# Q2 2026 AppLovin Earnings Presentation

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

Welcome to AppLovin's earnings call for the second quarter ended June 30, 2026. I'm David Hsiao, Head of Investor Relations. Joining me today to discuss our results are Adam Foroughi, our Co-Founder and CEO; and Matt Stumpf, our CFO. Please note our SEC filings to date, as well as our financial update and press release discussing our second quarter performance, are available at investors.applovin.com.

During today's call, we will be making forward-looking statements, including, but not limited to, the future development and reach of our platform, our expected growth opportunities, the expected future financial performance of the company and other future events. These statements are based on our current assumptions and beliefs, and we assume no obligation to update them except as required by law. Our actual results may differ materially from the results predicted. We encourage you to review the risk factors in our most recently filed Form 10-Q for the fiscal quarter ended March 31, 2026. Additional information may also be found in our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2026, which will be filed today.

We will also be discussing non-GAAP financial measures. These non-GAAP measures are not intended to be superior to or a substitute for our GAAP results. Please be sure to review the GAAP results and reconciliations of our GAAP and non-GAAP financial measures in our earnings release and financial update available on our Investor Relations site. This conference call is being recorded, and a replay and transcript 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, Chief Executive Officer & Co-Founder:**

Thanks, everyone, for joining us today. I'm going to get right to it.

This quarter, we delivered almost $2 billion in revenue, which was just below the midpoint of our guidance range, and our Adjusted EBITDA was just below the range. We've always managed this business with the goal of outperforming our own expectations. And this quarter, we fell short of that standard.

What matters is that we know what happened, and it's already been addressed. Q3 is off to a strong start, and the business is back on the trajectory we expect. Let me explain.

Gaming is still the majority of our revenue, and the single biggest driver of its growth is model performance. When our models improve, advertisers can profitably deploy more spend at their target return on ad spend goals and budgets naturally step up. This quarter came down to timing. Our pace of meaningful model improvement was lighter than normal during the quarter and the next step-up in model performance landed just after quarter end.

Importantly, nothing we saw suggested weakening advertiser demand or a change in the competitive environment. In fact, Max publisher earnings grew double digits quarter-over-quarter, and our share of publisher waterfalls remained consistent. With those improvements now live and heading into what is a seasonally stronger part of the year, the business is reaccelerating.

Now, let me talk about consumer, which had an outstanding quarter. Advertiser spend set another record, finishing 28% above Q4 2025 levels. And remember, Q4 is the seasonal peak for these advertisers. Growing well past peak season levels in a seasonally slow quarter tells you how steep this curve is. Consumer isn't yet large enough to fully smooth a quarter like this, but that will change as we continue to ramp up our consumer business every quarter.

Stepping back, I want to put our long-term growth in context: how we think about the next decade. We built gaming into a far larger business, far faster than we believed possible, and gaming keeps improving. What consumer adds is runway. We run one auction across multiple advertiser categories, and every category we bring in extends the opportunity in front of us. Over the longer term, as we continue improving gaming and expanding consumer, we believe this business can compound at roughly 30% annually.

Now on EBITDA: Adjusted EBITDA grew to a bit over $1.6 billion, up more than 50% year-over-year. While this result lands just below our guidance range, the incremental investments were exactly where we believe they should be: in our technology.

We've been investing in architectural changes that let us build more complex models, models that benefit far more from additional training compute. That investment includes additional compute spend on the model improvements now live in Q3. And every dollar of it is dependent on return. When additional compute produces substantially more revenue through better model performance, that's a trade we'll make every day. These higher training and inference costs are built into our guidance for next quarter.

During the quarter, we also opened up our platform to the public under its original name, AppLovin Ads Manager. As we said last quarter, we never expected the public launch to change the business overnight. We're sequencing deliberately: mid-market advertisers first, where the platform performs best today, with the long tail unlocking as our data compounds – the same way gaming developed. We'll execute on this through partnerships, and you'll see us continue to invest there.

Before I close, here's what we're focused on as a team:

First, improving our core models, which is the primary driver of our near-term growth. Second, advancing the architectural work that lets us benefit more from scaling compute, which we believe unlocks meaningfully larger gains over time. Third, improving our creative tools and ad formats so advertisers can optimize their use of our platform to achieve even better outcomes. Fourth, bringing more high-quality advertisers onto the platform through strategic partnerships.

Let me close with this: We've spent years building an advertising platform whose economics improve as our models improve. Advertiser demand is healthy. Our models continue to improve. Consumer is scaling rapidly. Nothing we saw this quarter changed our conviction in the long-term opportunity ahead.

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

**Matt Stumpf, Chief Financial Officer:**

Thanks, Adam, and thanks to everyone for joining us today.

This quarter is a good example of the underlying strength of our business. As Adam mentioned, we didn't get the same level of model uplift we've seen in recent quarters. But we still delivered second quarter revenue of $1.92 billion – growing 53% year-over-year and 4% sequentially – driven by the core gaming business and continued scaling in the consumer vertical.

Adjusted EBITDA was $1.61 billion, up 58% year-over-year, with margins expanding approximately 300 basis points from the same period last year. Quarter-over-quarter flow-through to Adjusted EBITDA was 70%.

The primary driver of the sequential increase in cost was higher compute associated with training our existing models and with new model development. And that higher compute run rate is reflected in our outlook.

We manage this business to EBITDA dollars and free cash flow rather than to a margin percentage, and will continue to deploy dollars when we see an opportunity to produce more revenue.

Free cash flow for the quarter was $863 million. As I previewed on last quarter's call, conversion was below our normal cadence in the second quarter due to the timing of international cash tax and interest payments. This is a timing dynamic, not a change in the earnings power of our business. We expect free cash flow conversion to improve in the third quarter and to normalize to roughly 75% of Adjusted EBITDA for the full year.

We ended the quarter with $3.05 billion of cash against $3.7 billion of total debt, which puts net leverage at approximately 0.1x trailing 12-month Adjusted EBITDA, well within the approximately 1x where we'd expect to operate over the long term.

During the second quarter, we repurchased and withheld a total of approximately 1.14 million shares for $551 million, and ended the quarter with 335 million shares outstanding and approximately $1.8 billion remaining under our share repurchase authorization. Our choice to moderate the pace of our buybacks this quarter relative to the roughly $1 billion we deployed in the first quarter reflects consideration of our lower free cash flow during the quarter and does not indicate a change in conviction or in how we intend to use the authorization going forward.

One other item before I turn to our outlook. We continue to get questions on the reported SEC inquiry, so let me close the loop. It was a voluntary request, which we never deemed material. The SEC has recently advised us that it concluded its inquiry with no recommended action. We're pleased to have it resolved.

Turning to our outlook for the third quarter of 2026: We expect revenue between $2.055 billion and $2.085 billion, representing 46% to 48% year-over-year growth, or 7% to 8% sequentially.

We expect Adjusted EBITDA between $1.71 billion and $1.74 billion, representing 48% to 50% year-over-year growth, with an Adjusted EBITDA margin of approximately 83%. That outlook reflects the model improvements that are already live and performing, continued scaling in our consumer vertical, normal seasonality, and the higher training and compute costs I mentioned. It does not assume additional model releases that have not yet been deployed.

To close, this was not the quarter we hold ourselves to, and we've been direct with you about why. What hasn't changed is the shape or strength of this business: nearly $2 billion of quarterly revenue, growing better than 50% year over year; margins above 80%; and extremely strong cash generation. And with the next step-up in model performance already live, our outlook reflects a business getting back to the trajectory we expect.

With that, let's move to Q&A.

**Operator**: *[Operator Instructions]* Our first question will come from Jason Bazinet with Citi.

**Jason Bazinet:**

Maybe I've missed it, but I think this is the first time I've heard you talk about partners to bring in more customers. Can you just expand on the partnership opportunity that you see?

**Adam Foroughi:**

Yeah. Thanks, Jason. We have done a couple deals so far with third-party companies, one of the larger analytics companies in the market in e-commerce. And we found that if we go to the source that works with these companies on the other side – the advertisers that we want – it's a more targeted way to get the right kinds of advertisers onto our platform.

So rather than just start by buying ads and bringing in the long tail, which is harder to make work with where the model evolution is today, we're going through these partnerships to try to get very targeted customers into the platform.

**Jason Bazinet:**

So this is like Triple Whale?

**Adam Foroughi:**

You sort of nailed it with what you're saying.

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

**James Heaney:**

Great. Thank you, guys. I just wanted to get under the hood of the gaming advertising business – and maybe it's difficult to explain it in a simple response, but just curious exactly what the sort of model breakthroughs were that you were looking for that didn't happen. Just trying to understand the timing of it and what happened in the quarter.

**Adam Foroughi:**

Yeah. Thanks, James. If you go back the last 12 quarters, every quarter we've had really good growth except for Q2 in single digits. I think every other quarter since Axon 2 has been double digits. Now Q2 starts as the seasonally weakest quarter. But every quarter that we've had these outsized growth rates, we've had improvements to our model. So our team isn't just sitting there doing nothing for the last 12 quarters – it's constant improvement. We just don't really break it out.

So if you recall, our gaming growth model we'd given you all back in the day included one sizable improvement per year, but constant improvements to the models as well on an ongoing basis. In this case, in Q2, we didn't have the same amount of uplift that we normally have in any other prior quarter. That came right after the quarter, so that's why Q3 has started really, really well, and that's why we've guided strong going forward.

**James Heaney:**

Great. And then just one more question, if I can. I think last quarter you called out reaching sort of record revenue in the consumer vertical in April. Curious if you can provide an update on the progress that you saw in the second quarter. How much of that growth was just built on existing customers versus maybe what you saw from new advertisers?

**Adam Foroughi:**

Yeah. I mean, new advertisers are beneficial, but the base of the business is already pretty good. And so new customers aren't going to go live and really drive impact to that growth rate. So when we say – I think I said 26% growth in the talk track over Q4, that's a substantial uptick in this category. Usually e-commerce, Q1 dips a lot from Q4, Q2 then has to trail back up, and then Q3 and Q4 really build on the year with half the dollar spent in Q4. And so having that kind of growth in Q2 implies that the customers that we have on the platform are seeing a lot of success.

**Matt Stumpf:**

28%.

**Adam Foroughi:** 28%, to be correct.

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

**Stephen Ju:**

Hey. Thanks, guys. So I think the feedback that we're getting from advertisers in the e-commerce segment seems to be that as they spend money on the platform, they're nowhere near hitting that sort of efficient frontier of ROAS ceilings. So I'm just wondering if we're kind of hearing from a positive biased group of folks, or if that's what you're hearing overall from a broader group of the advertisers that you're talking to?

And secondarily, I think, Adam, you talked about starting with the midsized merchants and going long tail. And I think in the past you had indicated some hesitation on working with some of the larger advertisers. I'm just wondering if that perspective has changed in the last three to six months or so, as it seems like some of the mobile game advertisers are also pretty large.

**Adam Foroughi:**

Yeah. I'll go with the second one first, Steven. So in gaming, our model is pretty mature, and we've got a lot of data. So the architecture is just more developed. If you have a new game in the market today that hasn't even launched and you go onto our platform, the return goals are hit really, really quickly. So there's almost no learning budget. The model is really sophisticated at nailing it for anything.

In e-commerce or consumer, we're still early in evolution. We've got less data penetration in the market by a lot. We've got a less sophisticated model at this point. And so, if there's a small shop that goes live, it's less likely that with very few dollars spent it's going to hit their goals and they're going to scale. Some of them do, but in a lot of the smaller ones, they're not able to achieve it.

Now, if there's a mid-market brand, they know that there's learning cost to marketing campaigns. So they'll invest more, get to their goals and scale. So what we found is that mid-market is a sweet spot right now. As data builds, we have no reason to believe that tail's not going to be covered, too, given that in gaming we're able to support any type of game at any level.

On your first question, if I understood it correctly, you're basically saying advertisers haven't reached their maximum amount of spend for the return that they're getting—and we're new – yeah, we're a new platform, right? These companies, first of all, manage their budgets really slowly. We launched this product. I think it's now been probably 18 months or so. And so, you've got these companies that usually manage their budgets somewhere in the neighborhood of one quarter to four quarters ahead. Most of their budget goes to social and search. We're deemed a new bucket – so a testing category – and to graduate up takes time.

So this stuff compounds over time – over quarters and years. An advertiser that is live today – we would expect for sure, given the results they would be able to see, that in 12 months they're bigger, in 24 months they're bigger. But the rate of improvement there shouldn't be organically appearing, just like some of the more mature marketing platforms. It should be accelerated because they're probably indexing lower on us as they build the history and get to know the platform, invest more in the platform, get comfort in long-term results, run their incrementality studies, etc. That ramp-up should be faster.

**Operator**: Next, we'll go to Ralph Schackart with William Blair.

**Ralph Schackart:**

Just, Adam, maybe to start on the model improvements, I'm guessing you've kind of seen this before, but just any sense of why you didn't get the model uplift that you would have expected in the quarter? I don't know if there's a way to sort of diagnose that?

And then maybe two more, please. Any more you can share on maybe the rate of improvement that you're seeing post-quarter? And then, Matt, as compute costs continue to increase in scale, how should we think about the margin profile of the business? So there's three in there.

**Adam Foroughi:**

I'll have Matt take two and three. I'll start with one. Look, it's R&D, right? There's no guarantee that we're always going to have lifts in every single period of three months. The team is always working on lifts. And usually, in every single quarter, it's not one lift that we get – we compound multiple small lifts. The impact was just smaller in Q2, followed by a pretty material uplift in Q3, in the early part of Q3. And so, that's just a reality of when you're building models. You're building models, you don't have certainty on the impact of what you're testing. You're testing hypotheses, hoping for a good result.

And so, the system is a whole bunch of A/B tests looking for lifts. And there are going to be periods where we don't get material lifts. There's going to be other periods where we have huge lifts that contribute to 12%, 13%, 15% Q-over-Q-type quarters.

**Matt Stumpf:**

Yeah. In terms of the rate of improvement and what's included within the guide, Ralph – so within this quarter, what we've assumed is similar to our guidance philosophy in the past, where we have a high level of confidence. But the difference being for this quarter, we've guided inclusive of the model improvements that we've launched that we're aware of, and then also the compute cost increase that we've seen.

To the margin question, over the longer term, we may see some variability – which is consistent with what we've told analysts and investors in the past, as well – that we may have some short-term fluctuation in the margin profile of the business. But it should be indicative and investors should look at that as positive because, when we're spending, we're very cautious about how we're spending – and we're only spending if we see that there is incremental revenue behind that.

So when you see these short-term fluctuations, you should then realize that over time we're going to continue to improve based on those cost increases. So over the longer term, we still have a very high level of confidence that we'll be within kind of that low-80% EBITDA margin.

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

**Omar Dessouky:**

Hi, team. Thanks for taking the question. So you opened your platform, I think, to everybody in late June. It's been about six weeks now since it was open. Can you tell us a little bit about how you would evaluate the performance of your onboarding, in terms of the number of advertisers onboarded – whether it met your expectations, exceeded or was below – and how you expect that trajectory of the number of advertisers to go for the rest of the year and into calendar '27?

Specifically, should we be thinking about your consumer business as one where there are tens of thousands of advertisers over time that spend a little, or a few advertisers that spend a lot? Because you said you're being targeted now. But I want to understand how long you expect to be targeted as compared to just advertisers flocking to your platform. And what you need to do to get to that point where advertisers flock to your platform and it can become a very widely used platform like Meta and Google?

**Adam Foroughi:**

Yeah. It'd be the latter, in your own words, Omar: Few advertisers contributing more today.

So we look at the launches as expected. We said it's not going to be a big marketing push behind the launch. We're targeting the marketing relationships and the dollars that we spend to where we can go get those mid-market brands. We need to execute on the bigger-ticket customers first. So not the very, very big – because we'll get to the head of the market later – and not the very, very small that would contribute count of advertisers but be considered SMB or long tail. That's harder for us to make work right now.

So that mid-market is what we're focused on. If we're able to execute there, which we have a lot of confidence in – that's what most of the customers in the consumer category spending today are – then you broaden it out. But that gets us more data coverage. It gets us time to get to a place where the model is more sophisticated, because, with time, we're going to build a better model, and it gives us time for a reputation to seep into the bigger parts of the market.

Now remember, these systems take a long time to build out. You talked about Google and Facebook. They've been around two decades and a decade-plus, right? It took us 14 years to be fully penetrated into the gaming category, in terms of any customer in the world in mobile gaming today would be foolish not to spend dollars on our platform.

So it will take time to build this thing up, but we're seeing very quick growth because the customers that are on the platform are seeing a lot of success. And as I already touched on, they're not even at a ceiling of what they can spend given the results that they're seeing. The ad templates are going to improve over time. The model is going to improve over time. With every incremental mid-market customer, the data in the system improves. And then over time, we're going to be able to broaden it out. We can't tell you when. That's just something that's not predictable.

**Omar Dessouky:**

Got it. So which specific parts of your technology would you say are maybe ahead of schedule and behind schedule? I know generative AI creatives was one that was talked a lot about in the last 6 months. But what other pieces of the technological development should we should try to keep an eye on to gauge your progress?

**Adam Foroughi:**

Yeah. I mean, look, we're early in a business that is pretty substantial at this point and growing very quickly. The reality with it is that we can't say what's behind or ahead of schedule. The requirement is, get more customers, get more data, continue to write more sophisticated models, improve the ad template, and you get lifts for the current customers and every single new customer.

Over time, that compounds. As we get more success stories on the platform, more narratives out there, more agencies that are media-buying agencies knowing that our platform works really well as the third sort of anchor in the marketplace, more customers are just naturally going to come. So that's sort of the formula to the future.

**Operator**: Our next question will come from Rob Sanderson with Loop Capital.

**Rob Sanderson:**

Thank you. Good afternoon, guys. I've got two questions, both related to e-commerce.

The funnel – can you talk about the funnel for folks coming through self-service? Earlier in the year, you said you were getting something like 57% of qualified leads coming through, and I think lack of creative was kind of a primary reason for leakage. But that was before you had tools for ad creation. So anything you could share on how that dynamic might be changing now that you're maybe better equipped with some of that tool set? That's question one.

And then a little bit on feedback from commerce advertisers: What's been working well with the self-service platform now that you're GA? What are some things you still need to improve upon or that you'd like to get better? Are there common requests for features – like are folks looking for better targeting, or better measurement, or more campaign automation? Are there any sort of categorical things that are next steps for you to work out on the product side?

**Adam Foroughi:**

Yeah. Thanks for all the questions. So both answers are sort of related.

The creative is the biggest hurdle in our system. So nothing has really changed there. Lengthy video plus interactive end card, which isn't a common ad unit, we can auto-generate the interactive end card with pretty high efficiency at this point. We're not at the point where we can yet get a high-quality video for 30 to 60 seconds in the hand of an advertiser out of the box. So that's still a work in progress. And we have examples where it works, other examples where it doesn't work.

The reality is, once we can get that to happen – or we create alternative forms of templates that don't require video – we'll be able to hand advertisers a one-click campaign creation. And that should resolve any sort of conversion rate issues in the flow. So it's just not something that we've gotten to yet.

That's the same concern that people have on number two. When they buy on social and search, a lot of the advertisements – when you buy on open web, social and search, a lot of the advertisements are just dynamic catalogs or they're more static, like "come get a sale, click here to buy this product" – much less so a 30-to 60-second video. So it's not that common that someone has that unless they're a pretty material advertiser that is buying on television.

And so, if you think about that mid-market and up, probably has templates that match the creative needs on our platform. When you get into the SMBs that are signing up directly, they probably don't. And so, we've got to resolve that as we go into wanting to get more in the long tail over time.

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

**Alec Brondolo:**

Yeah, thanks so much. Appreciate the question, guys.

I'd love to ask about the health of the mobile game ecosystem. I think a lot of us are having conversations with mobile game publishers and developers. They're speaking to CPI inflation, maybe waning ROAS. There's some market data that suggests that mobile game app downloads are down something like 10% to 15% year-over-year over the last several months. So just how do you guys feel about the category? How are your conversations with customers progressing? And then I have a follow-up.

**Adam Foroughi:**

Yeah. So, it's a good question. The category has to be good for us to perform in gaming, right? That's why we gave you the stat that the Max marketplace grew double digits Q-over-Q, which is not immaterial growth. In fact, that's incredibly outsized growth.

The ad-supported market is growing really quickly. The in-app purchasing market has some misleading data out there because companies that are analytics providers can't actually track the purchases that are going off-platform. And as more and more in-app purchasing games go off-platform, the revenue didn't just disappear or shrink – it actually became incremental to them on a net revenue basis. It's just not measurable. So as you look at what companies are reporting as services revenue in the category, or what these analytics providers are reporting, you're not going to catch all that incremental revenue that's missed.

Now, when it comes to installs, the trend over the last few years has been a movement away from very high-install, low-quality hyper-casual, much more to casual and deeper games and in-app purchasing. As you get into deeper funnels, you get a much higher CPI and a much higher LTV. So as the cost goes up, it does not mean that the value goes down. Everything is on a return-on-ad-spend basis.

Now the last point is, we drive a lot of the market, too, especially for discovery. We're the biggest in the world, as far as I know, when it comes to mobile gaming user acquisition. And so, when we have a quarter where we don't push lifts, that's not great for the category, as well. We're driving growth in the category given the scale that we operate at.

Then when we follow it up and we push a model release early in Q3 – if you talk to a lot of those same advertisers, they'll say install rates went up, CPIs went down, performance has improved. So we are the catalyst in large part in this category at this point if you're talking about user acquisition. That is something we take very seriously. We've got to be on top of our game so these game developers can continue to see the type of success that our tools and platform have enabled for years.

**Alec Brondolo:**

And then maybe one on the web advertising business and advertiser acquisition. You were branded AppLovin, then you changed the brand to Axon when you entered web advertising. You changed it back to AppLovin when you went to general availability.

I think the question I have is, do you feel like the AppLovin or Axon brand – the lack of knowledgeability of the brand among consumers – is hurting your ability to acquire advertisers? Because it seems to me that in the long tail, advertisers are choosing their ads platforms based on the platforms they know as consumers. Obviously, they don't know AppLovin as a platform. And so I wonder if you have the right branding to go out and acquire the next 100,000 longer-tail e-commerce and web advertisers.

**Adam Foroughi:**

Yeah. I mean, look, we can't get rid of the name AppLovin, unfortunately, but we switched to Axon, everyone kept calling us AppLovin, we switched back. The reality is, if you talk to 100 customers that don't use us in e-commerce today, there is going to be an awareness problem. But we're early in this category. A lot of people may actually know of us, but think of us as a mobile gaming platform.

Now, if you'd asked us 10 years ago in mobile gaming whether customers knew about us, the answer would have been no – a lot of customers didn't know about us. We had some customers, but they were going to Facebook and Google much more so than they were coming to AppLovin. If you ask us today, well, every customer is on our platform. So in some part, brand does matter, but you earn brand loyalty with performance. If we continue to compound improvements in the technology, improvements in the templates, and get more success stories out there, over time, the customers are going to find out about our platform.

And again – I said this a couple of minutes ago – it took Google a couple decades to become the de facto standard for customers in anything search-related. It took Facebook well over a decade. So these are not things that just build overnight. We're not going to have, out of those 100 brands, a high percentage in next quarter knowing of us. But if we do our job right over the coming quarters, it's going to compound and get to a point where the brand is going to be recognized as a standard.

And these analytics providers do help, as well, as they talk to the customers on their platform. If they see us performing as the second or third best channel for customers that we have live, it behooves them to push us to their clients. And in some way, it'll also benefit them economically because we'll strike a lot of partnership deals.

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

**Robert Coolbrith:**

Great. Thanks for the opportunity to ask the question. Wanted to ask a couple on mobile gaming.

Some of the feedback we received from advertisers this quarter is that they're spending a bit more on Android than they expected entering the year for a variety of reasons – some publisher-specific, some influenced by things going on in the Play ecosystem – and that may be impacting their share of voice or share of wallet with AppLovin just given the mix dynamics. Just wondering, can you maybe talk about the opportunity within Android to drive further competitive distance versus peers and higher share of wallet over time?

And then second one is just on the World Cup. We got some feedback that that may have been a headwind for some of the IAP-focused advertisers. Anything you can call out around those particular dynamics or other cyclical dynamics in Q2?

**Adam Foroughi:**

Yeah. So the World Cup first. The World Cup has spikes in spend from World Cup-specific advertisers during games. And it's not that material in the grand scheme of a whole quarter. So I wouldn't say the World Cup has much of any impact on if an in-app purchasing or ad-supported game customer can actually spend on platform. And we don't index highly to any sort of customer in any category, nor do we run any branding. So for us, we still cater to the game advertiser.

On the first question, we are very competitive on both platforms. Now, there is a very large company out there that owns the Google Play platform that provides a lot of installs and spend for customers on Google Play. I would say for sure we look at opportunity to grow equally on both platforms. As the models get better, our ability to scale spend goes up on both platforms. It's just that the Android platform is more competitive because there's a very big competitor out there doing well there.

**Operator**: Next, we'll go to Jim Callahan with Piper Sandler.

**Jim Callahan:**

Great. Thanks for taking the question. One for me on the revenues by geography. It looks like U.S. accelerated Q-over-Q but international was closer to flat with Q1. Anything to sort of call out there on the delta?

**Matt Stumpf:**

No, nothing material. I mean international has been strengthening for a period of time over the past few quarters, and then it's slowed down a little bit, but nothing specific. And that's based on user location, so it's really demographics based on region.

**Adam Foroughi:**

Also remember the web consumer business is more concentrated to the West than it is internationally, at least today.

**Jim Callahan:**

Okay. That all makes sense. And if we think about non-gaming but maybe excluding e-commerce, I think there have been some discussions of verticals like either short dramas or prediction markets that may be leaning into spend in the mobile gaming category. Any commentary you can provide there?

**Adam Foroughi:**

Yeah. We just touched on the World Cup. Prediction markets was a big category there, but those other categories aren't yet a focus of ours. If you split the world up into consumer business, e-commerce on the web, and then non-gaming apps, the former is a much bigger category and that's what we're going after first. So we will go after the second later, and it just hasn't been a focus of ours yet in what we model.

**Operator**: Our next question will come from Matt Swanson with RBC.

**Matt Swanson:**

Great. Thank you for taking my questions. You've been able to build this company incredibly lean. And when you were talking about the model improvements doing A/B tests, what could the advantages be of maybe going from dozens of iterations to hundreds of iterations? Is there a thought process around the right level of R&D spend? Or is there a diminishing return from a ramp like that?

**Adam Foroughi:**

No, I mean, you have to do smart A/B tests, right? Just a whole bunch of nominally different A/B tests or low-IQ A/B tests aren't going to yield uplifts. So in a way, we want very high talent density, which we have. We still need to hire more research scientists, do more A/B tests, but we need to become even more sophisticated using AI technologies to accelerate the rate of those tests, too.

So we do a lot of that where AI is helping aid testing, and the rate of testing has for sure gone up in our company over the last couple years as LLMs have gotten a lot more sophisticated at writing code. So our focus won't change in terms of hiring very, very smart people and then enabling them to drive more A/B tests powered by large language models helping with a lot of the coding.

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

**Clark Lampen:**

Thanks, guys. We've asked a bunch of questions on funnel dynamics so far. And I think when you were answering Omar's question you sort of broke it down in a very simplistic way where you can think about customer growth, data growth, and then that having a downstream impact on performance and model uplift.

It sounds like you're addressing the first portion, at least near term, with partnerships. Is there anything that you can do on that second layer in terms of data collection, whether it would be something like extending ad credits or maybe building out more of a managed service presence for an advertiser to help them scale volume? Maybe that doesn't make sense, but it sounds like they're interrelated, and I'm just curious if pushing on that second lever might help the first?

And a second question, if I may: The lead-gen business isn't something that's come up thus far on the call, unless I missed it, and I'm curious if you could provide a very brief update on where things stand right now – whether it's ramping or just directional trends?

**Adam Foroughi:**

Yeah. Second one first – and thanks, Clark. Lead-gen business is still a work in progress. So we're still in testing with customers. There's nothing new to report there.

On the first one, every new customer we get live, their spend doesn't determine the type of data that we are able to access. They have to share their data with us to tap into the deep learning model that we have to get output – good advertising results out of our system. So the goal is getting more mid-market customers that can give our model visibility into more of the user's transactional behavior. If we're able to do that over time – which is inevitable; it's just getting more customers on the platform that are substantial – we will have more data that then we can model against, write a more complex model, and get a better output.

So that's sort of the function over time. And it compounds because the more customers we get, the better our performance will be. And then you'll get to a place where, hopefully, we reach a tipping point and the rate of customer acquisition goes up and then it's just automatically off to the races.

**Operator**: Next, we'll go to Aaron Lee with Macquarie.

**Aaron Lee:**

Hey, guys. Thanks for taking the question. I wanted to take another crack at the margin question from earlier. How should we be thinking about the incremental investment in tech and compute going forward? Obviously, we have the Q3 guide to kind of back into that. But just thinking beyond Q3, should we expect an elevated runway for investment? And how much visibility into those training and compute costs going forward do you have?

**Matt Stumpf:**

Yeah. I mean, we don't expect any departure from the higher-level guidance that we've given to analysts and investors in the past – that of the incremental dollar in revenue, we're spending about 10 cents on compute.

We're at that level within the guide. And we're at that level – if you look at the data center disclosure, you'll get in the 10-Q, as well, we're still tracking it at that level. So we don't expect any difference from here. But we may see variability over the longer term, and we'll communicate that and the reasons behind why we've increased compute if there is such an increase. But today, we don't expect any change from that kind of guide.

**Adam Foroughi:**

Now, we will say, look, engineers are doing R&D, right? So if someone figures out a way to write a more complex model, way more parameters, train a bigger model and run it, and there's a material revenue uplift, we're not going to hold it back. So if we go into a quarterly earnings call and four weeks later we get that word, we're pushing forward. And you saw it as we talked about the guide and reaccelerating. We have a model uplift that releases a more complex model, creates revenue reacceleration. That's always a good thing in our business.

**Aaron Lee:**

Got it; that's helpful. Then on the figure you've given out previously for $70,000 of gross spend in the first year for new customers – is that still the right bogey we should be thinking about? And are model breakthroughs the key driver to getting that number higher, or are there any other drivers you would highlight?

**Adam Foroughi:**

It'll likely go up as we do partnership deals and target mid-market. So that's just an indicator of, are the customers coming into the platform just signing up on the website pushed by marketing, where you're going to get a lot more SMBs and low-GMV shops? Or are the customers that are signing up less in quantity and higher GMV that we're getting through strategic partnerships? The latter being the focus, we'd expect that number to go up.

**Operator**: Our next question will come from Martin Yang with OpCo.

**Martin Yang:**

Hi. Thanks for taking the question.

Can you maybe talk a bit more about the nature of your partnership? Is it going through those attribution partners, giving the customers additional credit, better data integration? What are the customers of these partners benefiting from having AppLovin?

**Adam Foroughi:**

Yeah. It's a good question. We're still working through how to do it the optimal way. But if you're an attribution company, and we're willing to pay for leads and they benefit from their customers having more complex attribution – another big vendor in the mix – there's a big win. If the customer on the other side gets another big vendor in the mix, it's a big win for them, too. So you've got a construct that's just win-win-win across the board.

But we've got to get past the awareness problem and the implementation problem. So Triple Whale was mentioned earlier on the call. That is a good example of one that we're iterating on actively to find the right way to let a large, large set of customers working with them understand that our platform is beneficial. As a partner, they're highly motivated – one, because there's obviously revenue potential, but two, because it is very beneficial for their business model to add us into the mix for all their clients.

**Martin Yang:**

Got it. And then a longer-term question: As you move beyond mid-markets – when you think about working with Fortune 500 brands, for instance – sometimes you talk about mobile ads in general of having more quality control issues. So when you go to those tier-1 brands, would you think about expanding supplies to non-gaming?

**Adam Foroughi:**

Yeah. Look, supply will expand over time. But I would say, actually, that it's a little bit crazy to think that there's quality-controls in mobile gaming because there's no UGC. The apps are in the App Store, approved. These are only adult apps and there's no UGC, so it's a very, very controlled framework. An ad inside Candy Crush is materially safer than an ad almost anywhere else because that inventory is so controlled. And then, obviously, the attention given to that ad in mobile gaming is much more than anywhere, including television, given our ads run longer than 30 seconds to the user. So it sets it up to be a really good framework.

Now, for us to get to the head of the market, we need sales. That requires actual people selling. And we need a reputation that suggests we've made the middle of the market work. We're more focused on the middle of the market because, there, you've got hungrier companies, leaner marketing teams, probably not agencies – at least big holding companies – in the middle, so things can go quicker.

But if we're able to build a really solid reputation here, we're definitely going to go to the head of the market. And I don't think inventory quality will be the concern inside gaming. Now, that does not mean that supply expansion is, for sure, not one of the levers that we'll pull on over time as a growth lever.

**Operator**: Next, we'll go to Vasily Karasyov with Cannonball.

**Vasily Karasyov:**

Hi. I have a long-term question, Adam, and it's about run-time data integration with Unity Vector. It's not a competitive-impact question.

So, obviously, AppLovin has a very strong position because you capture pretty much all the advertising signal that is to be captured, right? And you utilize it very well. But that said, if I understand correctly, run-time data gives a very specific, very unique engine-level set of signals that, as I understand, you don't have native access to. Right?

And if that's true, then it seems like an argument can be made that both channels can become complementary because they're using different sets of signals, right? So I was wondering if you could tell me if I'm thinking about it the wrong way, and what are the implications of this new – if I understand correctly – set of signals coming to the market? What does it mean for the industry? Does the overall spend grow as a result?

**Adam Foroughi:**

Yeah. I mean, look, this ties to what we tell customers that come to us and we're their largest channel of spend. Sometimes we get asked, should they only spend with us, or are they competing with themselves if they spend on other platforms? Everyone's data and model is different. And in this space – I think when we first went public, this was part of the narrative that was negative on us, that we're in a zero-sum sector. I think we've proven over the last five years this is not a zero-sum sector.

As marketing companies improve across the board, scale of user acquisition goes up, growth goes up, the P&L of the end client – the gaming customer – improves. Then they can reinvest more dollars into marketing platforms.

We're obviously the biggest. We want the market to improve. And that quote I gave you with the Max marketplace improving double digits quarter-over-quarter – that's a huge amount of growth for a very, very large market at this point in terms of our penetration into the ad-supported market in the ecosystem. So we've proven the space is not zero-sum. And that's because these models, when trained with differentiated data, create a higher ceiling for the gaming customer, which is beneficial.

**Operator**: Our final question will come from Tim Nollen with SSR.

**Tim Nollen:**

Adam, I think I caught a comment from you regarding Wurl recently. This is something which has not been addressed on this call, I don't think yet. So my question is, now that the consumer business has launched GA, are you turning your attention a bit more to Wurl? You had said that you would kind of wait on that until you got this consumer business out there. Now that it's out there, I'm curious if Wurl becomes more of a topic of interest for you?

And maybe how does your consumer experience lend itself to Wurl? So from going from in-game ads to CTV ads, presumably now with lots of new relationships on the advertiser side, as well. Any comment on Wurl would be great.

**Adam Foroughi:**

Yeah. Thanks, Tim. Still getting used to your new firm. But on the Wurl and CTV question: in consumer, we're still budgetarily constrained. We're still early in the category. And if we were to go expand supply, the most natural path is going to non-gaming apps and other open-web-type placements.

But the consumer vertical allows us to actually go out and expand supply. Gaming is much more niche. And really, if you look at the world of the open web and social, you almost never see gaming ads. Of course you see e-commerce ads, right?

So we think the first path to supply expansion will be on-device, and the second path will be connected TV. It's definitely an area of interest for us, because that same lipstick-selling ad on the mobile device that's full screen should port really, really well to television. And we know that television drives shopper behavior. Everyone knows that, at the scale that TV operates. So it's an opportunity sitting there. We're just not at the point yet where we can go execute on it.

**Tim Nollen:**

Yeah. And like you said, it just seems like a big market opportunity that itself is shifting to more performance-based advertising, and you've done such a great job on that. I guess the issue is it's less shifting to CTV apps and more to shifting the interface and the audience and the advertiser base to understand those better?

**Adam Foroughi:**

Yeah. It's more – think of our consumer advertisers as, if they're spending – the earlier question of, they're seeing really good ROAS, but they're not even spending to their ceiling yet. We're not at a point where we have excess budgets to take out. So if we had just launched CTV and actually made it work and shifted dollars, we're weakening our position in mobile to go launch into CTV, and we wouldn't actually expand our revenue.

To go into new supply, we need to believe there's going to be more dollars flowing. So step one would be the obvious: non-gaming apps. And gaming apps that don't currently run game ads, which would run non-gaming ads inside those apps. And then step two would be the open web. Step three would be connected TV. All of that's going to come for us, because those are just obvious levers of growth to pull when we have the budget to go out and get it.

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

**Matt Stumpf:** Thank you.