



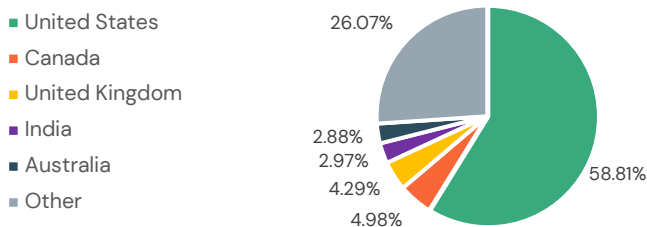
Reddit Inc. (RDDT US)

COMPANY DESCRIPTION

Founded in 2005 by Steve Huffman, Alexis Ohanian, and Aaron Swartz, **Reddit Inc.** is a San Francisco-based company that operates as a social news aggregation, web content rating, and discussion website. The platform is distinct for its community-driven format, where content is submitted by users (“Redditors”) and then voted up or down by other members, which then decides what content is displayed more prominently. Reddit is comprised of thousands of so-called “subreddits”, each dedicated to different topics, ranging from news and science to hobbies and humor. This structure allows users to find communities of interest, contributing to the platform’s vast and diverse content. In its IPO filing, Reddit disclosed that the site has 267.5 million active weekly users. As of January 2024, Reddit ranks as the 3rd most popular website in the U.S. by traffic, behind **YouTube** and **Google**, according to traffic analytics website Semrush, which identified about 2/3 of Reddit’s users to be from the United States. According to Statista, the social media platform reaches approximately 44% of U.S. adults aged 18-29 and 31% of those aged 30-49. 🚀

Reddit users by Country, January 2024

(Source: Semrush)



BUSINESS MODEL

The site operates primarily as an advertising platform while offering a premium membership called Reddit Premium, which provides an ad-free experience among other benefits for \$5.99/month (\$49.99/year). The company generates revenue through advertising sales, including sponsored content that integrates seamlessly into the platform’s user-generated content. The platform also hosts AMAs (Ask Me Anything sessions), which have become a popular feature for celebrities, politicians, and experts to engage directly with the Reddit community, further driving engagement and advertising opportunities. Additionally, Reddit allows users to create and sell custom avatars, from which the platform receives 20% in fees, which the platform plans to extend into a “User Economy” as part of its multi-chapter growth strategy. 🚀

FINANCIALS

Reddit reported a revenue of \$804 million in 2023, a 21% increase from the previous year’s \$666.7 million. This growth indicates a positive trajectory in the platform’s ability to monetize its user base and content, translating to an average revenue per user (ARPU) of \$3.42 in the last quarter of 2023. Despite the revenue growth, Reddit is still operating at

a loss, with a net loss of \$90.8 million in 2023, compared to a loss of \$158.6 million loss in 2022, suggesting improvements in managing expenses or increased efficiency in its revenue generation. The S-1 filing outlined that 30% of the company is held by U.S. media firm **Advance Publications**, while 11% belong to Chinese tech giant **Tencent**. Former interim CEO and **OpenAI** founder **Sam Altman** owns 9% of the company. 🚀

RISK FACTORS

Ahead of its IPO, Reddit outlined a couple of risk factors for their IPO. One of these included the r/Wallstreetbets subreddit, which is seen as the creator of the “Meme Stock Phenomenon” around firms such as **Gamestop** and **AMC** in 2021. Particularly, users on r/WallStreetBets and r/technology have expressed concerns over Reddit’s profitability, the potential for increased advertisement loads, and the fear of subreddit bans to appease advertisers, with select calls to short the stock post-launch. At the heart of these controversies lies Reddit’s longstanding issue with monetization. Despite its rich community engagement, the platform has struggled to translate this into stable revenue streams, with its S-1 revealing that Reddit is “in the early stages of monetizing our business.” The document also highlighted the company’s attempts at diversification, such as the \$60m deal with **Google**, selling data for AI training, as well as venturing into blockchain and NFTs, which have been met with further skepticism from the community.

In June 2023, a widespread blackout of the site highlighted Reddit’s reliance on the unpaid labor of volunteer moderators, which is seen as a vulnerability of its operational model. In response to the platform’s decision to increase the price of accessing its Application Programming Interface (API), Reddit saw significant backlash from moderators and users, who viewed the increased costs as a threat to third-party apps and services that rely on Reddit’s APIs to operate. Over a third of Reddit’s communities went dark in protest, while others were marked “not safe for work” (NSFW) by moderators, disrupting the platform’s functioning and potential advertisement revenue. 🚀

IPO LAUNCH & DIRECTED SHARE PROGRAM

Reddit first filed confidentially for an IPO in December 2021, when it was valued at about \$10 billion. According to people familiar with the matter, Reddit is now seeking a valuation of at least \$5 billion, while the pricing has not yet been disclosed. The firm is expected to go public on NYSE in March, with **Morgan Stanley**, **Goldman Sachs** and **JP Morgan** leading the offer. As part of the IPO, Reddit announced that it would give around 75,000 U.S.-based users the opportunity to participate in the share sale, based on either the number of actions they have taken as “moderators” or their “karma score”, which indicates a user’s contribution to the platform. As participating users won’t be tied to a lock up period, Reddit outlined that this move could potentially result in stock price volatility. 🚀

INDUSTRY COMPARISON (AS OF 02/28/2024)

COMPANY	STOCK SYMBOL	IPO DATE	INITIAL RETURN	OFFER TO DATE (TR)	2023 YTD (TR)	BETA TO BENCHMARK	REVENUE (Latest FY)	P/S Ratio
reddit	RDDT US	TBA	TBA	TBA	TBA	N/A	\$804 million	TBA
Snap Inc.	SNAP US	03/01/2017	44.00%	-35.55%	-35.29%	1.36	\$4606 million	3.8x
Pinterest	PINS US	4/17/2019	28.42%	90.61%	-2.27%	1.23	\$3.1 billion	8.0x
Meta	META US	5/17/2012	0.61%	1175.23%	36.63%	1.22	\$134.9 billion	9.2x

Other significant players in the Social Media space include taken-private **X.com/Twitter**, Google-owned **YouTube**, question-and-answer site **Quora**, Microsoft-owned **LinkedIn** and IPO candidate **Discord**.