

# Reddit's Evolution:

Monetization, AI Strategy, and Market Potential



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## Executive Summary

### Reddit (RDDT)

Reddit, founded in 2005 by Steve Huffman and Alexis Ohanian, has certainly evolved into one of the most influential and prominent social media platforms nowadays. It is well recognized around the world for its unique topic-based forums for conversation, where users constantly engage in communities and insights. Often referred to as the "front page of the internet", Reddit appeals to anyone who wants to know the answer to a specified matter and participate in communities or "subreddits", ranging from technology, politics, science and even niche hobbies. It stands as an ideal network that allows people to learn or seek diverse perspectives, aligned with its mission to bring community, belonging, and empowerment to everyone in the world.

### Market Position

The current social media ecosystem, dominated by tech giants like Facebook, X, Instagram, and TikTok, has been refashioned to amplify engagement through personal networks and short-form content. However, Reddit takes an unorthodox approach, focusing on user-driven conversations rather than an algorithm-generated feed. This strategy allows the company to maintain its content niche and anonymity, which often leads to higher levels of user engagement. This makes Reddit an appealing platform for advertisers seeking authentic, targeted audiences. This aspect is further reflected in its steady revenue growth, with a 110% increase in 2021, 37% in 2022, 20% in 2023 and an impressive 62% growth in 2024.

### Monetization

Reddit's main revenue stream, its advertising business, is led by a substantial increase in daily active users (DAUs), especially in international markets outside the United States. Subsequently, in Q4 2024, Reddit recently announced 101.7 million DAUs, up 39% compared to 2023 and outperforming its competitors in this metric. Since early 2021, the company's user base level has been improving quite steadily. Reddit ended the 2021 fiscal year with 53.9 million DAUs and in 2022, with a subtle growth of 6%, it reached 57.5 million DAUs. In 2023, with a significant increase of 27%, Reddit managed to reach 73.1 million DAUs. Hence, following this trend, it is evident that Reddit's growth and user retention trajectory has been quite accelerating which could indicate rising engagement and a stronger position in the social media landscape.

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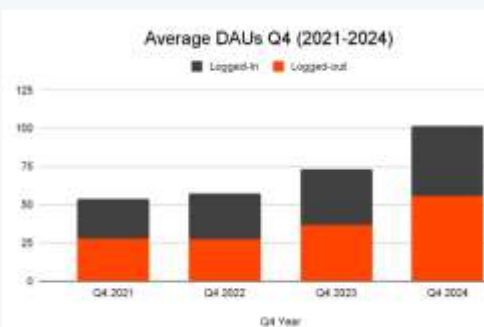
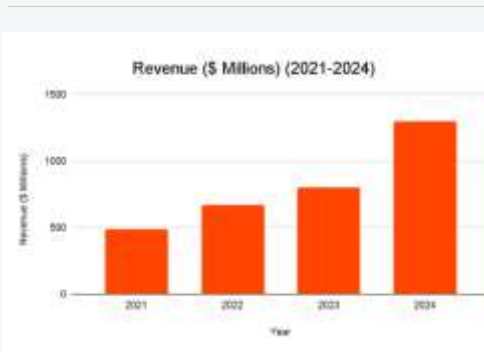
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**REDDIT: WHERE CONTENT IS TRULY A KING**

The sauce to success for Reddit... A pinch of anonymity, a dash of karma, seasoned with content only!

The 'secret ingredient' of Reddit that makes it a favorite social network with so many users is anonymity and insignificance of the users.

When a profile is clicked, the user is taken or redirected to the page where the owner of the profile has submitted his work (or karma).

Reddit has no space for fake expressions, selfies or about me/two details. Reddit stands strong because it focuses on the content, more than its contributor!

**You will love Reddit more with these amazing facts and figures**

- Reddit ranks as the **8th** most popular website in the world
- Since launching in **2005**, Reddit has grown to **250** million users
- Reddit has more than **330** million monthly active users
- Nearly **8.2** billion pages are viewed on Reddit annually
- 58%** of the Reddit users belong to the age group between 18 to 29
- 63%** of the users are under the age of **25**
- Reddit has **53%** male and **47%** female users
- 78%** of Reddit posts are suitable for the college education
- 62%** of the Reddit users come to read news
- Reddit has more than more than **138** active communities and **80,000+** moderators
- Reddit has **81%** of returning users
- More than **58** custom votes are carried out daily on Reddit
- Nearly **2.8** billion comments are found on a daily basis
- 40%** of the Reddit users reach the site through the app

With all these mind-blowing statistics, Reddit is sure to gain some reasonable amount of fans and user for itself in the future. With the rising bars of these statistics, Reddit will become one of the most significant places of collecting information. Unlike the conventional social media platforms, Reddit honestly stresses on the saying: **Content is the king.**

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# Company Overview

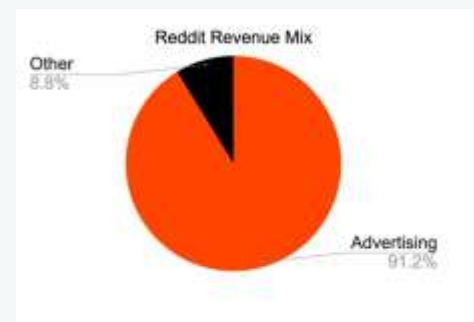
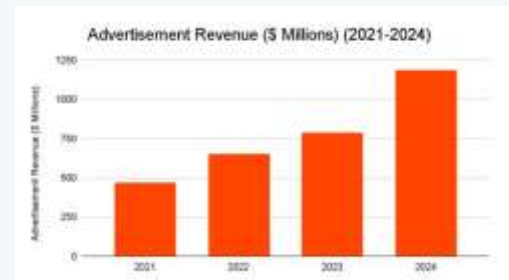
## Reddit's Ad Evolution: AI, Data, and the Future of Monetization

As mentioned previously, advertising revenues have constituted a major part of Reddit's recent financial success. To be precise, Reddit managed to break the \$1 billion barrier for this segment this year, bringing in \$1.19 billion and accounting for 91% of the total revenue. At this stage, Reddit is strongly emphasizing boosting advertising revenues by diversifying its advertising product mix. The company is now testing its latest machine learning-powered advertisement tool, Reddit Pro Trends, which aims to help marketers track trends and communities in real time across the platform by analysing phrases and keywords within Reddit content. Although in beta stages, the tool has immediately caught the attention of both large and small companies such as the NBA and Wayfair. Reddit is also developing a new ad format called "AMA" ads, which grants marketers more ways to reach new users interested in the platform's "Ask Me Anything" conversations. These implementations show that Reddit is continuously evolving its offerings to provide more targeted solutions for advertisers and compete with other major platforms.



## Reddit's \$400M AI Bet

Regarding "other" sources of income, Reddit seeks to slowly diversify their revenue streams, including income from data licensing agreements and other non-advertising sources of revenue. These which amount to \$114.7 million (9% of the total revenue in 2024). However, looking at past years, the "other" segment made up only 1.89% of the total revenue in 2023, 2.17% in 2022 and 2.77% in 2021. Notably, in 2024, Reddit has landed data licensing deals with other tech companies such as OpenAI and Google, allowing third party firms to access Reddit's unique and extensive range of user-generated content for training AI models. Investing.com analysts project that Reddit's data licensing could reach \$400 Million in annual revenue over time. This new profitable stream would significantly diversify the company's current revenue streams, adapting to market needs. Additionally, Reddit CEO Huffman recently announced its plans to introduce a paywall, leading to paid communities and exclusive subreddits. This move would position Reddit as a direct competitor to a handful of platforms like Patreon, Telegram, Discord and many more that offer paywalls in communities.



## Corporate Structure

Reddit's corporate structure intends to align with its vision: Becoming the most accessible and community-driven platform on the internet. Under CEO and Co-Founder Steve Huffman's leadership, Reddit has gone through significant transformations since its origins in 2005. Steve Huffman, who initially co-founded Reddit with Alexis Ohanian, played a key role in shaping Reddit's early direction. However, just a year after the company's founding, Ohanian sold his shares in Reddit, which led to Huffman continuing to develop the platform by himself. Huffman took over the role of CEO in 2015 and, since then, has steered Reddit through important growth stages, especially in developing a sustainable monetization model. In 2019, the company began to prioritise improving their advertisement scheme, a particularly defining moment in Huffman's career that shifted the company's advertising strategy more towards user-targeted in-stream ads, helping Reddit broaden its advertiser base. Furthermore, Advance Publications acquired the majority of Reddit's shares in 2006 and, since then, holds a significant stake in the company, providing Reddit with financial support as it continues to grow.

Alongside CEO Huffman is CTO Chris Slowe, whose contributions have been key in keeping Reddit competitive. Slowe's technical background stems from his degree in Mathematics and Physics from Harvard University. Thus, his strong foundation in technology has been key for Reddit to take on products such as their designated native mobile application or video capabilities, which to this date allows the platform to directly compete with major rivals like X or YouTube. Under Slowe's emphasis on technology, Reddit can keep innovating in a fast-paced technology market, especially with the upsurge of AI, and grow across all mediums.

Reddit's current financial structure is being led by CFO Drew Voller, who has a background in raising capital in both public and private markets. He joined Reddit in 2018 and previously served as Snap Inc.'s first CFO in 2015, where he led the social media company through its IPO process. Voller was a cornerstone for Reddit in raising both private and public capital, securing over 2 major rounds of investment valued at \$1 billion. These fueled the company's operations and reached a valuation of \$10 billion in 2021. More recently, given his prior involvement in IPOs, he led Reddit in 2024 through its highly anticipated IPO, valued at \$6.5 billion and prepared the company for long-term growth and exposure in the social media sector.

Furthermore, Reddit has also underpinned strategic operational integrations, especially in 2022 when the company acquired both Spell and MeaningCloud, experimenting with natural language processing to extract meaning from Reddit's unstructured content varying from conversations and web content, marking the company's first investment towards machine learning. Aligned with this, Reddit also acquired Spiketrap to improve its advertisement business to make it easier for advertisers to target relevant audiences based on interests without losing its community-first essence. This goes to show that Reddit's corporate strategy has been centered around building and investing in a strong foundation from the very beginning, with the effects being seen today.



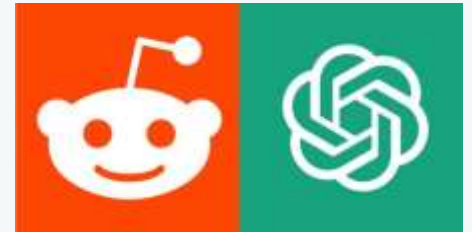
## Strategic Vision and AI Opportunities

Regarding the future, Reddit has been earning its spot as a key player in the AI ecosystem, capitalizing upcoming opportunities in data licensing and machine learning (ML). In this sense, it is slowly catching up to other social media platforms such as X, who recently introduced their integrated AI model Grok. Midway 2024, Reddit managed to land a significant partnership with OpenAI, granting access to Reddit's data API. Hence, this partnership acts as proof that companies like OpenAI are demanding to utilize Reddit's extensive, community-driven content to improve their natural language processing models (NLP). Brad Lightcap, OpenAI's COO remarked: "We are thrilled to partner with Reddit to enhance ChatGPT with uniquely timely and relevant information". It is Reddit's diverse, genuine and dynamic discussions that could give the platform bargaining power in the future regarding refining AI language models.

Furthermore, Reddit has also secured licensing agreements with Google, allowing the company's posts to appear more prominently in Google's search engine, which according to the analytics company 'Similarweb', boosted its traffic up by nearly 40% year on year. However, these partnerships have not only enhanced the company's stance but also contributed for significant financial growth. As for Q4 2024, licensing deals amounted approximately 10% of Reddit's most recent revenue. These mainly involved agreements including a \$60 million deal with OpenAI & Google.

## From Memes to Machine Learning

However, Reddit's diverse approach to AI isn't solely capped to data licensing purposes, as it began to integrate machine learning systems to enhance translation and content discovery tools. Reddit's machine translation features enabled users from more than 35 new countries to effectively translate posts and comments and participate in conversations in their preferred languages. CEO Steve Huffman highlighted that Machine Learning systems have been one of the major opportunities for the company to grow its content base outside of English. In addition, these strategic initiatives reflect the company's recent growth in its international user base, especially in France, India and the Philippines, with non-U. S DAUs surpassing 45 million.



"Reddit has become one of the internet's largest open archives of authentic, relevant, and always up to date human conversations about anything and everything. Including it in ChatGPT upholds our belief in a connected internet, helps people find more or what they're looking for, and helps new audiences find community on Reddit."

Steve Huffman, Reddit Co-Founder and CEO



# Industry Overview

## General Figures

Social media platforms maintain substantial global growth through increasing user base and user interaction. Social media users total 5.07 billion in 2024 which amounts to 62.3% of global population size. User numbers in social media platforms achieved a 7.8% compound annual growth rate from 3.48 billion in 2019, to their current level.

Current market research shows social media revenue increased to \$251.45 billion in 2024 while earning \$219.06 billion in 2023 which reflects a potent 14.8% Compound Annual Growth Rate. User-app personalization enabled by AI brings in most of the revenue through advertising activities, and social media platforms now provide specially packaged services to users who wish to buy custom experiences thus creating another source of income.

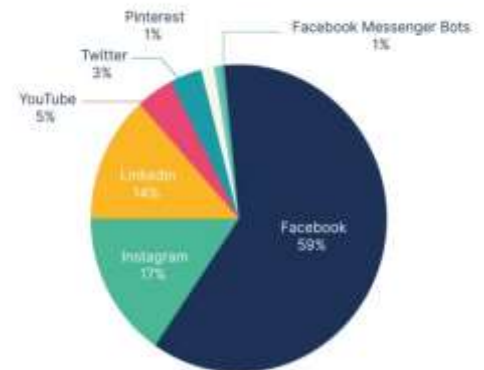
The distinct purposes of the different social media networks cause them to focus on different user age groups, geographic locations, genders and thus leading to varying growth rate and/or declining numbers. Traditional social media companies Facebook and Instagram continue to grow steadily yet their market shares have begun to decrease in some areas. TikTok and YouTube Shorts operate as short-form video platforms which opened new avenues for younger users and improved their opportunities to conduct targeted advertising.

The popularity of Reddit continues to rise based on its daily active user (DAU) data which grew by 39% between years. The platform has achieved these results through its niche community structure, combined with ameliorated ways to generate revenue.

Reddit's revenue in 2024 was of 1.3 billion, which is a massive growth of 62% year-over-year, however its competitors in the social media market show much larger revenues. Meta group for example, the parent company of Facebook, Instagram, Facebook Messenger and WhatsApp, earned a staggering 164.5 billion, while other social media platforms such as snapchat, which has a similar demographic to Reddit, showed a revenue of 5,361 billion.

As shown by the graph, Facebook is the market leader by a large margin, and this can be due to the fact that it was one of the first social media platforms to exist and profited from the Internet boom in the early 2000s and the fact that all the generations before Facebook's launch, had no other option to connect with people from all over the world, other than Facebook itself. Instagram follows behind as the second biggest social media platform and thanks to its diversification in terms of how users can interact with the platform, it solidified itself as the most popular method for younger audiences to share their life experiences, with pictures, music and short clips rather than written stories which a teenager is less interested in seeing. LinkedIn remains a heavy hitter in the market thanks to its specialized use for job search and company to company employee interactions, having most of the people in the workforce of any country signing up.

Snapshot of the social media market shares in 2024





### Market Growth & Revenue Trends

The growth of the social media industry depends on multiple factors, including advertising trends, AI integration, and shifts in user engagement. We break the industry into three separate segments and analyse their independent growth rates.

**Traditional Social Media Platforms** (Facebook, Instagram, X/Twitter): Expected to grow at a modest 5% CAGR through 2030 as user growth stagnates in mature markets.

**Video & Short-Form Platforms** (YouTube, TikTok, Instagram Reels): Projected to grow at an 11% CAGR, fueled by increasing video consumption and AI-driven content recommendations.

**Community-Based and Niche Platforms** (Reddit, Discord, LinkedIn): Expected to grow at a 9% CAGR, with Reddit seeing a unique opportunity in long-form discussions and high-intent advertising.

While Reddit has capitalized on the demand for long-form content and niche communities, it faces challenges in scaling ad revenue compared to Meta or Google, which dominate targeted advertising. Moreover, Reddit's monetization plan has faced backlash from some of its users, showing resistance to excessive ads or the fact that their experience is diminished when not paying premium content.

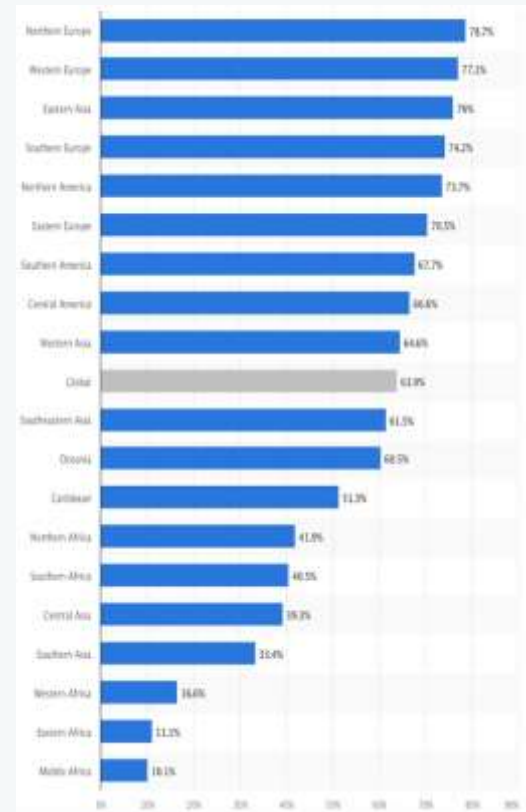
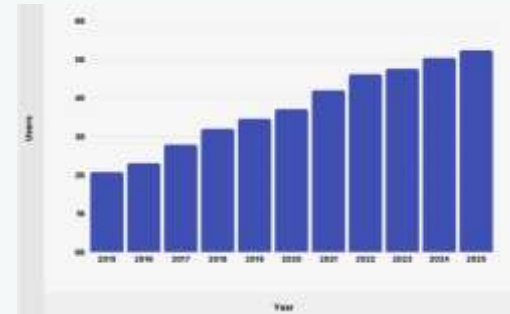
### Geographical disposition of growth

While North America and Western Europe remain the largest revenue-generating regions, the emerging markets regions provide the most significant opportunities for social media companies to capitalize on due to their underdevelopment in the sector:

**Asia-Pacific:** Mobile internet users are projected to grow from 51% in 2023 to 61% by 2030. This is indicating rising use in dense population countries like India, and the most prominent use in Indonesia, and the Philippines. The Asia-Pacific social commerce market is expected to grow at a compound annual growth rate (CAGR) of 33.1% from 2024 to 2030.

**Africa & Latin America:** High mobile penetration and cheaper data plans are allowing social media to become trending in most countries within these continents. This way, the market for social media related platforms is rising as the infrastructure of communication services expands. As a result, the higher the access to rural communities, the higher the user base of platforms targeting these regions will grow.

**China:** The country's government largely facilitates "home-made" websites to avoid domination from foreign countries' social media. In fact, WeChat and Weibo are the only legal social media platforms. This presents a clear restriction of social media communication services growth within the new global superpower. Even Instagram and Facebook are only accessible using a VPN.



## Change in User Preferences

### Short-Form Video & AI-Driven Content

The rise of TikTok, YouTube Shorts, and Instagram Reels highlights the demand for highly engaging, short and diverse content. Because Reddit offers long-form discussions, it has struggled to capture younger audiences who would rather consume video-based interactions. To address this, Reddit has begun experimenting with AI to edit content and appeal more to this segment of social media users, however implementation has been slow and therefore it is still behind competitors in this space.

**Subscription-Based Models:** A growing number of users are willing to pay for premium social media experiences. Platforms like Twitter Blue, Snapchat+, Youtube premium... etc. Reddit has introduced paid models, Reddit Premium, to reduce reliance on advertising. Reddit has seen some success with its premium membership, but adoption remains niche compared to platforms that offer exclusive features or creator-based monetization.

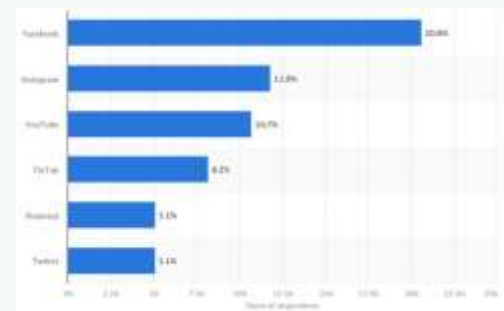
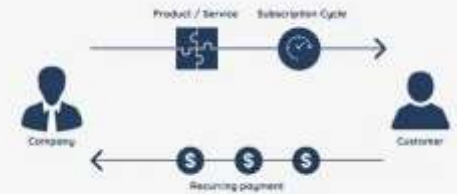
**Social Commerce:** Shopping via social media has become a dominant trend, particularly in Asia. TikTok Shop and Instagram Shops have integrated commerce directly into their platforms, allowing users to make purchases as soon as they see their favourite brands flaunting their new products. This is another aspect of social media that Reddit has not been able to capitalize on, which ultimately is due to their concept of discussions and news.

All the companies in the graph, except Pinterest, whose concept is that of promoting brands with the idea of a purchase, do not exactly stick to the online commerce, but have capitalized on the opportunity while Reddit fell behind. This shows that the industry is giving platforms numerous opportunities for profit generation, but only the bigger ones with a higher user count are really taking advantage of them.

## The Future of Social Media & Reddit's Positioning

Looking forward, the social media industry will continue to evolve in the following ways:

- 1. AI & Automation:** Platforms will rely more on AI-driven recommendations and automation to appeal to users by thoroughly engaging and overloading them with information that their algorithm "believes" they will appreciate.
- 2. Subscription-Based Monetization:** As users grow tired of seeing the same adverts on their social media platforms, they will start purchasing exclusive plans and memberships from their favourite apps, and therefore platforms will see growing revenues in the foreseeable future.
- 3. Decentralization & Web3:** Alternative platforms focusing on user control and data privacy may challenge long-standing platforms such as Facebook as they have continued to face serious allegations regarding data leaks. Reddit may be able to capitalize on that as it remains an app highly focused on privacy and anonymity.



# Financial Analysis

## Profitability

### Normalized ROA

Calculating ROA with Reddit's yearly Net Income figures doesn't give us an accurate sense of its ability to generate profits from its assets. This is due to the great divide between the reported net income and the normalised net income. Consequently, taking a look at normalised ROA gives us a more realistic figure.

Although Reddit reported a negative annual net income, after adjusting for unusual items and their tax effect, this figure turns out to be positive. This adjustment comes down to one element of Reddit's cash flow statement, which is Stock-based compensation. Stock-based compensation is a common practice among listed companies, which, to align its workers' incentives with those of the firm, give employees (typically executives) shares of the company as a form of compensation.

When RDDT wasn't listed, this figure wasn't worryingly high, but this year, it amounted to 842,932,000\$ (see screenshot from 10k). If this concept is adjusted for while calculating net income, RDDT's ROA shows a positive figure for 2024's last two quarters. The fourth quarter's 15,52%, however, widely underperforms the ratios of more established competitors like Pinterest or Meta, which reported 22,62% and 31,82% normalised ROAs, respectively, in 2024's 4Q.

### Revenue growth

RDDT's current growth figures, however, compensate some of this relative profitability weaknesses, as Reddit has consistently managed to exponentially increase revenues year-to-year on every quarter of its first year as a publicly listed company. The comps analysis suggests that this growth cannot be single-handedly pinned to sector-wide growth, as RDDT comfortably outperforms its competitors in this arena (see Pitchbook graph).

How much of this revenue actually goes on to become profit is a different question. RDDT's cost of revenue is very low, which means its gross profit margin is quite large. General and selling expenses, however, are quite large, and the OPM is much lower. This is due to the fact that within this category, as explained in Reddit's 10k, we can find the "employee-related costs including salaries, benefits, and stock-based compensation for certain executives as well as employees...". Thus, if we apply the same adjustment that we applied to the normalised ROA, the OPM should look more positive.

Due to consistent non-operating profits, RDDT's NPM is actually higher than its OPM, and, although positive, underperforms that of competitors.

	2024	2023	2022
<b>Reconciliation of Adjusted EBITDA</b>			
Net Income (Loss)	\$ (144,276)	\$ (90,020)	\$ (28,279)
Full (credit):			
Revenue (contract) expense, net	(76,221)	(11,281)	(13,643)
Revenue tax expense (benefit)	931	3,864	622
Depreciation and amortization <sup>(1)</sup>	2,640	15,760	4,248
Stock-based compensation expense and related taxes <sup>(2)</sup>	842,932	89,266	11,586
Restructuring costs <sup>(3)</sup>	—	6,639	—
Other (contract) expense, net	2,740	141	1,440
Adjusted EBITDA	\$ 767,806	\$ 108,570	\$ 76,374

	4Q	3Q	2Q	1Q	
Revenue growth	Revenue 24	348,351	381,184	342,963	
	Revenue 23	285,750	297,508	183,051	
	% Change	21.3%	67.9%	53.6%	88.4%
Normalized ROA	4Q 24	3Q 24	2Q 24	1Q 24	
	Normalized Net Income (TTM)	\$16,368	\$1,429	(\$1,351)	(\$11,090)
	Total Asset 1 year average	2,639,498	1,883,196	1,811,908	1,722,636
	Result	15.52%	2.31%	-0.63%	-7.89%



	4Q 24	3Q 24	2Q 24	1Q 24	
OPM	Operating profit	52,872	6,859	(\$1,088)	(\$99,433)
	Sales	427,707	348,351	381,184	242,963
	Result	12.36%	1.97%	-11.08%	-41.33%
NPM	4Q 24	3Q 24	2Q 24	1Q 24	
	Net income	71,886	28,823	(\$1,188)	(\$73,686)
	Sales	427,707	348,351	381,184	242,963
	Result	16.81%	8.27%	-4.59%	-30.49%

## Liquidity

Liquidity-wise, RDDT seems very solid, its working capital is considerable and has been so for the last couple of years. The latest balance sheet reveals a growing and healthy current ratio which sits comfortably above the industry average of 2,05.

An above-average portion of these current assets are cash. RDDT has an impressive cash ratio that allows it to comfortably cover its short-term obligation with its cash reserves. Keeping that big of a cash pile, however, may be counter-productive, as its capital that's not being re-invested into the company.

A potential use of these cash reserves would be to buy back some of the shares issued in the stock compensation schemes. This would reduce the total amount of diluted shares and put RDDT's free cash flow into good use, making the stock surge.

## FCF to Debt

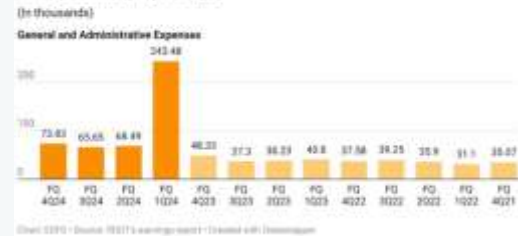
The Free Cash Flow (FCF) to debt ratio reveals a similar picture, RDDT isn't struggling to meet its debt at maturity just off its cash inflows. For instance, if we take the TTM figures from Q4, RDDT reported an operating cash flow of 289,536,000 and a Capex of 6,248,000. This gives us a FCF to equity holders of 283,288,000 which, divided by the total debt 1 year average of 26,551,000, gives us a FCF to debt ratio of 10,67.

Meta's FCF to debt, for instance, is 2,14 while Pinterest's is 5,92, which signals that RDDT still has potential to boost growth through own cash-funded investments.

## Price to sales

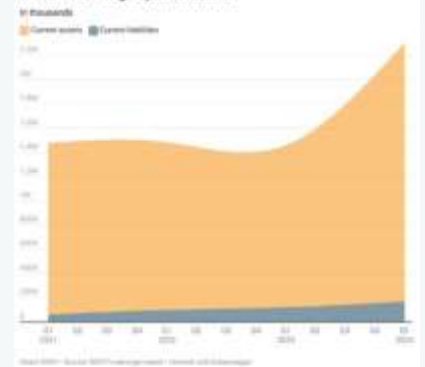
Comparing RDDT's price to sales ratio to that of its competitors reveals that it may be overvalued, as it largely outperforms it. This wasn't the case when the stock became listed, but growth in Reddit's shares during the whole of 2024 created this divide that's been reduced in the last weeks due to RDDT stock tanking after its Q4 earnings report.

General and administrative expenses have grown considerably since RDDT's IPO due to stock-based compensation packages

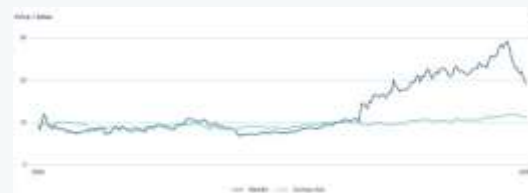


	2024	2023	2022	2021
Current assets	2,136,711	1,338,399	1,388,747	1,413,922
Current liabilities	169,161	120,834	99,270	62,228
Result	12,631	11,078	13,599	22,722

Reddit's working capital evolution



	2024	2023	2022	2021
Cash	540,176	362,924	496,388	1,181,570
Current liabilities	169,161	120,834	99,270	62,228
Result	3,19	3,89	4,99	18,39



## Normalised ROE and Dupont analysis

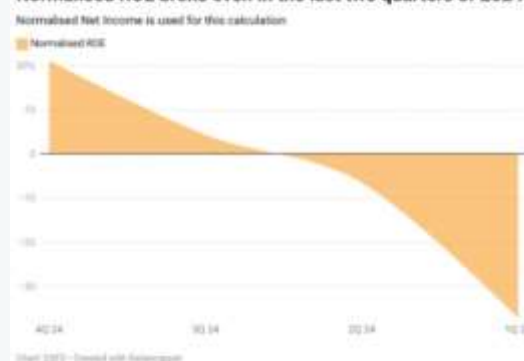
Analysing raw ROE figures gives us quite a negative and unrealistic picture of RDDT's financial situation, as since net income is considered to calculate it, the extraordinary impact of stock-based employee compensation schemes isn't discounted unless you take the normalised net income figures. Therefore, to more accurately assess RDDT's ability to generate profits off its own funds (equity), we will use normalised figures and discount these expenses.

Since RDDT went public, only the last two quarters presented a positive normalised ROE. The data from the last earnings report reveals an impressive almost 22% ROE when adding the stock-based compensation expenses back to the Net Income. Where these returns are coming from can be explained by practicing the Dupont analysis on RDDT'S statements. With the Dupont analysis you normally have a negative interest effect and tax effect weighed up against a positive leverage effect and positive ROA. If one analyses RDDT's situation, however, the numbers differ from your traditional Dupont figures:

- For one, the tax effect is positive, which means that RDDT's earnings before tax are lower than the Earnings after tax or Net Income. This is due to provision for income tax being negative on all quarters but 2024's Q1, which is explained by the fact that RDDT was expected to (and in fact did) report negative net income for the fiscal year, which means no income tax was to be paid in 2024 and, if tax savings were greater than tax liability (which was 0), a negative provision for income tax
- The interest effect, also typically called interest burden, isn't actually a burden in RDDT's case, which doesn't actually imply that RDDT gets no or negative interest on their loans, but rather that the net interest effect of their operations is positive. This means that RDDT's interest inflows exceed their outflows, which directly translates into an EBIT that is lower than EBT and, thus, a positive interest effect (>1)

As a result, the Normalised ROE for the last quarter reveals a solid use of RDDT's own funds to generate Net Income. A positive ROA (after discounting stock-based compensation expenses) is, weirdly, strengthened by the positive tax and interest effects but not quite fully exploited by strong leverage since, as the Assets/Equity ratio shows, RDDT is almost wholly self-funded and hasn't turned to external financiers to fund expansion. Taking on some leverage would allow RDDT to increase normalised ROE, which, although positive, underperforms that of competitors like Pinterest and Meta, which posted a Q4 normalised ROE of 26,27% and 47,95%, respectively.

Normalised ROE broke even in the last two quarters of 2024



		4Q 24
Normalised ROE	Normalised ROA	0,16
	Assets	2.336.595
	Equity	2.130.749
	Assets to equity	1,097
	EBT	69.987
	EBIT	52.872
	Interest effect	1,324
	Net Income	71.036
	EBT	69.987
	Tax effect	1,015
Result	22,9%	

## Solvency

Although capital intensive industries have usually an important part of their assets in property, plant and equipment, tech firms such as Reddit operate with limited fixed assets. This allows them to keep a lower debt burden and, by extension, lower interest expenses.

Even though Reddit does not report positive net incomes which results in negative interest coverage ratio, the company remains in a good financial position as it is mostly equity-financed. From 2020 to 2024, Reddit's total debt increased reasonably from 19,9M\$ to 26,7M\$ while the value of its shares surged from 95,2M\$ to 3331,6M\$.

This growth has resulted in a Debt ratio significantly lower than the industry average over the last four years ranging from 0.82% to 1.61%, highlighting Reddit's financial stability and flexibility.

Reddit's Debt-to-Equity (D/E) ratio of 0.01 indicates that the portion of assets provided by shareholders is way greater than the portion of assets provided by creditors. This strong position was reinforced after the company's IPO in March 2024, where equity capital was raised whereas no extra debt was added.

## Altman Z-score

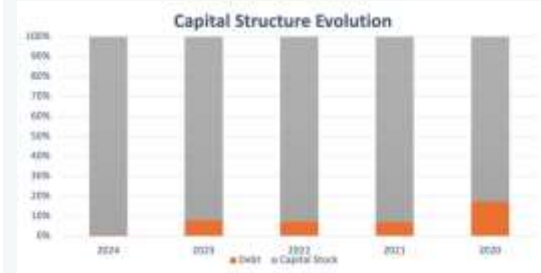
Reddit's Altman Z-score evolution over the past year is exceptional, indicating the firm's creditworthiness and low bankruptcy risk. Starting at 3 during the first quarter, it increased exponentially to 95 by the last quarter of 2024. Three main drivers explain this evolution.

First, preferred securities outside stock equity amounting to 1,853.5M\$ were converted into shareholder equity on December 31, 2023, impacting the balance sheet by shifting from the liability side to the equity side. Since the Altman Z-score formula includes total liabilities from the previous period, this change influenced the overall score only during the second quarter of 2024.

Secondly, since the IPO, Reddit's market capitalization soared from 8,004.3M\$ to 28,696.5M\$ by the end of the year, positively affecting the score.

Finally, the firm's strong working capital indicates that it can easily meet short-term liabilities. All these elements make Reddit one of the most financially resilient tech companies.

Capital Structure evolution	2024	2023	2022	2021	2020
Capital Stock	3,331,563	951,626	260,888	181,433	95,255
Debt	26,702	25,747	38,462	33,480	38,973



Altman Z-score	2024	2024	2024	2024
Working Capital	1,898,347	1,831,258	3,763,548	3,946,113
Total Assets	2,173,708	2,079,882	3,015,898	3,096,867
Retained earnings/Deficit	(1,271,424)	11,261,173	(5,281,636)	(756,342)
DEBT	925,736	(572,478)	801,896	(87,823)
Avg Total Assets	1,861,188	1,861,068	1,722,638	1,388,098
Market Cap	38,696,511	30,936,549	16,045,026	8,004,300
Total Liabilities period 10 q	294,120	382,327	177,588	3,000,889
Total Asset Turnover	1	1	1	1
Result	95	85	85	3

## Market Ratios

Market ratios allow us to evaluate Reddit's economic status in the wider marketplace and determine whether the company's stock is overvalued, undervalued, or fairly priced.

Reddit has been reporting negative Earnings Per Share over the past four years due to a constant increase in R&D and administrative expenses, leading to larger net losses. However, if we look at the EPS trend in 2024, the year of the IPO, we can notice that the sharp decline to -3.33 is mainly caused by the extraordinary expenses during the first quarter. Both the third and fourth quarters reported positive earnings per share, suggesting that the company slowed its expenses.

Witnessing negative earnings per share is not uncommon for a young tech company focusing on long-term growth. In fact, the financial strategy of Reddit has demonstrated that the firm chose to invest heavily over the last couple of years, regardless of the short-term losses, in exchange for future potential revenues.

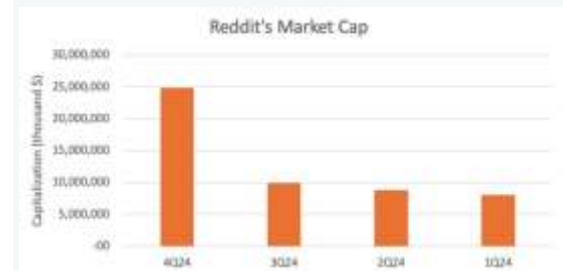
Reddit's Market-to-Book ratio is higher than most of its peers, suggesting strong expectations from investors. In 2024, this ratio increased from 4.68 during the second quarter to an impressive 11.59 at the end of the year.

Moreover, the normalized P/E ratio of Reddit at the end of 2024 is 74.38. This means that for each dollar of recurring earnings, investors are willing to pay 74.38 times the value. This is typical for a company with high growth potential and once again reflects anticipated earnings growth. To calculate this ratio, we used the normalized EPS to get a more accurate representation by excluding unusual items, such as stock-based compensation adjustments due to the IPO.

## Our Expectations

Although market optimism seems to persist and the stock continues to be traded at a premium, there is also a risk that it may be overvalued, especially as the firm is not yet profitable. If Reddit fails to report a positive net income in the upcoming quarter, we expect to observe a price correction as investors reassess their engagement.

Market Ratios	4Q24	3Q24	2Q24	1Q24
Earnings per share	0.79	0.16	32.04	8.19
Market to book	11.59	5.04	4.68	pre-IPO



# Valuation (Comps)

Overall, the performance of Reddit in the year ending in Dec 2024 has been exceptional, significantly outperforming its competitors in both the technology and social media sector. Over the year, Reddit performed a cumulative return of 247.57%, beating by a substantial amount Meta Platforms (34.33%), Pinterest (2.41%) and Snapchat (-11.20%). This performance highlights Reddit's strong growth trajectory and the confidence investors have given to the company on its future potential. Regarding the daily average return, Reddit stood at an average of 0.66%, again, the highest among its peers, accompanied by a volatility of 4.97%, as mentioned in the statistical analysis section, underlying both the higher risk of the stock and higher reward potential.

## Multiples

Currently, the stock is trading at an EV/Revenue multiple of 19.57x. (EV 23.52 Bn). This multiple is significantly higher than those of its peers, reflecting Reddit premium valuation given its potential for future growth and the continuous traction the company can achieve. For comparison, the EV/REVENUE of Meta Platforms, Pinterest, and Snapchat is 9.51x, 5.77x and 3.21x, respectively. Following the previous multiple, we estimated the price of Reddit to be **\$165.64** per share, estimating a revenue growth to 1.5 bn in 2025.

## Correlation

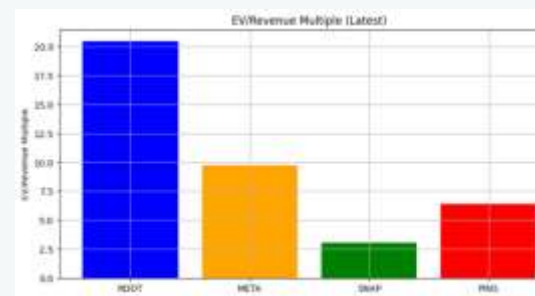
Delving into the specifics of the correlation of Reddit with the pre-determined peers defined above, we can see that the interested party has a moderate correlation with Meta suggesting some potential similarities and alignments with this last. Conversely, it has a lower correlation with Snapchat and Pinterest indicating that the growth of Reddit is mainly defined by unique growth drivers such as the niche user base and a social media concentrated around a loyal community.

Furthermore, as shown by the analysis table, Reddit has a high volatility (4.97% standard deviation) and a beta greater than 1, defining this last as a high-risk, high-reward investment. Overall, this volatility is typical for technology companies, especially for fast-growing revenue ones in this sector.



Ticker	META	PINS	RDDT	SNAP
count	228.000000	228.000000	228.000000	228.000000
mean	0.001482	0.000528	0.006617	0.000268
std	0.019252	0.029557	0.049739	0.039642
min	-0.105613	-0.144578	-0.074976	-0.269321
25%	-0.007987	-0.011566	-0.024198	-0.018684
50%	0.001945	-0.001303	0.000143	-0.000983
75%	0.011204	0.010043	0.032250	0.017515
max	0.058730	0.210164	0.419746	0.276316

Ticker	Cumulative Return (%)
META	34.334809
PINS	2.406564
RDDT	247.574493
SNAP	-11.200002





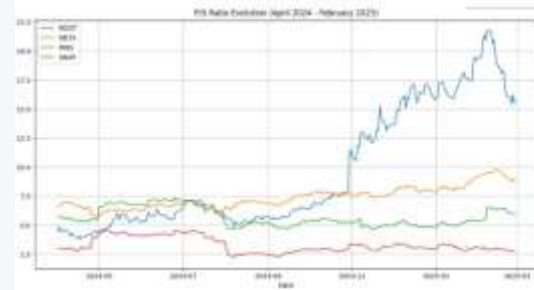
## Growth Potential

Reddit's potential for growth is supported by rising user engagement, growing ad revenue, and new monetization techniques, including e-commerce integrations and premium services. The company's dependence on advertising revenue, competition from well-established firms like Meta Platforms, and possible regulatory issues are some of the concerns it confronts.

Moving on to the P/S Ratio, Reddit is currently trading at a 15.43x P/S Ratio, which reflects a premium compared to its competitors. This premium, however, is supported by several points. Firstly, Reddit has demonstrated a strong revenue growth since its IPO, sustained by its increased engagement in its users and ability to generate substantial advertising revenue. Secondly, the unique community-driven content of Reddit is a key differentiator from its other competitors, further justifying this premium. More specifically, this platform is mainly built around niche communities, which fosters high engagement and loyalty. This permits them to develop a dedicated user base per niche, which attracts advertisers. Lastly, in these past years, it has been exploring new innovative monetization strategies, such e-commerce integration and data licensing, which according to investors will increase future growth.

## Strongest of the group

Addressing the multiple of the competitors, Meta's platform P/S ratio increased from 6.52x to 8.76x, reflecting a lower growth compared to Reddit, which is partially justified by the fact that Meta is already a mature and established company with limited growth potential at the moment. Pinterest experienced an even minimal increase from 5.76x to 5.90x, indicating limited growth expectations and limited expectations for the future according to investors. Finally, Snapchat saw its P/S ratio decrease from 3.03x to 2.69x, reflecting a weakening in the confidence from its investors. Its main problem is living up to and following the trends of other larger competitors.



Summary Statistics of P/S Ratios:

	RDDT	META	PINS	SNAP
count	229.000000	229.000000	229.000000	229.000000
mean	9.395286	7.337227	5.684200	3.262757
std	5.224670	0.933437	0.810974	0.644966
min	3.781779	5.718848	4.609052	2.230001
25%	5.532192	6.629471	5.033399	2.843318
50%	6.476430	7.111727	5.369612	3.023547
75%	14.788510	7.886417	6.528403	3.897794
max	21.745471	9.806832	7.341189	4.610641

P/S Ratio on April 1, 2024:

RDDT	4.438305
META	6.523061
PINS	5.764580
SNAP	3.026238

P/S Ratio on February 28, 2025:

RDDT	15.426415
META	8.762742
PINS	5.903380
SNAP	2.687299

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Percentage Change in P/S Ratio (April 2024 - February 2025):

RDDT	247.574493
META	34.334089
PINS	2.406564
SNAP	-11.200002

# Statistical Analysis

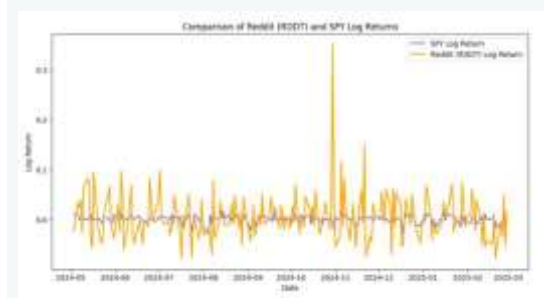
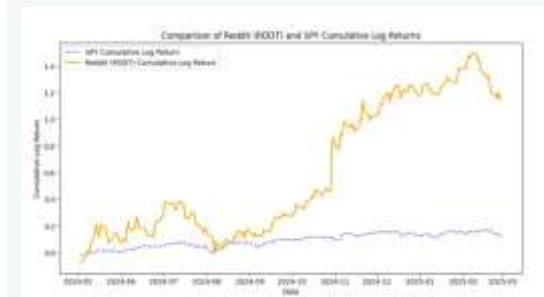
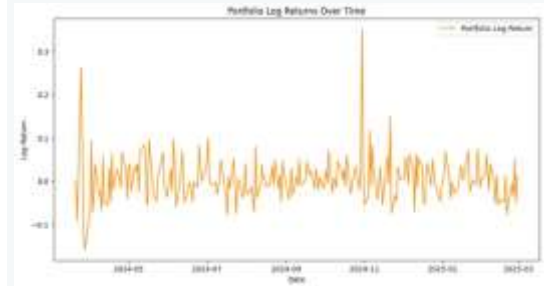
## RDDT's Returns

Observing log returns over time (since Reddit's IPO), the volatility factor becomes even clearer. As seen in the log returns over time graph, the trend undergoes fluctuations in price, swinging in both directions. These movements indicate how reactive the Reddit stock is to speculation, news and overall market movements. The stock "jumps" rather than fluctuating gradually. This is clear in the spikes in returns over time (evidently in the standard deviation of returns over time), but very specifically in november 2024. This kind of price movement might attract short-term investors, but at the cost of those seeking consistent long-term investment growth. Having mentioned stability, a side-by-side look at RDDT's log returns compared to SPY (tracking the S&P 500) further exemplifies both Reddit's beta but also its (expected) significantly higher volatility at scale.

The cumulative log return chart shows RDDT experiencing a far steeper upward trajectory than SPY at times, followed by cycles of drawdowns. As an example, the previously mentioned significant spike in November, was driven by the company's impressive Q3 earnings report. The company beat market expectations and investors positioned accordingly. From this we can determine that the oscillations in RDDT's return path indicate that its growth is highly speculative and sensitive to external factors. When considering cumulative log returns, RDDT has outperformed the overall market (SPY) with a 220% growth, while SPY only saw a 14.89% increase over the same period of time. Nevertheless, SPY's returns evidently showed much lower volatility. For investors wondering, can reddit compensate its volatility with returns? Our, sharpe ratio indicates otherwise.

## RDDT's Volatility

Reddit's stock profile exhibits a high risk, high reward environment. This assumption can be further augmented with RDDT's Sharpe ratio of 0.09, which is usually an indicator that the stock provides minimal excess return per unit of risk. RDDT's relatively low ratio suggests that its high volatility is not compensated enough by returns. However, the Sortino ratio of 0.19 depicts a slightly more prominent outcome, meaning that downside deviations are somewhat less extreme but still significant. This is evident in RDDT's maximum drawdown of -39.84%, which denotes that at its worst, the stock has lost 40% of its value from its peak. Hence, RDDT's volatility can play in its advantage or work against it depending on market conditions. This is evident in RDDT's Beta of 1.89, which suggests that the stock moves almost twice as aggressively as the rest of the market, making it quite sensitive to broad market shifts. That being said, the 95% Value at Risk (VaR) of -6.16%, compared to SPY's -1.43%, just happens to demonstrate how much RDDT is exposed to more extreme losses in comparison to the market, giving us grounds to mark it as a high-risk equity. More explicitly, with a 95% confidence, we can affirm Reddit will lose no more than 6.16% of its value in a given day, with a 5% chance of exceeding this bound.



Sharpe Ratio: 0.09  
Sortino Ratio: 0.19  
Maximum Drawdown: -39.84%  
Portfolio Beta: 1.89

# Thesis & Recommendation

## Beating All Odds

Reddit has outperformed since its IPO. Most experts in social media management, financial analysts and institutions undervalued the company's growth potential. Reddit's versatility has been a major asset; despite still having very strong revenue generation from advertisement, it is in the process of transitioning from being solely a community-based platform to monetizing data through machine learning processes and AI.

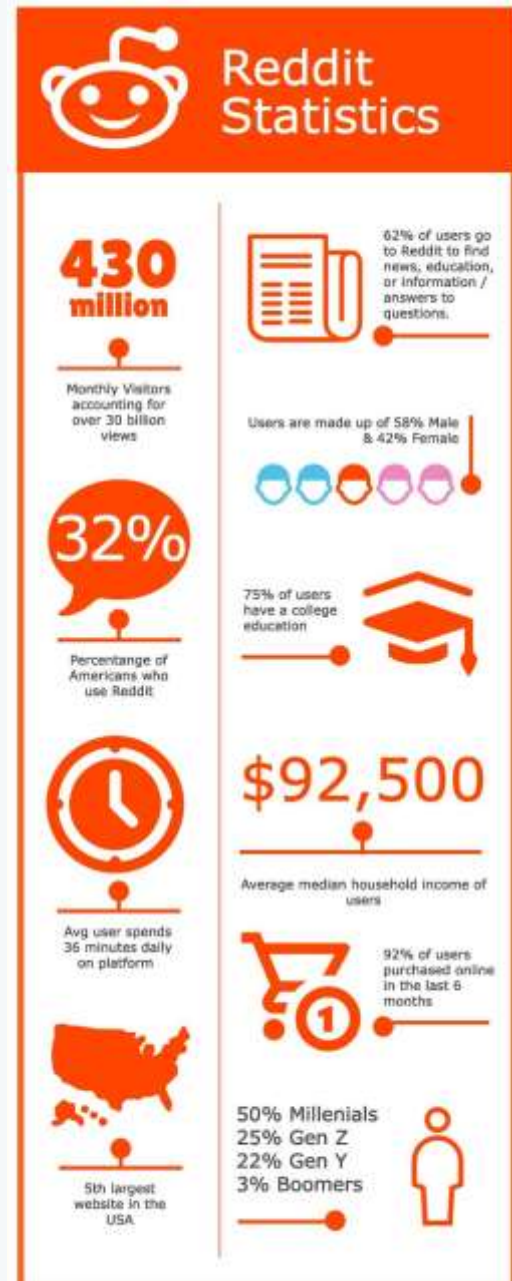
## Strong Financials & Opportunities for Growth

From our detailed analysis in the 'Financial Analysis' section, we confirm our belief that Reddit will continue to display an upward trend in its financial performance. The normalized figures show us a ROE close to 22%. We highlight the current positive interest effect, with interest income exceeding outflows from financial expenses, showcasing both a healthy structure and the opportunity to sustain future leverage. Specifically, the company shows low levels of debt funding in its capital structure compared to its competitors. As a result, future indebtedness can be sustained to enhance growth. This scenario can result in a higher profitability for investors as with a given level of equity, more returns can be obtained.

Nevertheless, our view is conditional to the achievement of a more positive EPS over time. We recognize the effect of stock-based compensation as an attempt to retain talent in the company, beneficial in the long run but prejudicial for profitability measures today. In addition, we would want to see more efficiency in terms of operations. A normalized ROA of 0.16 in Q4-2024 is an opportunity for improvement. This metric within our DuPont analysis shows that the product between the operating profit margin and the asset turnover is low. The best-case scenario would be improving both by optimizing the use of assets to generate sales and retaining more EBIT (operating profit) with respect to the revenue.

## Free Riding the AI Trend

"Don't dig for gold, sell the shovels". From a strategic perspective, within our bottom-up approach, we recognize that we are amid an AI revolution. Model training (LLMs) is a priority for tech companies to ensure efficient and accurate outputs, this is why feeding them data is indispensable. Reddit has access to information regarding preferences, trends, social behaviours and relevant personal statistics from its users. This way, nowadays this data will not only help them optimize their advertisement-based monetization process, but also diversify by selling such data to those in need of it. The OpenAI partnership discussed in the 'Company Overview' confirms such promising alliance. Artificial Intelligence is the star of the show and Reddit intends to provide the spotlights.



# Appendix

## Income statement

Item	2024	2023	2022	2021
Revenue	1,300,205	804,029	666,701	484,916
Cost of revenue	123,595	111,011	104,799	72,565
Gross Profit	1,176,610	693,018	561,902	412,351
Research and development	935,152	438,346	365,164	256,575
Sales and marketing	350,379	230,175	223,078	137,867
General and administrative	451,447	164,658	143,822	144,722
Operating profit (EBIT)	(560,568)	(140,161)	(172,162)	(127,213)
Other income (expense), net	75,361	53,138	34,234	(343)
Profit before taxes	(485,207)	(87,023)	(137,928)	(127,556)
Income tax expense	(931)	3,801	622	340
Net income (loss)	(484,276)	(90,824)	(138,306)	(127,896)
Basic EPS	(3.33)	(0.57)	(1.07)	(0.87)

## Balance sheet

Item	2024	2023	2022	2021	2020
<b>Assets</b>					
Property, plant and equipment	35,961	38,954	30,544	22,832	
Intangible assets, net	25,434	32,147	41,213	3,662	
Goodwill	42,174	26,299	26,299	6,471	
Other non-current assets	6,695	19,380	17,704	9,272	
<b>Total non-current assets</b>	<b>113,154</b>	<b>116,780</b>	<b>115,760</b>	<b>42,237</b>	
Cash and cash equivalents	562,052	401,176	435,810	1,317,788	
Marketable securities	1,278,717	811,946	830,714	75,134	
Accounts receivable, net	349,534	245,279	191,087	161,875	
Prepaid expenses and other current assets	33,058	31,288	25,398	16,960	
<b>Total current assets</b>	<b>3,233,462</b>	<b>1,479,687</b>	<b>1,483,017</b>	<b>1,600,872</b>	
<b>Total assets</b>	<b>3,336,595</b>	<b>1,596,467</b>	<b>1,599,777</b>	<b>1,645,309</b>	
<b>Equity and liabilities</b>					
Common stock	17	6	8	6	3
Additional paid-in capital	3,331,546	302,820	250,460	181,407	35200
Accumulated other comprehensive income (loss)	24	814	(1,762)	(236)	
Accumulated deficit	(1,200,818)	(716,582)	(615,736)	(847,188)	
<b>Total stockholders' equity</b>	<b>2,136,769</b>	<b>(12,522)</b>	<b>(379,064)</b>	<b>(284,011)</b>	
Accounts payable	45,423	46,514	32,944	22,882	
Current Debt and Capital Lease Obligation	9,137	1,707	7,802	6,854	
Accrued expenses and other current liabilities	124,464	89,349	46,711	40,710	
<b>Total current liabilities</b>	<b>179,024</b>	<b>137,570</b>	<b>106,457</b>	<b>70,456</b>	
Operating lease liabilities, noncurrent	20,585	22,040	11,690	6,808	
Other noncurrent liabilities	9,157	267	7,116	568	
Preferred Securities outside of equity		1,853,492	1,853,492	1,853,492	
<b>Total non-current liabilities</b>	<b>29,827</b>	<b>1,875,819</b>	<b>1,872,318</b>	<b>1,860,868</b>	
<b>Total liabilities</b>	<b>208,851</b>	<b>2,013,389</b>	<b>1,978,775</b>	<b>1,931,324</b>	
<b>Total equity and liabilities</b>	<b>3,336,595</b>	<b>1,596,467</b>	<b>1,599,777</b>	<b>1,645,309</b>	

## Ratio Analysis

Ratio Analysis	2024	2023	2022	2021
<b>Debt Paying Ability Ratios</b>				
Time Interest Earned	-	-	-	-
Debt Ratio	1.14%	1.61%	1.22%	0.82%
Debt to Equity	1%	-	-	-
Debt to Tangible Net Worth	0.977%	-	-	-
Altman Z-score	88.59	-	-	-
<b>Market Ratios</b>				
EPS	(3.33)	(0.62)	(1.07)	(0.87)
Diluted EPS	(3.33)	(0.62)	(1.07)	(0.87)
Normalized P/E ratio	74.38	-	-	-

### Altman Z score

Altman Z-score	4Q24	3Q24	2Q24	1Q24
Working Capital	1,888,547	1,821,228	1,763,540	1,346,117
total Assets	2,171,708	2,076,362	2,015,896	1,596,467
Retained earnings/Deficit	(1,271,874)	(1,301,727)	(1,291,628)	(716,562)
EBIT	(535,718)	(572,478)	(601,846)	(87,023)
Avg Total Assets	1,883,196	1,811,068	1,722,636	1,583,908
Market Cap	28,696,512	10,934,549	10,446,606	8,004,295
Total Liabilities period N-1	194,100	182,527	177,596	2,009,389
Total Asset Turnover	1	1	1	1
<b>Result</b>	<b>95</b>	<b>34</b>	<b>35</b>	<b>3</b>

