

Q3 2024 AppLovin Earnings Presentation

David Hsiao, Head of Investor Relations:

Welcome to AppLovin's earnings call for the third quarter ended September 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 third quarter are available at investors.applovin.com.

During today's call, we will be making forward-looking statements regarding our products and services, market expectations, our share repurchase program, including future amounts available for repurchase, 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 second quarter ended June 30, 2024. Additional information may also be found in our quarterly report on Form 10-Q for the fiscal quarter ended September 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 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:

Thank you all for joining us. We're excited to welcome a growing group of investors this quarter. Before we dive into our strong Q3 results, I want to emphasize the role that our culture plays as a fundamental strength in our business.

Recently in Silicon Valley, much has been said about the importance of founder mode. While I'm a very hands-on founder, I believe that the key to our success lies not only in my hands-on approach but, more importantly, in surrounding myself with a team that shares a similar mindset and drive.

Here are some defining traits of that mindset.

We act like owners, treating the business with personal accountability. We approach each day with urgency and purpose.

We have an insatiable desire to learn. We are driven by a relentless pursuit of excellence. We're constantly optimizing for diversity of thought and unity of ambition. We prioritize automation wherever possible.

We don't get bogged down in overthinking. Instead, we make decisions and take action, adjusting quickly when needed. Our managers aren't just managers, they're doers, and expected to lead by example.

We take pride in our profitability, with our business generating over \$1.5 million in run rate adjusted EBITDA per employee, an efficiency we aim to improve. This quarter, I took on oversight of our HR function to ensure our culture thrives as we continue to grow.

Now, turning to our quarterly performance. We continue to execute well, expanding our core business and laying the groundwork for sustained growth. Last quarter, I shared our confidence in achieving 20% to 30% year-over-year growth for the foreseeable future.

We continue to expect 4% to 5% quarterly growth through self-learning and market growth, with occasional step changes resulting from enhancements to our AXON algorithm. This quarter, we saw one of those step changes, with meaningful growth driven by advancements to AXON.

While we can't predict the timing of these breakthroughs, we're in the early stages of AI software development, both within our company and in the broader industry. We expect ongoing research advancements to continue driving our technology forward.

While we remain confident in 20% to 30% growth for mobile gaming advertisers alone, we're also exploring new areas, as shown by our recent e-commerce pilot. Early data has exceeded our expectations, with the advertisers in the pilot seeing substantial returns, often surpassing those from other media channels, and in many cases, experiencing nearly a 100% incrementality from our traffic.

We're increasingly confident this vertical will scale significantly in 2025 and become a strong contributor for us over the next year and beyond. To support this, we've streamlined resources and are reallocating talent from other initiatives to our e-commerce

go-to-market team. In the next few quarters, we'll launch a self-service platform, opening global opportunities for advertisers of all sizes.

Next, an update on our earnings communication. While we've been issuing quarterly shareholder letters, we believe businesses are built over years, not quarters. And to align with this vision, we will shift to an annual shareholder letter. Financial results and guidance will still be released quarterly, but each year we'll provide a comprehensive summary of the past year and our plans for the future in the form of an annual shareholder letter.

Finally, I'd like to thank our team for their outstanding execution and relentless drive. After 13 years, I'm continually inspired by the passion and excellence that define our company.

We're in the early stages of building one of the world's most innovative technology platforms. The future is incredibly bright, and we have the right team to seize every opportunity in front of us. Now, I'll hand it off to Matt to run you through the financial details.

Matth Stumpf, Chief Financial Officer:

Good afternoon. We had another fantastic quarter, with total revenue reaching \$1.2 billion and Adjusted EBITDA of \$722 million, achieving a 60% Adjusted EBITDA margin. This marks a 39% increase in revenue and a 72% increase in Adjusted EBITDA from the same period last year, translating to an impressive 91% flow-through from revenue to Adjusted EBITDA.

In the third quarter, we generated \$545 million in free cash flow. That's up 182% year-over-year.

Quarter-over-quarter, our free cash flow grew 22%, consistent with Adjusted EBITDA growth over the same period, and representing 76% flow-through from Adjusted EBITDA to free cash flow. At the end of the third quarter, we had \$568 million in cash and cash equivalents, and 335 million shares outstanding.

During the quarter, improvements in our AXON technology, driven by ongoing self-learning and enhancements by our engineering team, contributed to further growth of our Software Platform. This segment generated \$835 million in revenue and \$653 million in Adjusted EBITDA, achieving a 78% margin and growing 66% in revenue and 79% in Adjusted EBITDA from the same period last year.

Quarter-over-quarter flow-through from revenue to Adjusted EBITDA was 107%. Our Software Platform Adjusted EBITDA this quarter was positively impacted by several non-recurring cost benefits associated with the renewal of our Google Cloud contract, PSU

vesting in the prior quarter, and foreign exchange. On a normalized basis, we estimate our quarter-over-quarter flow-through would be approximately 100%.

Next quarter, we expect Software flow-through to reduce slightly as a result of PSU-related vesting costs and an increase in data center capacity to support future growth.

As our core advertising business now represents substantially all of our Software Platform revenue and future focus for the company, starting with our next shareholder letter and annual 10-K, we will rename our Software Platform and associated revenue to Advertising to better align with the nature of this business.

Our Apps revenue for the quarter was \$363 million, a 1% increase from last year, with \$68 million in Adjusted EBITDA, representing a 19% margin. We continue to expect the Apps business to be stable in the future.

We believe a strong capital structure and effective capital allocation plan are crucial to the creation of long-term shareholder value. To that end, we're focused on a few areas.

First and foremost, to drive organic growth by recruiting top talent and investing in our technology in the most lean and cost efficient way possible.

Second, to manage our outstanding shares through ongoing repurchases funded from free cash flow and prudent equity grants to employees. This quarter, we retired and withheld a total of 5 million shares for a total cost of \$437 million. To further our share management efforts, we also received our Board's approval to increase our repurchase authorization by \$2 billion, bringing our remaining authorization to a total of \$2.3 billion.

And third, to build a strong capital foundation, with sufficient liquidity to support financial flexibility with a net debt leverage ratio below 2.0x.

Finally, turning to our financial guidance for next quarter. In the fourth quarter of 2024, we anticipate to deliver between \$1.24 billion and \$1.26 billion in revenue, with Adjusted EBITDA between \$740 million and \$760 million, targeting an Adjusted EBITDA margin of 60%.

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

Operator: Okay. *[Operator instructions]* Our first question comes from Clark Lampen with BTIG. Clark?

Clark Lampen:

Hey, if you could you guys hear me all right?

Operator: We can hear you. We can't see you well.

Clark Lampen:

Okay. Sorry. Having some tech issues tonight, which is something that you guys based on these quarter's results, you're completely unfamiliar with. I just wanted to — if I could, I wanted to unpack 3Q performance a little bit.

Adam, at the risk of asking an obvious and dumb question, I would assume that while commerce is in pilot phase, there's really very little revenue contribution. Is that right?

And then, if so, for the existing gaming and non-gaming businesses, was one a bigger contributor this quarter? Meaning, was one more responsive, I guess, to the performance improvements that you delivered?

And then, Matt, I'll just ask amid my tech difficulties the second question and then get out of the way here. The capacity increase that you took down this quarter — is it possible to contextualize for us how big the cluster expansion was? And was this earlier than you expected also? Thanks a lot.

Adam Foroughi:

Yeah. So e-commerce is still in pilot, as we touched on last quarter. I'll say before jumping into impact this quarter — it's a super compelling product. Our team has done an amazing job building it. In all my years, it's the best product I've ever seen released by us — fastest growing, but it's still in pilot.

So compared to the scale of our business inside gaming, it's too early for e-commerce to make a financial impact that's material. The step-up this quarter was entirely on the gaming side, which obviously is the vast majority of our advertising business today.

We've talked for multiple quarters now about how there's a long runway in gaming. The gaming category has a need for more UA dollars spent, but it's constrained by the return on ad spend goals of the advertisers and the technology capabilities that a platform like us has today.

Now, our technology continues to improve. We've got a long roadmap of enhancements that we can deliver to this platform. Because like I said in the talk script, these AI technologies are just really, really early in existence, both internally and externally.

And all research advancements are going to let us really expand the business inside the gaming category. E-commerce, on the other hand, is looking so strong that it's something that we think will be impactful to the business financially '25 and then for the long term.

Matt Stumpf:

And in terms of the Google Cloud question, Clark, that you asked – so the renewal of our contract was slightly earlier than the planned renewal but that was for us to really get capacity to support future growth. So we signed up the contract and renewed in advance of the normal timing of the end of that contract, but that was because we've had such fantastic success with the Software Platform thus far, and we wanted to continue to support that growth over the next couple of years.

Adam Foroughi:

Yeah. The only thing I'd add there, too, is Google has been a great partner for us on the cloud side. They've gotten us the compute that we need. We've got one of the largest GPU deployments in the world at this point, and we like to invest ahead of our needs so that we can continue to build more complicated models that'll help the business scale.

So when we make these investments, we're investing in infrastructure that is quarters ahead of where we are today in terms of consumption.

Operator: Okay. Our next question comes from Jason Bazinet with Citi. Jason?

Jason Bazinet:

It's exciting to hear that you're excited about your e-commerce pilot. I just had one question as investors think about the ramp of that business. Is there anything about it that could ramp more slowly, even if you're more excited about the efficacy of the product? And I'm thinking specifically about your brand just not being known in e-commerce circles – and maybe you have to spend marketing dollars or hire a sales team or something that's just different than the brand name you have within the gaming ecosystem that could make it ramp more slowly, even though it might be a better product or as good of a product. Thanks.

Adam Foroughi:

Yeah. Good to see you, Jason. So, look, e-commerce is a new category for us. So we do need brand awareness. That's a given.

But our products are really good. And the key to when we started the business and doing so well in gaming is we took a really long-term approach. We said we're going to build a product that's so good that advertisers have to have it and we're not going to invest heavily in sales and we're going to organically grow over the years.

And we've done that. And you can look at the trajectory of the company since we went public – but even if you backdate it to when we started, every year, we've gotten bigger and gotten more penetration into the gaming category and done it organically. So when we look at e-commerce, we're not in any sort of rush.

Now, that said, if you check even Twitter today, there's tons of noise from e-commerce brands saying in our pilot, they're seeing as much scale and as strong of ROAS as they're seeing anywhere in the world today on their user acquisition buy. So when you have that performance, you're delivering an automated return on ad spend model approach to a very large fragmented category like e-commerce that desperately needs another marketing channel after having so many promises in the past that haven't panned out. It's something that's probably going to get a lot of noise and be very attractive to the other side very quickly.

Jason Bazinet:

Thank you.

Operator: Okay. Our next question comes from Matthew Cost with Morgan Stanley. Matthew?

Matthew Cost:

Great. Thanks for taking the questions. I guess, the first one is just on that e-commerce pilot. Sorry. Can you guys hear me?

Adam Foroughi:

Yeah, we gotcha.

Matt Stumpf:

Yeah, we can hear you fine, Matt.

Matthew Cost:

Okay. Sorry. Yeah. So, the question is just on that e-commerce pilot.

Given that you're, based on the results of the pilot, successfully expanding into other verticals and using AXON and the data available to you to target other types of advertising outside of gaming, do you have any reason to believe or any doubt about the ability to expand the model to cover other verticals other than just e-commerce?

Because it seems like given the size of the audience and just the amount of data that you have to observe, it shouldn't necessarily just be limited to e-commerce. If you can move beyond gaming, do you believe you can move to other verticals?

And I have one follow-up. Thank you.

Adam Foroughi:

Yeah. Great question. 10 years from now, we think every advertiser that has a transactional model, whether it's collecting an e-mail address for a newsletter or a local pizza shop or an e-commerce brand or a gambling brand or a gaming brand or anything across any category can buy on our platform and do it at scale. So, there's no limitation to the power of the math and the technology that we've written, but the only limitation and the only reason why we reference it as e-commerce today is the go to market.

We do want to be thoughtful about how we penetrate new categories. But even inside e-commerce, we're not approaching it as we're only going to go to fashion and then we're going to go to beauty. We're approaching it as we're going to go to the entirety of e-commerce and then we're going to go to the entirety of the rest of the categories of advertising that matter.

And then, hopefully, we're going to go to the whole world of transactional businesses over time.

Matthew Cost:

Great. Thanks.

And then, Matt, I just want to revisit and then you talked a little bit about this in the prepared remarks, capital allocation. So, the Board made a big increase to the buyback authorization this quarter. The stock, I think, aftermarket is up 450% year-to-date. Has that impacted your opinion of the attractiveness of buying back stock?

And there's been some speculation in the press about a small M&A deal out there. Is M&A something that's on your guys' mind on the advertising side or do you have what you need?

Matt Stumpf:

Yeah. Maybe I'll do answer those in inverse order, Matt. So, on the M&A's front, we've been pretty consistent in communicating that our focus is really on growing the organic business and we have no plans, right, to do in any M&A at this point on the advertising side of the business. And, obviously, we've communicated in the past about the Apps business that we've optimized that for profitability, and we're comfortable in divesting that business if the opportunity arises. In terms of the buyback, really the stock price increase has no impact on our decision to continue to buy back our own shares. If we look at the company's long-term trajectory and the — our goal in the future of growing the business 20% to 30% plus, we still feel like our stock is a great investment for shareholders.

Matthew Cost:

Great. Thank you.

Operator: Our next question comes from Omar Dessouky with Bank of America. Omar, please unmute.

Omar Dessouky:

Okay. Thanks. Thank you. Guys, I wanted to ask, whether the timing of your e-commerce solution for general availability has shifted at all since the last earnings call. And also, if you could update us on your thoughts about your go-to-market partners? If there's any more specificity you could give on that, that would be great. And then, I have a follow-up, which is more of an educational question for new investors.

Adam Foroughi:

All right. Great to see you, Omar. Good questions. So, timing wise, we're still on track. We're approaching it the same way as we always have. In pilot, we look at it as what we define as a pilot is what our people on the business team, which we run pretty lean as can handle in terms of onboarding and really working with the advertiser closely to scale. General availability to us is a self-service state where advertisers of all types can just come into the platform and start marketing. And so, that's some point next year as we've touched on before. The one thing I'll say in terms of partners, we haven't disclosed any partners, but I referenced this a couple of moments ago. If you search Twitter, you're going to start seeing more and more noise because the customers are seeing a lot of success, and we're not going to be able to stop social media from talking about the successes that they're having on our platform.

So that's the way you can really decipher which customers, how are they performing, and then what else is out there.

Omar Dessouky:

Awesome. Thank you. And so, just one more like educational question. Now the market cap of your stock has gone up much higher and is a lot closer and has eclipsed some online advertising and ad tech stocks that have been widely followed by investors for a long time. Some of them are in the OpenWeb, and I was wondering if you could explain, what are some aspects of the DSP ecosystem that you're in that lend itself to an arbitrage model, which is what I understand how it's run, as opposed to a percentage of gross ad spend model like we see in OpenWeb DSPs?

Adam Foroughi:

Yeah. I guess, more specifically you're referencing Trade Desk versus our business models. It's just two different approaches to the market. They've targeted the big agencies and taken a very smart software-as-a-service type of approach. And we've targeted brands and direct-to-consumer and e-commerce, gaming, game developers on the gaming side. And what these companies care about is not the media dollars or percentage markup. They care about optimization and automated advertising to a revenue goal. And that's really like what our system's predicated on is that we take all the risk on the media side. We have to deliver really compelling performance on the technology side. And I guess like what's most exciting for me on what we've built and where we are in terms of, you said, market cap and scale as a business today is we're on top of 1.4 billion daily actives.

So, it's really easy to forget the scale of the audience reach that we have on our platform. We've got the largest mediation solution in the sector and our teams built maybe the most innovative advertising technology that the world's yet seen. And we're now scaling it out. And so, if you just fast-forward over the quarters and the years from here, we're going to be able to service tens of thousands to hundreds of thousands to millions of advertisers on our platform to access this audience that they had never accessed before. And now, mobile devices, you think about the four hours to five hours a day of time spent, this is a 45-minute component of that four hours that is untapped for most of these advertisers. Our technology can now unlock it for them.

And this was never possible historically on any platform. So, it gives us a lot of excitement that not only are we performing today, we've got a long runway to expand this platform and become one of the strongest companies the world's seen.

Omar Dessouky:

Thanks a lot, Adam. Appreciate it.

Adam Foroughi:

Yeah. Thanks, Omar.

Operator: Our next question comes from Chris Kuntarich with UBS. Chris?

Chris Kuntarich:

Great. Thanks for taking the question. Maybe another one here on e-commerce. Adam, I think you had said on 2025, we should be starting to see a material contribution. We've been getting a lot of questions from investors just how to be thinking about material. And just any tighter of a timeframe you could maybe help us understand? I know 1Q is seasonally weak for e-commerce, but could it be as soon as 1Q that we start to see a contribution from that business?

Adam Foroughi:

Look, we've said, we're confident in the 20% or 30% in gaming alone. This is additive. I also just said it was the fastest growing product I've ever seen. So, it looks really good. Now, if we were scaled in e-commerce, we'd have seasonality in the business. We don't today really have seasonality in the business. When you're in pilot, you're talking about tens to hundreds

total shops. And so, we're really just early stages here, but the performance is really strong. So, it's harder for us to predict how quickly it can ramp. And I do like to remind people that, when you have a scaled business, I think run rate wise, now \$3.3 billion or so on this advertising business, that's really a lot of net revenue that we're reporting.

Gross it up to total ad dollars on the platform and for e-commerce to really drive material impact, and let's define that by 10%-plus, is going to take some time to ramp up to, but we've never seen anything that looks like this in terms of strength in market. And so, if it does scale the way we think it will, it's going to make an impact in '25.

Chris Kuntarich:

Got it. Very helpful. And maybe just one more. Shifting over to the licensing side, you've had this partnership with Flip app. Curious what those learnings have been and what that is influenced either from your e-commerce roadmap or how you think about potentially licensing AXON 2 out to other platforms.

Adam Foroughi:

Yeah. We talked about AXON licensing a couple of quarters ago. It's still something that we're working on, but in all fairness, to that product, it's longer-term focus, not short-term focus. We're all hands on deck, both on the business side and the engineering side on scaling out what we think is this e-commerce scale out, and then broader than that, as I touched on to Matt's question a second ago. So, that's so just compelling that it's taken all of our resources now. We're trying to speed it up as much as we can with the resources we have available. That doesn't mean we're not excited about AXON licensing. It just means that that's going to come secondary to the opportunity in front of us on the other side.

Chris Kuntarich:

Great. Thanks.

Operator: Our next question comes from James Heaney with Jefferies. James?

James Heaney:

Great. Thanks for the question. Based on the revenue guidance for Q4, it implies you're at the very least going to enter 2025 growing Software Platform well above the 20% to 30% growth range that you've provided. Is there just any update you can share just in terms of

how we should think about growth in 2025? Thank you.

Matt Stumpf:

We don't provide long-term guidance, James, on an annual basis. So, the 20% to 30%, which is a — it was a directional goal for the company. And we do think that as we drive directed model enhancements, we could get more than that. And as Adam mentioned before that 20% to 30% is also only including the existing mobile gaming opportunity. And so, any additional opportunity that we could — that we see within e-commerce would be additive to that in the future.

Adam Foroughi:

And I think what we've told you all consistently is that 20% is based on just being in the market in gaming and then it goes up from there. And we can't predict these model enhancements. These are research lifts that the team delivers to the technology that is based on either internal research or external research is applicable to our tech stack. So, when you have that, it's not predictable, but it's very impactful. And so, when I talked about it last quarter, I said you get to 30% if you get one of those. Well, we've had multiple of those this year. So, obviously, the growth rate is over to 30%, right? So, there's no constraint on demand. There's no constraint on interest from our advertisers. If we're able to continuously improve the technology over the years faster than one material enhancement a year, then the growth rate is going to be higher than 30%.

James Heaney:

Great. And then, maybe just one more. We heard Meta call out that they have over 1 million advertisers using GenAI for Creative. And I'm just curious, if you could talk maybe more about the timeline for potentially using GenAI features across more of your products and then just any of the benefits that you could see over time. Thanks.

Adam Foroughi:

It's absolutely on our roadmap. It's super exciting. You can imagine today we serve static advertisements to all this audience of 1.4 billion. Over time, you'd imagine that the ad creative can become personalized and that would have a material lift to our business. We can't time it for you nor can we size it, because it's in our roadmap, but it's not in the immediate future. But it's something that we think is going to be very impactful and probably all advertising businesses are going to see a substantial response rate lift to the

advertisements so that content gets personalized.

James Heaney:

Great. Thank you.

Adam Foroughi:

Thanks, James.

Operator: Okay. Our next question comes from Alec Brondolo with Wells Fargo. Alec?

Alec Brondolo:

Hey. Thanks so much for the question. Can you hear me okay?

Adam Foroughi:

Yeah. We can.

Alec Brondolo:

So, a lot of questions on the call tonight about expanding the business into e-commerce and potentially beyond e-commerce from a demand perspective. I was hoping to get your thoughts on potentially expanding supply. My understanding is that almost all the ads are served in the mobile games ecosystem today. Obviously, there's a lot of ad supply outside of mobile games and there's no ways to tap into it programmatically. So, as you expand demand outside of mobile games, how do you think about potentially expanding your supply outside of mobile games?

Adam Foroughi:

Yeah. It's definitely another growth factor. So, I think of it — on my last earnings call is the last bullet of the growth factors I laid out in my talk track. And so, supply expansion is something that's important to us. Right now, supply isn't our constraint. We think there's a lot of room to improve the way we monetize the 1.4 billion daily actives. But we did buy Wurl to tap into CTV. That's an immense amount of supply. That category today still doesn't have a really strong performance marketing platform, helping brands reach that audience through television in a very measurable way. So, you can imagine that's appealing to us. And

then, you can just go out from there. So, if we fast-forward five years from now, we're certainly going to have more supply reach than just the mobile gaming side.

Alec Brondolo:

Perfect. Thank you so much.

Adam Foroughi:

Thank you.

Operator: Our next question comes from Mo Khallouf with HSBC.

Mo Khallouf:

Yeah. Good afternoon, gentlemen, and congrats on your strong results. Just a quick one for me. In terms of the growth you're doing, obviously, it's phenomenal, but when we look at the mobile gaming market in terms of revenues or UA spend, the whole mobile market, it's well behind that. So, I'm just wondering, is it market share gains that's driving a lot of your growth. And can you continue to do that in terms of where you're positioned in the market?

Adam Foroughi:

Look, we're really big in gaming at this point, so it can't be market share gains because there's not a whole lot to go take. We've created a bigger market. So, we've talked about this and I think there's been some really good research that's been put out too that shows this category is now accelerating its growth rate driven by user acquisition. That's what drives the growth in mobile gaming. There's not new device growth. There's not new audience. The audience that we have is very stable, but these advertisers have a really deep and need — strong need for more user acquisition. That's what drives their revenue. And nobody discloses what that user acquisition amount is. But as our platform has been getting better and better, it unlocks more dollars.

They don't go, "I can double my spend on AppLovin within my arbitrage goals, and then I'm going to go take from these other channels." They go, "I can double my spend on AppLovin and keep spending on these other channels to expand my business and grow it faster." And so that's what you're seeing. And what you'll end up seeing over time is that the growth rates in the mobile gaming TAM will return to a pretty healthy clip so long as our platform continues to improve given we're the largest in the sector.

Mo Khallouf:

Okay. Thank you.

Operator: Okay. Our next question comes from Vasily Karasyov with Cannonball.

Vasily Karasyov:

Thank you. Good afternoon. Adam, you spoke a couple of quarters ago about the fact that AXON 2 is so good that you could put the open code out, and you don't think that there would be competitors who would be able to catch up with you, right? So, can you help us understand this e-commerce opportunity? Is it just taking AXON 2 as it is and just making minor tweaks so that it just selects for you targets of potential e-commerce customers, or is it a big overhaul? And then, how much of an advantage will you be able to take from the gaming and take it to e-commerce? And who — if you can, whom will you be competing against? Who is currently taking up those budgets? Thank you.

Adam Foroughi:

So, it's a bunch of questions in there. So starting with, competition, I don't think to date, anyone has delivered a solution inside mobile games for categories outside of gaming. And so, we're going into greenfield. And what's exciting about these shops, and I said this on my talk track, when they're marketing on our platform today, this is a new audience. They're not otherwise able to reach this audience in that moment in time. So, when we're able to show an ad for them and do it precisely and measure it all, there's an immense amount of incremental value for them from that advertisement. So, it's a really strong solution for them. So, it will continue to make our platform able to monetize that audience better, which is going to be a huge boon for our business and very healthy for the publisher as well who will generate more dollars from their users, but also get more diversity of content to their users.

And in this case, if you're a game publisher, an e-commerce ad is not for someone who is building another game, it's for something that is completely different than your product. So, it's a great win-win for all parties involved. On the technology side, I never like to talk about complexities of technology. I certainly wouldn't say anything we do is simple. I don't think a lot of people in the world, maybe hundreds, max, engineers understand how to build these types of platforms. We've seen very few, only a handful of software implementations that are compelling at scale inside what we're calling these AI technologies. And we're one of those. And our engineers are building really complicated technologies. They can do a lot more than just the first implementation did, which was drive performance marketing to

gaming.

So, we think there's going to be a lot of expansion opportunity over time. The technology platform is really powerful and math is not limited to categories. So, there's going to be, I think, years of growth ahead of us.

Vasily Karasyov:

Thank you.

Operator: Okay. Our next question comes from Martin Yang with OpCo. Martin?

Martin Yang:

Hi. Thank you. I have two questions. One on gaming, another on e-commerce. On gaming, do you think your customers are responding pretty consistently to step up in AXON 2.0's performance? Is there certain customers that will ramp up spending faster than the others?

Adam Foroughi:

So, Martin, our whole system is automated. So, there's not like — I think last time I also said, every advertiser has more budget interest in spending on our platform than we can deliver on a daily basis. So, tomorrow, if someone, one of our engineers, somehow find some research that doubles the platform in terms of ability to match up and drive spend, everything will just double. So, there's not like a one or another. When we get these step functions, they all have a tolerance to spend more.

Martin Yang:

Got it. And then, on e-commerce, where are you spending or investing e-commerce? And is there any bottlenecks you're trying to break through as you ramp up e-commerce and then get it to commercial stage?

Adam Foroughi:

No. Like I said, it's the most exciting product that we've ever launched. We've never seen this data on a new product. And if you recall, I don't voice optimism much since we've gone public on new products. We've talked about a lot of products. We are a very entrepreneurial company. We will try a lot of things, but the last time I talked about a really good product

was when we launched AXON 2. That turned out pretty good for us, our company, our partners, and our investors. So, if we're talking about this product as being the most compelling one we've seen yet, you can assume we're not running into bottlenecks other than like we just don't have the capacity yet in terms of human capital and every solution — component automated to scale it out as quickly as the market demands. We've got a line out the door at companies that want to jump onto this platform.

Martin Yang:

Thank you.

Operator: Okay. We will take our last question from Cory Carpenter with JPMorgan. Cory?

Cory Carpenter:

Hey. Good to see you all. I know this is a tough question to ask or answer, Adam, but just any insight you can give us into what the unlock was that contributed to the technical step function change in the quarter, or maybe why these unlocks seem to be happening more frequently now than they were going forward?

Adam Foroughi:

Yeah. look, our team on the engineering and the research science side in particular, is one of the world's best. The people are really talented. They know these technologies, but it's a new field. And this field, both internally and externally has just a lot of interest in it. So, if you look at all the research that's being done externally, there's an immense amount of research that's been published over the last few years. And every time there's something that's interesting that's published or every time one of our researchers could figure something out from something published in the past or they create their own research and then incorporate it into the technology stack, we get more effective than what we do.

And so, I'm not going to sit here and say I actually even understand this technology because it's way beyond my mathematical understanding. This team's exceptional, and they've been able to unlock an immense amount of opportunity for our platform and our business.

Cory Carpenter:

Okay. And just a quick follow-up. The switch to probabilistic billing at iOS you made in August, is that something that had any notable impact on the business?

Adam Foroughi:

Not really. It was to make it more accurate and align with how advertisers tracked it, but the deltas were nominal.

Cory Carpenter:

Great. Thank you.

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

Adam Foroughi:

Thanks, everyone.

Matt Stumpf:

Thank you.