from being able to get categories to work in gaming. But Trade Desk's products are nothing like ours.

When it comes to succeeding on behalf of advertisers, in any category, we want our models to be able to drive measurable revenue. So you've got to have an attribution framework, you've got to have models that can predict revenue and match the user up with the advertiser, and you've got to make it all work together.

We're in pilot with this product right now. It's looking quite promising, and so we think it's something we're going to be able to build on and build on very aggressively as we go forward.

**Matt Cost:**

And just to follow up on that from a data perspective – is it just a matter of iterating on it? I mean, because obviously, you have so much data that's specifically relevant to the game advertising products you've done historically. Is that applicable directly to e-commerce advertising or other verticals, or is it about iterating and kind of building a new dataset?

**Adam Foroughi:**

I think it's a combination of both. I mean, we process tens of billions of dollars of transactional volume already, and we see 1 billion-plus daily active. So our platform is not small at this point. And that data is able to be used across anything.

These are human beings, not just mobile gamers, and the audience skews female and middle-aged. And so, it's completely different than what people would assume a gaming audience is, at a very, very large scale, directly applicable to e-commerce is something we've always hypothesized as possible.

The models in AXON 2 are so much more sophisticated than technologies we've had in the past that they should enable success there. So we're at the point now where we know we put the pieces in place. And now it's more of a go-to-market problem and less of a technology problem.

**Matt Cost:**

Great. Thank you.

**Operator:** Arsenije Matovic with Wolfe has the next question.

**Arsenije Matovic:**

Hi. Thanks for taking my question.

Looking at AppDiscovery installations growing 77% on a tough comp and revenue per installation accelerating versus last quarter — is there any strength in installations from non-gaming? I know it's a small revenue base today, but in terms of AppDiscovery installations, is it a more material portion of that growth?

And then, just aside from that, could you go into a bit more detail on how you're still seeing that strength in installations and revenue per installation?

Then I have a follow-up on the Apps business. Thanks.

**Adam Foroughi:**

Yeah, sure. Non-gaming continues to grow, but it's still a relatively small portion of the overall installations when you look at the overall software business, and it's still kind of in pilot mode. So we continue to see promising results, but it's really not needle-moving today.

**Arsenije Matovic:**

Got it. And then just on Apps — despite the dip in monthly active payers you saw, I think when you back it out, in-app advertising was basically flat sequentially. Is this a function of the strength from AXON 2?

And also on Apps, do you plan on exploring any studio divestitures? Some people were talking about wanting to add more studios. Would that support some of your capital allocation plans in the medium term? Thanks.

**Adam Foroughi:**

Like we've said in the past about M&A and divesting the Apps businesses, we continue to be open to it and we're really just waiting for the market to improve. And we've been optimizing the app studios over the last — over a year.

So you can see that as well, right, in this quarter where we've adjusted the return goals for our UA spend, decreasing costs pretty materially and increasing our margin profile. So we'll continue to maximize those businesses for profit, and we'll be open to transactions in the future.

**Arsenije Matovic:**

Thank you.

**Operator:** We have time for one additional question from Martin Yang with Oppenheimer.

**Martin Yang:**

Thank you for taking my question.

I want to dig a little deeper into your confidence on that 35% constant improvement on a sequential basis. What gave you that type of confidence? Because I look at the underlying market and your customer behavior – it's a very dynamic market for mobile gaming – new game launches, certain games performing better or worse, and customers doing all sorts of things.

So, what is the constant in that type of market that gives you confidence that your improvement can be pretty consistent on a quarterly basis?

**Adam Foroughi:**

I think you said 35% sequential quarter over quarter. What was the –

**Martin Yang:**

3% to 5%.

**Adam Foroughi:**

So there are two components, right? One is the market growth, which we can all say is low-single digits. One is just models getting better every single quarter because they see more data and they get more accurate. And these models, by definition – this is how they work. And so, we see that in real time, the models continue to get more accurate.

Now, our advertisers – and I said this in my talk track – our advertisers would spend much more today on our platform than we can deliver to them. The limitation is how many users the models can match up across every single one of those advertisers at those revenue goals. If the models get better, they're able to process more data and find more users for those advertisers, so the spend goes up naturally.

And it's not that these advertisers are adding more budget. It's not that they're saying, we want to buy users at a more expensive cost to them by definition, lowering their goals. It's that the models get better, all else stays equal and these advertisers grow on our platform.

And so, we're seeing that in real time. And there is a very, very large appetite for incremental spend on our platform because we deliver profits to these advertisers. They're arbitrage marketing on us – they're buying at a profit – and they will spend a lot more if our models can do it.

And so, those two things build out a very good sustainable growth rate inside the mobile gaming category. And then the third piece is, if you end up having a lift to the form of technology that you're using, you materially enhance that technology. And in the past, I've used ChatGPT 3.5 for these incremental changes that are step functions in these types of technologies – and I use that as an analogy because people understand it.

But in our world, we're constantly making enhancements to the technology. When there is a lift to the technology, that could be a step-function in growth for the same reasons because these advertisers will spend more, and it can make our models more accurate at larger scale on behalf of them. So hopefully that answers for you, Martin.

**Martin Yang:**

Yeah. A quick follow-up. So are you saying that the key inputs to your own model improvement is primarily volume-driven – or the volume data-driven?

**Adam Foroughi:**

Yeah. I mean, look, we're at a very, very large scale, right? So that data creates a moat. And the more data our models process, the better they're going to get. So every single quarter, we launch the system.

We just went and lapped the one-year anniversary. So its been in the market now for a year-plus. Every month has been bigger than the prior month. So we get more data, the model processes more data with those incremental data points, the math gets stronger, and it can drive more value. And so, we've seen that consistently.

These AI technologies are very, very new. So it's not like in the world we have 10 years of history to look back on and go, when do these models stop improving themselves? They currently are doing that today. By nature, that's how this AI technology works – processes immense amounts of data, and through that, the math gets stronger and more accurate and more predictive.

And so, we're seeing that in real time. That gives us confidence that this core underlying technology is going to continue to grow over time.

**Martin Yang:**

Got it. You talked about matching. Is there a sense you can give us on how accurately you are matching users to apps now, and how much more accurate it can be in the future?

**Adam Foroughi:**

Yeah. I mean, look, we're very, very accurate today. When an advertiser says, "I want to break even in 30 days on our platform," we achieve that goal for them.

When I say increasing the match rate, it means – let's say that advertiser says, I want to spend \$1,000 today and get the \$1,000 back in 30 days, and we get that within a percent of inaccuracy. So they get whether it's \$990 or \$1,010 back in 30 days that we have a limit of \$1,000 that they can spend today, though the system can only deliver that much with a very low error rate for them.

Now, let's say tomorrow the system processes more data or our team makes an enhancement and now the system can deliver \$2,000 at that same 30-day breakeven. The advertiser is going to say, I've got the \$2,000 ready to go. You're breakeven in 30 days, I'll put it on my credit card.

Well, they have unlimited tolerance to spend, if all else remains equal, and as our technology continues to improve, that business will continue to grow.

**Martin Yang:**

Thank you.

**Operator:** This concludes our question-and-answer session and today's webinar. Thank you all for your participation, and we look forward to seeing you next quarter.