

Business Overview:

- Reddit operates one of the internet's largest structured forums and UGC platforms, with 138k+ active, interest-based communities ("subreddits") and 116.0M DAUq (+19% YoY). Engagement is deep and intent-rich (average session ~18.15 min), enabling premium ROAS performance and a differentiated first-party data corpus increasingly monetized via ads and AI/search licensing.
- Monetization: Q3 '25 revenue was \$585M with "Advertising" at \$549M (~93.5%) and "Other" at \$36M (~6.5%), led by high-margin data licensing deals with Gemini and OpenAI. Revenue mix is ~81.8% US, while 55% of DAUq is international, reflecting a structural ARPU gap (US \$9.04 vs. International \$1.84) but a long runway for uplift as Reddit localizes content, expands self-serve performance tools, and improves ad infrastructure.
- Growth Algorithm: Annualized revenue growth of 61% / 78% / 68% (Q1–Q3 '25), DAUq from 108.1M → 116.0M, and ARPU uplift via ads-stack upgrades and data licensing. Growth levers: Scaling ARPU (+41% YoY) and international expansion (international DAUq +31% YoY). Bottom-line: 90.5-91.0% gross margin plus OpEx leverage expands Adj. EBITDA margins from 29% → 40%.
- LTM Stats (Q4 '24–Q3 '25): Revenue \$1,904.6M, Adj. EBITDA \$672.4M, EPS \$1.70, Free Cash Flow \$509.7M.

Industry Overview:

- Top-four players: Meta Platforms (~3.54B DAU) with ARPU ~\$14.46; TikTok (~1.2B DAU) with ARPU ~\$8.74; Snap Inc. (~432M DAU) with ARPU of ~\$3.16; and X Corp. (DAU ~586M) with estimated ARPU ~\$3.86. Adjusting for geographical DAUq differences, Reddit's ARPU of \$5.04 significantly trails peers, with the closest comps being Snap ~\$6.10 and X ~\$6.75.
- TAM: Reddit accessible to ~4.51B reachable internet users (Q4 '25), excluding restricted markets, based on 73.2% global internet penetration; TAM expands ~1% QoQ (~+5 % YoY) as connectivity rises toward 80% penetration → ~4.8B FY '26 and ~5.0B FY '27

The Opportunity:

- Reddit dramatically undermonetizes its user base relative to peers. Despite having a platform highly conducive to ads, at \$5.04 global ARPU, Reddit operates at just 34.8% of Meta's \$14.46 global ARPU and still trails Snap in both US and global monetization. Q3 '25 revenue of \$585M (+68% YoY) highlights accelerating conversion of engagement to revenue, signaling a compelling multi-year opportunity for Reddit to increase its monetization relative to its peers.
- Google AI fears have caused Reddit to drop 34% over 30 days. We believe that the street misunderstands consumer search behavior, specifically how Google AI indirectly drives DAUq growth through increases in direct and in-app traffic rather than external referrals.

Thesis 1: Logged-In Growth, AI Ads, and Lower Funnel Expansion Unlock Structural ARPU Upside:

1. A shift in the lower-funnel ad mix supports 2-3x higher CPMs and margin expansion greater than what is priced in. Currently, ~30% of ad revenue is lower funnel (conversion, shopping, app-install) vs. ~70-80% for mature peers. Lower-funnel CPMs average \$6-7 vs. \$2-3 for brand ads. Every 10 percentage point mix shift adds ~\$150-200M in incremental annualized revenue. Sell-side only prices in ~50% lower funnel share by FY 2026, but we believe it will exceed ~55% supported by Dynamic Product Ads (DPA) and Reddit Shopping, launched mid-2025.
2. Machine learning systems deployed in 2024-25 improved conversion performance by +20%, auto-bidding impressions by +15%, and auto-targeting adoption by +50% YoY. Conversion API usage tripled YoY, while campaign automation has shown early 15-25% ROI lifts for advertisers. These improvements raise advertiser ROAS, which pushes budgets into lower-funnel formats and increases incentives for users to stay logged in for personalized targeting.
3. We believe stronger-than-expected logged-in DAUq growth will drive elevated ARPU. Currently, ~57% of DAUq are logged out, leading to CPMs of \$2-3, compared to \$7-10 for logged-in impressions (a 2-5x pricing delta). Each 10% improvement in logged-in penetration could increase overall ARPU by ~7-10%, implying ~40-50% monetization uplift if Reddit approaches peers' 80-85% login rates. Management explicitly cited this as one of the "biggest levers" for ad yield on its Q3 '25 call.

Thesis 2: Google AI Fears Overblown: Reddit's Search Independence and Data Licensing Moat Are Underappreciated:

1. In Q3 '25, external referrals, including Google, were flat YoY, while direct and in-app traffic grew over 20%, propelling DAUq to 116.0M (+19%YoY) and revenue +68% YoY to \$585M. Sell-side believes that Google AI is eroding DAUq, but after conversations with buy-side analysts, we believe that the street misunderstands consumer search behavior. Increased Reddit queries (+58% YoY) and direct and in-app traffic growth (+20% YoY) signal that Google AI may shift external referrals to direct traffic.
2. According to Google Trends (October 2025), queries containing "Reddit" average over 13.6M global monthly searches, up +58% YoY, rising from 98th to 40th most-searched globally. Including phrases ("best laptop reddit," "finance reddit," etc.), "Reddit" ranks 6th overall by search inclusion. This shows users intentionally append Reddit to their queries to reach authentic peer discussion, not generic web results. It implies pull-demand is greater than push-traffic, reflecting a durable brand-search flywheel that AI summarization cannot easily disintermediate.
3. The Google content-access agreement (announced in Feb 2025) contributed \$36 million in Q3 '25 (~6.2% of total revenue) and was described by management as "high-margin and repeatable." Reddit has since expanded contracts with multiple frontier LLM developers, with an expected annualized data-licensing run-rate of over \$150 million by FY 2026 based on disclosed pricing tiers (~\$10-20 per 1 million posts indexed). Because these deals require minimal COGS and negligible OpEx, they add 2-3% to gross margin and reinforce Reddit's AI infrastructure position rather than dependence.
4. Reddit hosts 23+ billion posts and comments across 100k+ active communities, representing the largest indexed dataset of vote-ranked, human-authored discussion on the web. As synthetic content floods the internet, AI output is projected to comprise over

90% of new online text by 2026. Reddit's verified human discourse becomes uniquely valuable for both model training and user trust. This repository underpins a dual-monetization engine: (i) data licensing revenue from AI developers and (ii) search visibility revenue from citations and traffic attribution, high-margin streams largely independent of advertising.

Thesis 3: DAUq Growth Has Sustainable Multi-Year Runway Through International Expansion:

1. International DAUq hit 64.4M (+31% YoY) this quarter versus US 51.6M (+7% YoY), now making up 55% of users and a majority of DAUq growth. International ARPU of \$1.84 trails peers by more than US ARPU, creating compounding upside. Machine translation in 30+ languages and local content frameworks showing traction in France, Brazil, and India are replicable across dozens of markets. Logged-in users grew +14% YoY (critical for monetization) while exit-quarter DAUq exceeded Q3 average.
2. Reddit's 116.0M DAUq represents just ~2.6% penetration of ~4.51B addressable internet users, dramatically underindexed versus Meta (~78.5%) and Snapchat (~10.6%). Despite being the #3 most visited US site, Reddit operates at less than one-third of Snap's penetration. The US frequency gap amplifies opportunity: 190M Americans visit Reddit weekly, but only 51.6M use it daily (3.7x gap)—retention improvements alone could double domestic DAUq.
3. Product-led retention compounds growth: Eliminating onboarding friction, ML-driven personalized feeds (now the top driver of subreddit subscriptions), and AI-powered rule interpretation prevent post rejections. Reddit Answers reached 75M+ weekly searches, handling ~20% of core search volume with non-English expansion. With TAM expanding to ~5.0B users as internet penetration rises from 73.2% to 80%, Reddit's < 3% penetration combined with a 3.7x US frequency gap, +31% International growth, and product improvements creates a multi-year compounding trajectory with structural upside versus peers at 3-20x higher penetration.

Valuation:

Assumptions: In the base case, US logged-in and not logged-in DAUq grow at 7.57% and 8.25% over the next four quarters vs ~6.2% and ~7.3% SS estimates. International logged-in and not logged-in DAUq grow at ~16.43% and ~26.00% over the next year, which is in line with buy-side expectations. US and International ARPU growth is ~29.92% and ~28.23% for the next four quarters before trending to ~16.38% and ~15.40% growth into FY 2027. We project that ~23-25% FY 2026 ARPU growth is currently priced in based on conversations with sell-side analysts. All values are adjusted for the significant seasonality that Reddit displays, especially for ARPU (-22.0%, -13.9%, and -13.8% ARPU QoQ growth for Q1 in FY 23, 24, and 25).

	2024 Q4A	2025 Q1A	2025 Q2A	2025 Q3A	2025 Q4P	2026 Q1P	2026 Q2P	2026 Q3P	2026 Q4P	2027 Q1P	2027 Q2P	2027 Q3P	2027 Q4P
US Daily Active Uniques - Logged In	21.90	23.00	22.90	23.10	23.38	24.27	24.46	24.85	25.08	25.96	26.08	26.41	26.63
US Logged In DAUq QoQ Growth	1.9%	5.0%	-0.4%	0.9%	1.2%	3.8%	0.8%	1.6%	0.9%	3.5%	0.5%	1.3%	0.8%
US Daily Active Uniques - Not Logged In	26.10	27.10	27.40	28.50	28.62	30.08	29.78	30.85	30.92	32.43	32.04	33.13	33.11
US Not Logged In DAUq QoQ Growth	-2.2%	3.8%	1.1%	4.0%	0.4%	5.1%	-1.0%	3.6%	0.2%	4.9%	-1.2%	3.4%	-0.1%
International Daily Active Uniques - Logged In	24.20	25.80	26.40	27.10	28.08	29.50	30.53	31.55	32.53	34.02	35.04	36.03	36.97
International Logged In DAUq QoQ Growth	6.6%	6.6%	2.3%	2.7%	3.6%	5.1%	3.5%	3.3%	3.1%	4.6%	3.0%	2.8%	2.6%
International Daily Active Uniques - Not Logged In	29.50	32.20	33.70	37.30	39.01	42.50	44.26	47.00	48.68	52.55	54.20	57.01	58.49
International Not Logged In DAUq QoQ Growth	12.2%	9.2%	4.7%	10.7%	4.6%	8.9%	4.1%	6.2%	3.6%	7.9%	3.1%	5.2%	2.6%
US Average Revenue Per User	7.04	6.27	7.87	9.04	10.24	9.75	10.64	11.74	12.67	11.96	12.73	13.67	14.49
US ARPU QoQ Growth	19.7%	-10.9%	25.5%	14.9%	13.2%	-4.8%	9.1%	10.4%	7.8%	-5.6%	6.4%	7.4%	6.0%
International Average Revenue Per User	1.67	1.34	1.73	1.84	2.25	1.98	2.22	2.36	2.70	2.40	2.61	2.72	3.03
International ARPU QoQ Growth	26.5%	-19.8%	29.1%	6.4%	22.4%	-12.1%	12.0%	6.4%	14.6%	-11.1%	8.6%	4.3%	11.3%
Total Revenue:	427,707	392,361	499,627	584,911	\$ 683,506	\$ 672,431	\$ 742,902	\$ 839,500	\$ 928,842	\$ 906,430	\$ 972,521	\$ 1,067,267	\$ 1,155,275
Revenue Growth Rate:	22.8%	(8.3%)	27.3%	17.1%	16.9%	(1.6%)	10.5%	13.0%	10.6%	(2.4%)	7.3%	9.7%	8.2%
Operating Expenses	(374,835)	(388,458)	(431,916)	(446,369)	(498,290)	(493,408)	(524,474)	(567,059)	(606,445)	(596,565)	(625,700)	(667,468)	(706,266)
Operating Expenses as a % of Revenue	87.6%	99.0%	86.4%	76.3%	72.9%	73.4%	70.6%	67.5%	65.3%	65.8%	64.3%	62.5%	61.1%
Adjusted EBITDA	\$ 154,330	\$ 115,271	\$ 166,749	\$ 236,007	\$ 280,898	\$ 258,362	\$ 289,737	\$ 343,788	\$ 391,120	\$ 366,959	\$ 408,077	\$ 467,023	\$ 521,777
Adjusted EBITDA Margin	36.1%	29.4%	33.4%	40.3%	41.1%	38.4%	39.0%	41.0%	42.1%	40.5%	42.0%	43.8%	45.2%
Free Cash Flow	89,155	126,599	110,826	183,102	227,177	273,836	255,802	255,808	292,729	340,429	320,138	352,731	403,673
QoQ FCF Growth Rate	26.9%	42.0%	-12.5%	65.2%	24.1%	20.5%	-6.6%	0.0%	14.4%	16.3%	-6.0%	10.2%	14.4%
FCF Margin	20.8%	32.3%	22.2%	31.3%	33.2%	40.7%	34.4%	30.5%	31.5%	37.6%	32.9%	33.0%	34.9%

Bull and Bear Cases: Bull case assumes stronger US and International logged-in DAUq growth of ~1.70% and ~4.50% for FY 2026, driven by management's focus on the skewed monetization upside. Logged-in DAUq growth, lower funnel ad mix, and machine learning drive an ARPU growth increase of ~6.5%. The bear case assumes weaker US and International total DAUq growth of ~0.85% and ~4.50% due to slower growth in language translation. ARPU growth is weaker by ~9.50% in FY 2026 as Reddit fails to fully monetize its base.

Multiple: Sell-side estimates 31.7x for FY 27, with a high of 42.2x and a low of 24.0x, and comps forward multiples average 16.7x. We model the FY 27 multiple at 31.7x EBITDA in our base case, 35.0x EBITDA in our bull case, and 26.0x EBITDA in our bear case as the business stabilizes to industry standard multiples over time. We do not believe that Reddit's multiple will be a sustainable value source.

Risks and Mitigants:

- Risks: Reddit's 60,000+ moderators facilitate content enforcement, saving ~\$15-25M/yr of OpEx. In June 2023, ~8k subreddits went dark, disrupting engagement and ads, so future disputes over monetization could, again, depress DAUq; NSFW content remains a reputational headwind, as it limits premium-CPM ad demand from cautious advertisers, despite traffic share falling.
- Mitigants: Reddit's management team has an average tenure of 4.6 years, and is in-touch with its moderator base as Steve Huffman (CEO) and Chris Slowe (CTO) were at Reddit from its founding. Management knows that relationships with moderators is crucial for success; enhanced content tagging and advertiser filters now exclude NSFW and controversial subreddits from ad delivery, with brand-safe inventory covering over 95% of ad impressions, allowing major advertisers to scale campaigns with reduced risk.

Catalysts:

- The next two quarters will be major catalysts for disproving fears around Google AI, as increased consumer search and traffic data will determine whether Google AI drives direct and in-app traffic. Strong DAUq growth in Q4 would be a catalyst to disprove the Google AI fears that are priced in, potentially leading to an outsized gain on earnings.
- Q4 '25 earnings will be a key proof point for Reddit's monetization story: if quarterly revenue exceeds the ~667M priced in by sell-side, it confirms that low-funnel ad mix shifts, AI-driven targeting, and Dynamic Product Ads are translating into yield gains.
- Announcements about licensing deals or renegotiations will be a FY 2026 catalyst, as the expansion of high-margin licensing revenue from Google, OpenAI, Anthropic, and other AI companies could drive a \$150M+ run-rate by FY'26 and add 2-3% to gross margin.