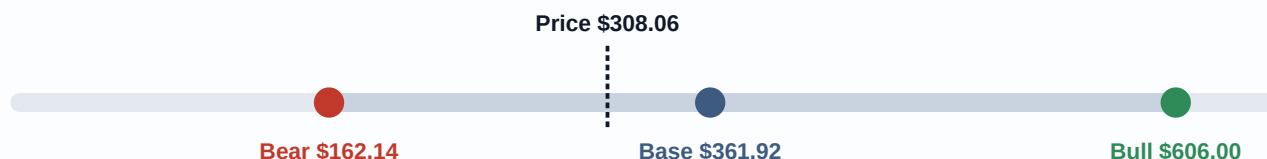


Initiated 2026-09-20 · Price \$308.06 (as of 2026-09-18 close, stockanalysis.com) · Mkt cap \$103.09bn · Technology / performance advertising · Model: lite, verified (generic, two years of continuing-operations history)

Rating: Buy — Conviction: Medium

AppLovin sits at a 52-week low, 59% below its high, at 17x forward earnings, while growing revenue 53% year over year at an 84% adjusted EBITDA margin and shrinking its share count. The de-rating is not about the results — Q2 2026 missed the guidance midpoint by a rounding error and the SEC closed its AXON data-practices investigation with no action — but about a genuine question: whether the sequential improvement cadence of one machine-learning model is a durable growth engine or a run of good quarters. That is the right question, and a securities class action now alleges the company overstated exactly that. The call is Buy anyway, because the price has moved much further than the evidence: the model's Base case, which already fades growth from 46% to 14% over five years and applies an exit multiple below today's, sits 18% above the last close, and the bull branch is worth roughly double. Conviction is Medium, not High, because the bear branch is -47% and the history is only two years deep.

MODEL VALUE RANGE VS PRICE



Business overview

AppLovin is now a single business: a performance-advertising platform. The AXON engine matches advertisers — historically mobile game developers, increasingly e-commerce and direct-to-consumer brands — to in-app inventory through a real-time auction, and monetisation improves as the model improves. The mobile-gaming Apps segment was divested during 2025, so FY2023 and FY2024 were restated as discontinued operations; continuing-operations revenue was \$3,224mm in FY2024 and \$5,481mm in FY2025 (+70%), with H1 2026 at \$3,766mm (+56%). Earnings turn on three variables: advertiser spend on the platform, the model's improvement cadence (Q2 net revenue per installation rose 58% on 2% fewer installations), and essentially nothing else — cost of revenue was 11.7% of Q2 revenue and capital expenditure was \$1.4mm in the quarter.

Bull case

1. **The unit economics are extraordinary and still improving.** Q2 2026 revenue of \$1,923.7mm produced \$1,494.3mm of GAAP operating income — a 77.7% GAAP operating margin, 84% on adjusted EBITDA — on \$1.4mm of capex. Almost every incremental dollar of revenue reaches cash. *Model: ebitda_margin, capex_pct_rev*
2. **Growth is still near 50% at \$8bn of run-rate revenue.** H1 2026 revenue +56%, Q3 guided to \$2,055–2,085mm (+46–48%), with net revenue per installation up 58% on 2% fewer installs. The engine is monetising better rather than simply buying more volume. *Model: rev_growth*

3. **Cash conversion genuinely shrinks the share count.** FY2025 free cash flow was \$3,952mm on \$5,481mm of revenue; diluted shares went 348mm → 342mm → 337mm with \$551.3mm repurchased and withheld in Q2 2026 alone. SBC is only ~3.8% of revenue, so unlike most software the buyback nets to real shrinkage. *Model: not in the value range — `share_change` , `capital_return_pct` move EPS, net cash or a cross-check only (see model note)*
4. **Two overhangs came off and the multiple did not recover.** The SEC's AXON data-practices investigation closed with no action, the company kept guiding to mid-40s growth, and the stock still trades at its 52-week low on 17x forward earnings. *Model: `exit_ev_ebitda`, `wacc`*

Bear case

1. **The thesis rests on one model's improvement cadence, and that cadence just missed.** Q2 revenue came in below the guidance midpoint and the CEO attributed it to the next step-up in model performance landing just after quarter end. BTIG and Bank of America cut targets citing diminishing sequential returns from automated model updates and saturation in mobile-gaming user acquisition. A business whose growth is an engineering release schedule is harder to underwrite than one whose growth is a contract. *Model: `rev_growth`*
2. **A securities class action attacks the improvement story itself.** Filed over a 2026-02-12 to 2026-08-05 class period, alleging misstatements about AXON model stability, the commercial readiness of the generative-AI video creative tool and early e-commerce traction; lead plaintiff deadline 2026-11-16. The litigation cost is second-order for a company this size; the allegation is not, because it is about the exact variable the model turns on. *Model: `rev_growth`, `wacc`*
3. **Margins this high are a target, not a moat.** A 78% GAAP EBITDA margin in an auction business whose competitors for the same performance budgets are Meta, Google and TikTok. The Bear case does nothing exotic — it lets margin decay toward 69% while growth normalises, and that alone is worth -47%. *Model: `ebitda_margin`*
4. **Concentration, and a history two years deep.** One platform, one algorithm, an advertiser base still weighted to mobile gaming, and the e-commerce expansion the market was paying for is not separately quantified in the reported numbers. After the Apps divestiture the continuing-operations series runs only from FY2024, which is why this model is lite tier. *Model: `rev_growth`, `exit_ev_ebitda`*

Valuation & balance sheet

Metric (definition)	Current	Own history	Peers	Source, as-of
EV / forward revenue (EV \$103.59bn ÷ model FY2026E revenue \$8.00bn, built from H1 actual plus Q3 guidance)	12.9x	~31x at the 52-week high of \$745.61 (est., same revenue)	n/a (unverified)	q2fy26 + quote, 2026-09-18
EV / EBITDA (GAAP operating income + D&A)	24.2x on FY2025 \$4,283mm; 16.2x on FY2026E \$6,402mm	FY2024 EBITDA \$2,040mm, a 63.3% margin, vs 78.1% in FY2025	n/a (unverified)	xbrl-oi + q4fy25; model-summary.json
P/E (trailing GAAP; forward on consensus)	23.7x trailing, 17.1x forward	—	n/a (unverified)	quote, 2026-09-18
Free cash flow yield (FY2025 FCF \$3,952mm ÷ market cap; model FY2026E \$4,877mm)	3.8% trailing, 4.7% forward	FY2024 FCF \$2,073mm	n/a (unverified)	q4fy25; model-summary.json

Model-implied value range (from `model-summary.json` ; generic module, DCF-Gordon and DCF-exit-multiple, midpoints): Bear \$162.14 · Base \$361.92 · Bull \$606.00 per share, i.e. implied returns of -47% / +18% / +97% vs \$308.06. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* Nothing floors at zero, so the full range is informative. Two things about the shape matter. First, the Base case is not heroic: it fades revenue growth from 46% to 14% across five years, holds the GAAP EBITDA margin roughly flat rather than expanding it, and applies an 11x exit multiple against the 16.2x the market pays on FY2026E EBITDA today — a de-rating built into the base. Second, the Y1 output is a cross-check rather than a forecast: model Base EPS of \$15.24 against the quote page's 17.1x forward multiple, which implies consensus nearer \$18 on a non-GAAP basis, says the model is running slightly behind the street. The distribution is what makes this a Buy: at the current price the base branch pays 18%, the bull branch roughly doubles, and you are paid for taking the risk that the model cadence breaks — which is the bear branch, and it is a real -47%.

Balance sheet: gross leverage 0.83x FY2025 EBITDA, net leverage 0.12x, coverage 22.2x. Cash of \$3,053.3mm at 2026-06-30 against \$3,550mm of senior notes in four tranches — \$1.0bn 5.125% due 2029, \$1.0bn 5.375% due 2031, \$1.0bn 5.500% due 2034 and \$550mm 5.950% due 2054 — so nothing matures before December 2029 and the model's base path turns the company net-cash within a year. No agency rating was retrieved in this session.

Model note: Built at **lite tier** — the Apps divestiture in 2025 restated FY2023 and FY2024 as discontinued operations and no comparable continuing-operations D&A figure exists for FY2023, so the history runs only FY2024–FY2025. Treat base rates from two observations with appropriate suspicion; the Dashboard says so in red. 0 failing error checks, 0 failing warning checks, no scenario consistency CHECKs, no unverified inputs and no assumptions without a basis. `verification.status` is `verified` as of 2026-09-20 (LibreOffice's independent recalculation matches the Python values on every formula cell; it was `not_run` at initiation because the environment's LibreOffice install was missing its Calc component). Three conventions. (1) `ebitda` is GAAP operating income plus D&A, so **SBC is expensed** — this is not the company's adjusted EBITDA, which is why the FY2025 margin here reads 78.1% rather than 82%. (2) `share_change` therefore carries only the net count change, which is genuinely negative here. (3) `cost_of_debt` is the principal-weighted 5.43% blended coupon; because the module charges net debt times that rate, it books roughly \$27mm of net interest against an actual net expense nearer \$70mm — immaterial against ~\$6bn of EBIT. Generator note (2026-09-24): in this module `share_change`, `capital_return_pct` and `cost_of_debt` move EPS and the net-cash path only, and `peer_pe` feeds a cross-check only; none changes the value range, so bull/bear tags no longer cite them. Scenario deltas were rebuilt after `multiple_pct` shocks were extended to the Gordon method (previously they moved only the exit-multiple half), and EPS now uses average diluted shares.

Relative Value vs Peers							
Metric	APP	TTD	META	GOOGL	U	Peer median	vs median
P/E (TTM)	21.5x	14.5x	27.2x	17.5x	n/a	17.5x	+23%
P/E (forward)	15.6x	13.4x	22.4x	25.9x	30.8x	24.2x	-36%
PEG	0.5x	2.5x	1.1x	2.0x	0.8x	1.5x	-68%
EV/EBITDA (TTM)	17.4x	6.7x	16.9x	24.1x	n/a	16.9x	+3%
EV/Sales (TTM)	13.8x	1.6x	8.1x	9.3x	10.1x	8.7x	+58%
P/B	29.7x	2.2x	7.0x	6.8x	6.7x	6.8x	+340%
FCF yield	4.8%	15.0%	2.2%	1.2%	2.6%	2.4%	+2.4pp
EV/FCF (TTM)	20.8x	5.5x	45.3x	78.3x	37.9x	41.6x	-50%

P/E (TTM)

META

27.2x

APP

21.5x

GOOGL

17.5x

TTD

14.5x

P/E (forward)

U

30.8x

GOOGL

25.9x

META

22.4x

APP

15.6x

TTD

13.4x

PEG

TTD

2.5x

GOOGL

2.0x

META

1.1x

U

0.8x

APP

0.5x

EV/EBITDA (TTM)

GOOGL

24.1x

APP

17.4x

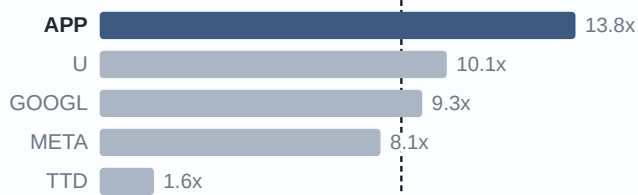
META

16.9x

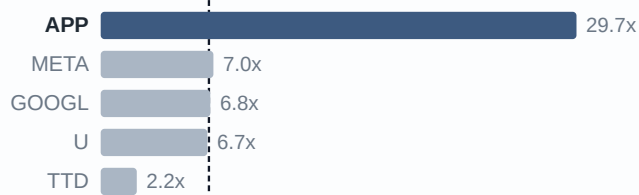
TTD

6.7x

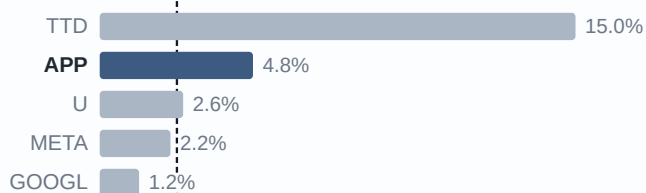
EV/Sales (TTM)



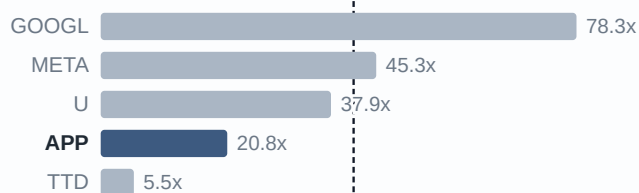
P/B



FCF yield



EV/FCF (TTM)



As of 2026-10-09. One source and one definition for every company: aggregator TTM and consensus-forward multiples, lease-inclusive EV. Not the model's own EV basis (see the report's valuation table). Quotes taken 11:40-11:58 ET on 2026-10-09 with the market open, so multiples reflect intraday prices. Dashed line = peer median. Source: [stockanalysis.com /stocks/<ticker>/statistics/](https://stockanalysis.com/stocks/<ticker>/statistics/), fetched 2026-10-09.

Notes. Unity's EV/EBITDA (139.6x) is shown blank: above 100x is not meaningful. Unity has no meaningful trailing P/E on the source.

Scenario stress test

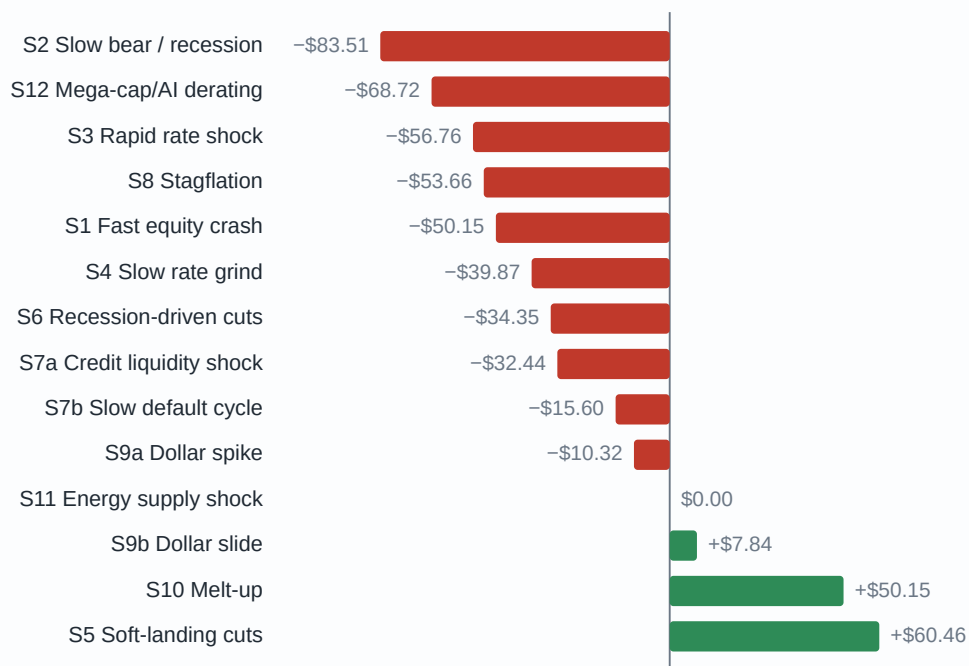
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	A stock that ranged \$297.50–\$745.61 in twelve months is not a 1.0-beta asset; de-risking hits it harder than the index	High	–\$50.15
S2 Slow bear / recession	–	Worst row. Advertising is the fastest budget line to cut, and app-install spend is discretionary even within performance marketing	High	–\$83.51
S3 Rapid rate shock	–	Almost entirely a valuation channel — net leverage 0.12x and no maturity before December 2029	High	–\$56.76
S4 Slow rate grind	–	Sustained terminal-multiple compression on long-duration growth, without a single repricing event	Medium	–\$39.87
S5 Soft-landing cuts	+	Best row. Falling discount rate with consumer demand intact, which is what app spending and e-commerce budgets are ultimately funded by	High	+\$60.46
S6 Recession-driven cuts	–	A breaking labour market cuts consumer in-app spending and therefore user-acquisition budgets; rate relief does not cover it	Medium	–\$34.35
S7a Credit liquidity shock	–	No balance-sheet channel, but much of the advertiser base is venture- and PE-funded app developers whose spend is gated by financing	Medium	–\$32.44
S7b Slow default cycle	–	A funding drought among app developers shows up directly as lower user-acquisition budgets	Low	–\$15.60
S8 Stagflation	–	Squeezed consumer wallets cut the in-app spending advertisers bid against, while the discount rate rises	High	–\$53.66
S9a Dollar spike	–	A material share of advertiser spend and publisher inventory is non-US and translates lower	Low	–\$10.32
S9b Dollar slide	+	Mirror-image translation tailwind	Low	+\$7.84
S10 Melt-up	+	This is the asset that leads a momentum regime: high growth, high margin, an AI narrative and a freshly compressed multiple	High	+\$50.15

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S11 Energy supply shock	0	No material transmission channel from an oil supply shock to mobile advertising auctions	—	\$0.00
S12 Mega-cap/AI derating	—	The defining row: the company is valued on an AI-model narrative, the class action attacks exactly that narrative, and a leadership unwind takes the multiple with it	High	—\$68.72

What the table shows is that macro is not the main risk here. Even the worst row, S2, leaves the implied value only 6% below the current price, and most rows stay above it — because the Base case starts 18% above the price. The variance that matters is between the cases, not across the scenarios: Bear to Bull spans \$444 per share, against a worst-case macro delta of \$72. Whether the AXON improvement cadence continues dominates everything the playbook can throw at it. **Currently active/on watch per the playbook:** S3 partially active; S8, S10, S11 on watch. S8 is the second-heaviest row here and S10 the one this name would lead.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: Q3 2026 lands at or above the \$2,055–2,085mm guide with Q4 guided above 40% growth — evidence the Q2 shortfall really was a timing artefact; or e-commerce advertising revenue is disclosed separately at scale. **Downgrades if:** Q3 misses the guidance range, or Q4 is guided below roughly 30% growth; or the GAAP operating margin falls two or more points below the 77–80% band without a stated mix reason; or the class action produces a restatement or a disclosure that changes how AXON's reported performance gains were measured.

Watch items

- **W1:** Q3 2026 revenue against the \$2,055–2,085mm guide, and the Q4 guide — the single test of whether the improvement cadence resumed — expected early November 2026 — *Model: rev_growth*
- **W2:** GAAP operating margin — holds in the 77–80% band set by FY2025 (75.8%) and H1 2026 (77.9%) — quarterly release — *Model: ebitda_margin*

- **W3:** Diluted share count and repurchase pace — 337mm in Q2 2026 after \$551.3mm of buyback; the base case assumes 3% annual shrinkage — quarterly release — *Model: share_change, capital_return_pct*
- **W4:** Class action docket, lead plaintiff appointed after 2026-11-16 — watch for any amended complaint that cites internal metrics on AXON performance rather than public statements — *Model: none*

Sources

- AppLovin Announces Second Quarter 2026 Financial Results (Form 8-K Ex. 99.1, filed 2026-08-05) — <https://www.sec.gov/Archives/edgar/data/1751008/000175100826000057/exhibit991-2q26earningspre.htm> — accessed 2026-09-20
 - AppLovin Announces Fourth Quarter and Fiscal Year 2025 Financial Results (Form 8-K Ex. 99.1) — <https://www.sec.gov/Archives/edgar/data/1751008/000175100826000005/exhibit991-4q25earningspre.htm> — accessed 2026-09-20
 - SEC XBRL companyconcept — APP RevenueFromContractWithCustomerExcludingAssessedTax, continuing operations restated in the FY2025 10-K (accession 0001751008-26-000010, filed 2026-02-19) — <https://data.sec.gov/api/xbrl/companyconcept/CIK0001751008/us-gaap/RevenueFromContractWithCustomerExcludingAssessedTax.json> — accessed 2026-09-20
 - SEC XBRL companyconcept — APP OperatingIncomeLoss (same accession) — <https://data.sec.gov/api/xbrl/companyconcept/CIK0001751008/us-gaap/OperatingIncomeLoss.json> — accessed 2026-09-20
 - AppLovin Form 8-K, 2024-12-05 — \$3.55bn of senior notes in four tranches; proceeds repaid the 2018 term loans — <https://www.sec.gov/Archives/edgar/data/1751008/000119312524271603/d896321d8k.htm> — accessed 2026-09-20
 - AppLovin (NASDAQ: APP) faces securities class action amid concerns over model improvements (2026-09-19) — <https://www.globenewswire.com/news-release/2026/09/19/3365039/32716/en/applovin-nasdaq-app-faces-securities-class-action-amid-concerns-over-model-improvements-hbss.html> — accessed 2026-09-20
 - AppLovin stock lost \$40bn on the Q2 miss while the SEC closed its AXON data probe — <https://www.techtimes.com/articles/323336/20260806/applovin-stock-lost-40b-16m-miss-while-sec-cleared-axon-data-probe.htm> — accessed 2026-09-20
 - AppLovin (APP) quote and key statistics — <https://stockanalysis.com/stocks/app/> — accessed 2026-09-20
-

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.