

Initiating Coverage

AppLovin (\$APP)

Scaling Smart: AppLovin's Software-First Pivot Pays Off

Key Take-away: AppLovin's AI Ad Advantage Is a Blockbuster Trade Opportunity. A stellar Q1 2025, with a 43% revenue surge and 68% EBITDA margin, underscores AppLovin's execution in a competitive ad landscape. A 31% revenue CAGR forecast, driven by Axon 2's 71% performance revenue growth, CTV expansion, and automated onboarding, ensures sustained momentum. With 1.6 billion daily active users and a shift to pure-play AdTech, AppLovin is poised to capture 6% of the \$1.5 trillion digital ad market by 2034, with margins climbing to 80%, offering traders blockbuster upside potential.

AppLovin's Updated In-House AI-powered ad tech software: Advertisers set specific return goals for their advertising campaigns. AXON AI's predictive algorithms then evaluate potential impressions with the goals of meeting advertisers' return on advertising spend targets and other marketing objectives and finding the users most likely to download or otherwise engage with their product(s). AppLovin's AppDiscovery demand-side platform, Max supply-side platform, and Axon 2 AI optimizer serve 1.6 billion daily active users across mobile and streaming apps. Launched in the second quarter of 2023, Axon 2 has significantly transformed the company's ad platform. Since its rollout, advertising spend on AppLovin's platform has quadrupled, with ad spend for gaming clients reaching an estimated \$10 billion annual run rate, a scale that now places AppLovin among the most highly valued ad tech firms globally.

Connected TVs Expansion: Connected TV (CTV) is any smart TV, CTV streaming device (such as Roku and AppleTV), or gaming console that can be used to access digital video content over the internet. CTV advertising enables marketers to deliver ad experiences through non-skippable video on those connected devices. Viewers are flocking to streaming from traditional cable, creating the virtuous cycle that is fueling CTV's growth. Streaming platforms and content publishers are investing more than ever in new content and as more content moves to CTV, so do more viewers. All of this has led to advertisers allocating more of their budgets to the medium. CTV, or Connected TV, has significantly impacted AppLovin by boosting its ad business growth, particularly in its Q4 2024 earnings. AppLovin's acquisition of Wurl, a CTV supply-side platform, has provided a substantial influx of CTV inventory, contributing to a 73% year-over-year increase in its ad business. This growth, coupled with a 44% increase in overall revenue and a 248% jump in net income, demonstrates the positive effect of CTV on AppLovin's financial performance.

Valuation: We initiate coverage with a \$145.00 PT.



Consortium Research Group
TMT | Ad Tech
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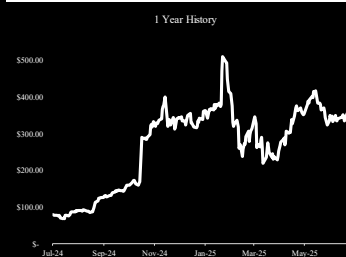
Stock Rating: Underweight

Price Target: \$145.00

Price: \$480.00

Potential Upside/Downside: -69.8%

Ticker: \$APP



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Company Overview

AppLovin is in the middle of a major transformation. After spinning off its mobile gaming business this year, the company is now fully focused on its core strength: building ad tech powered by AI. The shift is already paying off with strong margins and signs of real operating leverage as revenue climbs faster than costs. It is a cleaner and more focused business now and is setting up well for long term growth.

Doubling Down on AI and Ad Tech: At the heart of AppLovin's strategy is Axon, its in-house machine learning engine that drives smarter and more targeted ad placements. They are leaning into automation, performance marketing, and self-serve tools that make it easier for advertisers to scale campaigns. It is not just about mobile anymore either as they are pushing into web and ecommerce ads too. The more they build in house, the less they depend on outside platforms which means better margins and more control.

Clearer Focus, Bigger Opportunity: By offloading the gaming segment, AppLovin is betting on the long-term upside of being a pure ad tech company. Most of their revenue now comes from performance focused advertisers and mobile first developers. And with EBITDA margins consistently above 60 percent, they are running a lean and profitable business. Management continues to invest in AI and new products which is a sign they are not just playing for efficiency but for future growth.

Industry Overview

AI Is Reshaping Performance Marketing: Machine learning is quickly becoming the backbone of modern ad tech. AppLovin has leaned into this trend through its Axon engine which uses deep learning to improve ad targeting bidding and placement decisions in real time. As the market moves toward AI first media buying, platforms with proprietary algorithms and first party data are gaining an edge. AppLovin's full stack approach allows it to serve both sides of the ecosystem: advertisers and publishers, which strengthens its role as a central player in the ad tech value chain.

Vertical Integration and Ad Tech Consolidation: The ad tech industry is shifting toward fewer more integrated players. Platforms that own their infrastructure from demand side tools to supply side access are better positioned to capture more margin reduce dependency on third parties and respond faster to regulatory or privacy changes. AppLovin's continued investment in self-service tools and its move away from owned content via the 2025 divestiture of its gaming arm reflects this shift toward a focused margin rich software model. In a market increasingly driven by measurable outcomes and AI driven automation, AppLovin stands to benefit from its early investments and strategic clarity.

Peer Comparisons

Comparable Companies						
\$mm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
Digital Turbine, Inc. (APPS)	\$576	\$926	-6.3x	\$491		\$35
Cheetah Mobile Inc. (CMCM)	\$162	-\$29	-2.0x	\$121		-\$24
Kaltura, Inc. (KLTR)	\$284	\$252	-13.3x	\$181		-\$12
Unity Software Inc. (U)	\$15,280	\$16,310	-33.9x	\$1,790		\$11
AppLovin	\$123,330	\$126,487	64.3x	\$5,140		\$2,800

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate	LF
Digital Turbine, Inc. (APPS)	26.6x	45.0%	7.1%	(9.8%)		6.4%
Cheetah Mobile Inc. (CMCM)	1.2x	71.0%	(20.0%)	(26.3%)		13.9%
Kaltura, Inc. (KLTR)	-20.8x	68.1%	(6.7%)	(9.4%)		1.4%
Unity Software Inc. (U)	1522.9x	74.8%	0.6%	(22.0%)		(2.0%)
AppLovin	45.2x	77.7%	54.6%	46.6%		17.4%

High	1522.88x	77.7%	54.6%	46.6%		17.4%
75th Percentile	45.17x	74.8%	7.1%	-9.4%		13.9%
Average	315.02x	67.3%	7.1%	-4.2%		7.4%
Median	26.64x	71.0%	0.6%	-9.8%		6.4%
25th Percentile	1.20x	68.1%	-6.7%	-22.0%		1.4%
Low	-20.77x	45.0%	-20.0%	-26.3%		-2.0%

General Dynamics Valuation	
Implied Enterprise Value (25th Percentile)	\$ 3,372
Implied Enterprise Value (Median)	\$ 74,584
Implied Enterprise Value (75th Percentile)	\$ 126,487

Implied Share Price (25th Percentile)	\$ 1.79
Implied Share Price (Median)	\$ 212.32
Implied Share Price (75th Percentile)	\$ 365.76

Source: Koyfin

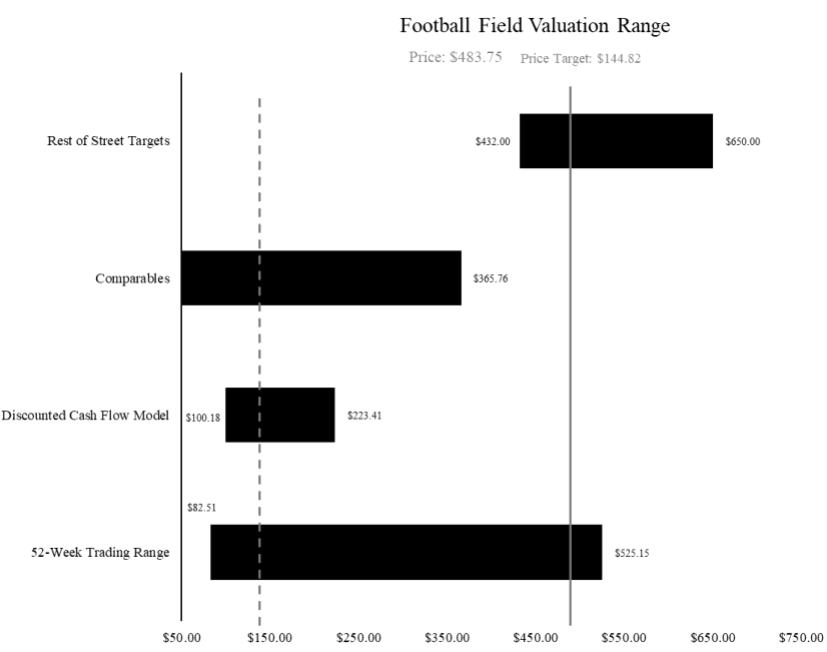
Investment Theses

Large Market Share Driven by AI-optimized Customer Acquisition: A commanding presence in the \$700 billion digital ad market stems from Axon 2's black-box optimization, delivering 45% higher return on ad spend than Meta (NASDAQ: META), per Northbeam data. With 85% of purchases from first-time buyers, AppLovin excels in customer acquisition. The improved AI's functionality positions AppLovin for continued brand presence and ability to control Ad Tech Market Share. While AppLovin's AI platform Axon 2 offers a clear technological edge and strong return on ad spend, our financial forecast suggests that the market may have already factored in and possibly overestimated the long-term growth this advantage can realistically deliver.

CTV Expansions Forecasting Increased Market Share: Acquisitions of Wurl and MoPub in 2022 expanded connected TV and ad exchange capabilities, targeting a \$1.5 trillion market by 2034. Through targeted acquisitions into a growing marketing channel, AppLovin can strategically position itself in most of the major Ad Marketing Channels to increase revenue and maximize customer return. The strategic expansion into the Connected TV (CTV) market is a positive long-term catalyst. However, capturing a meaningful share of this competitive space will require significant time and investment.

Price Target & Valuation

Our analysis gives (\$APP) a price target of \$145 an under-weight rating.



Potential Downsides To Our Rating

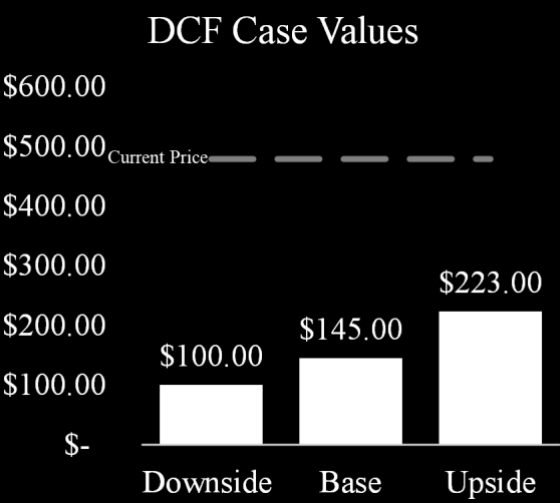
Proceeds From Divestiture Not Properly Valued: The \$400 million dollar sale of the apps segments has not been incorporated into the valuation model as this sale was completed on June 30th, 2025, and will only be reflected in Q2 reports and 2025 annual report. The cash proceeds from the sale could be substantial i.e. through paying down debt and thereby reducing risk profile, any strategic re-investment in Axon development. Therefore, the price target may not capture the improvement in the balance sheet.

Undervaluing the Software Platform Premium: Although input a 30% base case projection and 12x exit multiple. The market could possibly still assign higher multiples to AppLovin, given the elimination of the apps segments leads to several benefits; Having a sole focus on the axon platform means a clearer growth story and potential for multiple expansions as AppLovin becomes a pure ad-tech company, and investors often value pure play businesses at significant premiums. Furthermore, with the elimination of the lower-margin apps segments there’s likely to be improved margins.

Our Price Target: **\$145.00**
Our base case still assumes the Axon platform will continue its successful adoption by mobile advertisers. However, after incorporating a more realistic, tapering growth trajectory and asset-light capital structure into our forecast, we find that this steady adoption supports a valuation far below the current market price. This suggests the market is pricing in a scenario that vastly exceeds these solid, yet fundamentally grounded, expectations.

Our Upside Case: **\$223.00**
This scenario reflects a highly optimistic future where Axon becomes a dominant tool, captures significant market share, and successfully expands internationally. The critical insight from our analysis is that **even** in this bull-case scenario, the company's fundamental value is less than half of its current market price. This highlights the extraordinary premium at which the stock is trading, demanding a level of performance that even our most optimistic forecast cannot justify.

Our Downside Case: **\$100.00**
Our Downside Case valuation is \$100. This case, where AppLovin struggles against ad tech consolidation and macro pressures, remains a significant possibility. This scenario points to a potential 80% downside from the current share price, underscoring the substantial risk for investors if the company fails to execute on the market's hyper-optimistic expectations.



About \$APP

AppLovin Corporation (APP), founded in 2012, is a leading marketing software company that enables mobile app developers to grow their businesses through advanced advertising technology. The company operates a global platform that uses proprietary machine learning, notably its Axon engine, to optimize ad delivery and monetization across mobile and web environments.

AppLovin's core revenue comes from its advertising segment, which helps advertisers acquire high value users through performance marketing. The company previously operated a portfolio of mobile games through its Apps segment, but in Feb 2025 signed a definitive agreement to divest that business in order to focus solely on its higher margin, scalable ad tech platform.

AppLovin went public in April 2021 at \$80 per share and trades on the Nasdaq under the ticker APP. The company's mission is to build the most effective and intelligent marketing software for the mobile era, helping developers scale through data driven solutions.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities.

Overweight means the analyst team believes the stock price will outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

DCF Analysis (\$mm)															
	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022	FY2023 31/12/2023	FY2024 31/12/2024	#VALUE! 12/31/2025	#VALUE! #VALUE!	#VALUE! #VALUE!	#VALUE! #VALUE!	#VALUE! #VALUE!	#VALUE! #VALUE!	#VALUE! #VALUE!	#VALUE! #VALUE!	#VALUE! #VALUE!	#VALUE! #VALUE!
Stub						0.66	1.66	2.66	3.66	4.66	5.66	6.66	7.66	8.66	9.66
Discount Period						0.17	0.84	1.84	2.84	3.84	4.84	5.84	6.84	7.84	8.84
Revenue	0	0	0	3,283	4,709	4,961	5,981	7,137	8,424	9,828	11,327	12,892	14,483	16,057	17,560
Revenue Growth	0%	#DIV/0!	#DIV/0!	#DIV/0!	43%	3%	21%	19%	18%	17%	15%	14%	12%	11%	9%
Advertising	207	674	1,049	1,842	3,224	4,636	5,656	6,812	8,099	9,503	11,002	12,567	14,158	15,732	17,235
Apps	1,244	2,119	1,768	1,441	1,485	325	325	325	325	325	325	325	325	325	325
	0.00	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBIT	-62	149	-33	656	1,894	1,762	2,691	3,251	3,884	4,586	5,349	6,159	7,000	7,850	8,682
EBIT Margin	#DIV/0!	#DIV/0!	#DIV/0!	20%	40%	36%	45%	46%	46%	47%	47%	48%	48%	49%	50%
Tax Expense	-10	11	-12	24	-4	370	565	683	816	963	1,123	1,293	1,470	1,648	1,823
Effective Tax Rate	16%	7%	37%	4%	0%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
NOPAT	-52.27	138.51	-21.08	632.38	1,898.04	1,391.70	2,126.19	2,568.58	3,068.63	3,623.13	4,225.59	4,865.89	5,530.26	6,201.42	6,859.07
D&A	0	0	1	0	0	0	1	2	2	3	5	6	8	10	12
Capex	-3	-1	-1	-4	-5	-5	2	2	3	4	4	5	6	7	8
Changes in NWC	-0	-0	-0	-0	-0	-0	-1	-1	-1	-1	-1	-1	-1	-2	-2
UFCF	-49	141	-20	637	1,904	1,397	2,126	2,569	3,069	3,624	4,227	4,868	5,533	6,206	6,864
PV of FCF						1,365	1,896	1,998	2,082	2,144	2,181	2,191	2,172	2,125	2,050

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	2.44
Risk Free Rate	4.39%
Cost of Equity	14.54%
Weighted Average Cost of Debt	5.34%
Tax Rate	21.00%
Cost of Debt	0.12%
Total Equity	\$156,589
Total Debt	\$2,768
Equity/Total Capitalization	97.23%
Debt/Total Capitalization	2.77%
WACC	14.66%

Terminal Value	
Perpetuity Growth Method	
2034 FCF	\$7,487
Growth	0.00%
Terminal Value	\$51,087
PV of Terminal Value	\$13,305
PV of Projection Period	\$22,155
PV of Terminal Value	\$13,305
Implied TEV	\$35,460
(-) Debt	\$3,509
(+) Cash	\$741
Implied Equity Value	\$32,692
Basic Shares Outstanding	338
Implied Share Price	\$96.65
Upside/Downside	-79.81%

Implied Exit BF EV/EBIT	3.7x
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Terminal Value	
Exit Multiple Method	
2034 EBIT	\$9,469
EV/EBIT Exit Multiple	12.0x
Terminal Value	\$113,632
PV of Terminal Value	\$29,595
PV of Projection Period	\$22,155
PV of Terminal Value	\$29,595
Implied TEV	\$51,749
(-) Debt	\$3,509
(+) Cash	\$741
Implied Equity Value	\$48,982
Diluted Shares Outstanding	338
Implied Share Price	\$144.81
Upside/Downside	-69.7%

Implied PGR	-8.5%
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Blended Share Price	
Perpetuity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	\$144.81
Upside/Downside	-69.74%