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Reddit Inc

Q4'24 Earnings Call

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CORPORATE SPEAKERS:

Jesse Rose

Reddit Inc; Head of Investor Relations

Steven Huffman

Reddit Inc; Co-Founder and Chief Executive Officer

Jennifer Wong

Reddit Inc; Chief Operating Officer

Andrew Vollero

Reddit Inc; Chief Financial Officer

PARTICIPANTS:

Ronald Josey

Citi; Analyst

Justin Post

Bank of America; Analyst

Benjamin Black

Deutsche Bank; Analyst

Brian Nowak

Morgan Stanley; Analyst

Richard Greenfield

LightShed Partners; Analyst

Kenneth Gawrelski

Wells Fargo; Analyst

Eric Sheridan

Goldman Sachs; Analyst

Laura Martin

Needham & Company; Analyst

Reddit Inc.

Q4'24 Earnings Call

PRESENTATION:

Operator: Good afternoon. (Operator Instructions) At this time, I would like to welcome everyone to Reddit's fourth quarter and Full Year 2024 Earnings Call. (Operator Instructions) I would now like to turn the call over to Jesse Rose, Head of Investor Relations. Jesse, you may begin your conference.

Jesse Rose: Thank you. Good afternoon, everyone. Welcome to Reddit's fourth quarter and full year 2024 earnings conference call. Joining me today are Steve Huffman, Reddit's Co-Founder and CEO; Jen Wong, Reddit's COO; and Drew Voller, Reddit's CFO.

Before we get started, I'd like to remind you that our remarks today will include forward-looking statements and actual results may vary materially from those contemplated by these forward-looking statements.

Information concerning risks, uncertainties and other factors that could cause these results to differ is included in our SEC filings. These forward-looking statements represent our outlook only as of the date of this call.

We undertake no obligation to revise or update any forward-looking statements.

During this call we will discuss both GAAP and non-GAAP financial measures. Reconciliation of GAAP to non-GAAP financial measures is set forth in our letter to shareholders.

Our fourth quarter letter to shareholders and accompanying earnings press release are available on our Investor Relations website, investor.redditinc.com and Investor Relations subreddit, [r/rddt](https://www.reddit.com/r/rddt). And now I'll turn the call over to Steve.

Steven Huffman: Thanks, Jesse. Hi, everyone. Thank you for joining.

Welcome to our Q4 earnings call. The fourth quarter marked the end of a milestone year for Reddit, our first as a public company.

In 2024, we surpassed \$1 billion in revenue, crossed 100 million DAUs, and gained traction in several new countries around the world.

Over nearly two decades, our users have created a trove of knowledge about all aspects of the human experience, making Reddit one of the largest repositories of human-generated information online, and we're using AI to make this content accessible to everyone. Machine translation is rolling out in eight languages, with more on the way and is enabling international users to participate in their favorite communities and find the information they seek.

Reddit Inc.

Q4'24 Earnings Call

International growth is critical to our goal of Reddit being a global platform. For the second consecutive quarter, we were GAAP profitable with total revenue growing 71% year-over-year and 3.5x faster than our total costs.

Our advertising customers are diversifying across industries, objectives, and geographies as more brands tap into Reddit's unique ability to grow their business.

Over 40% of Internet users consider recommendations on Reddit the most influential factor in purchasing decisions, surpassing expert reviews, influencer endorsements, and aggregated star ratings. Reddit conversations are where interests meet intent. They inform purchase decisions and offer valuable spaces for brands to connect with people looking for trustworthy opinions.

We finished the year with 101.7 million DAUq, marking 39% growth year-over-year, led by strong international growth at 46%. Additionally, logged-in users grew 27% and they've grown at this rate or higher every quarter for the last year and have maintained a steady upward trend for the last two years.

Late in Q4, we did experience some volatility from Google Search triggered by a periodic algorithm change, but traffic from search has recovered so far in Q1 and we've regained momentum.

What happened wasn't unusual. Referrals from search fluctuate from time to time and they primarily affect logged-out users.

Our teams have navigated many algorithm updates over the years and did an excellent job adapting to these latest changes effectively.

This particular swing was interesting because along with it, we saw a corresponding increase in the query term Reddit, which suggests users are searching with the specific intent of reaching Reddit and this propensity continues to rise.

We typically see two types of users on Reddit, those who scroll and those who seek.

Scrollers engage with Reddit for its core community and conversation while seekers come to or end up on Reddit for answers to their questions. Just a few years ago, adding Reddit to the end of your search query felt novel.

Today it's a common way for people to find trusted information, recommendations and advice. Regardless of why or where a user starts their journey, they should have a seamless path to discovering what they need on Reddit.

Reddit Inc.

Q4'24 Earnings Call

These search trends provide insight into what we should prioritize. To improve the experience for seekers, we're focused on making on-platform search a truly first-class product and the go-to place to find information on Reddit.

In the U.S., we launched the beta for Reddit Answers, an AI-powered search tool that provides curated summaries of community discussions. Although it's still in its early stages, it's already proven versatile as people turn to it for everything from local updates about the L.A. wildfires to opinions on the best coffee maker.

When it comes to answers, we see that Reddit excels at providing insightful responses to questions with subjective answers that are difficult to find elsewhere. It's currently only available in English, but we're excited about how people are using it and the early promise of this product. Human perspectives have never been more important, and we've updated our mission statement to reflect this.

Our updated mission is to empower communities and make their knowledge accessible to all. This captures both our work in creating a platform for community and for using Reddit as a source for knowledge.

With this mission as our guide, we are focused on making Reddit faster, easier and better to use. Whether you're an avid user or a first-time visitor deciding, for example, what backpack to buy, our role is to enable any community to exist and thrive on Reddit by helping make them useful, accessible, and well moderated.

By strengthening our unique community model, we ensure that Reddit is for everyone, everywhere. Thank you, again for being a part of this journey. Together, we are building a platform that connects the world through shared knowledge and perspectives.

With that, I'll pass it to Jen.

Jennifer Wong: Thanks, Steve. Hello, everyone. It was a strong quarter and finish to the year for Reddit.

Our unique proposition and core platform improvements continue to drive differentiated growth and positive outcomes for advertisers. Total revenue in Q4 grew 71% year-over-year to \$428 million, and for the full year, revenue grew 62% year-over-year to \$1.3 billion.

In Q4, the advertising business grew 60% year-over-year to \$395 million, driven by broad-based strength across objectives, channels, verticals, and geographies. Let me discuss our ad revenue drivers in more detail.

Reddit Inc.

Q4'24 Earnings Call

Our strategy is to be a multi-objective ad platform. In Q4, we grew across the funnel.

We saw strength in brand advertising with top of the funnel revenue growing the fastest rate in over three years.

Mid- and lower funnel revenue accounted for about 60% of total ad revenue and drove more than half of the year-over-year growth in the quarter. Across channels, our scaled business, which includes mid-market and SMB advertisers continues to be a growth driver as we are activating new advertisers across both the U.S. and EMEA regions and tuning our product set to better address these performance-oriented advertisers.

We saw broad growth across verticals with 10 of our top 15 verticals growing over 50% year-over-year, led by finance, retail, auto, pharma, gaming, and tech. Across geographies, international ad revenue grew 77% year-over-year, the fastest growth in over two years and led by the U.K. and broader EMEA regions.

We saw double-digit year-over-year growth in impressions from underlying user growth, personalized ad loads, deeper engagement, and improved monetization of the conversation page, while pricing was mostly consistent with the prior year. Average impressions per user increased year-over-year as we benefited from ad placement and brand safety optimization work from prior periods. The ads and comments placement contributed about 3% of impressions in the quarter.

We continue to test this new format and expect this could reach up to mid-single digits percentage in the near term.

Revenue from the Cyber Five Week during the holiday period grew over 60% year-over-year. This was driven by a combination of first-time brands and existing retail customers who increased their spend with us.

Now moving to our ad stack.

We continue to focus on: one, driving performance of our ad solutions across objectives; two, improving usability for our advertisers and productivity for our sales force; and three, offering our advertisers Reddit-unique solutions and ad formats.

We made meaningful progress against each of these areas in Q4. First, driving performance of our ad solutions.

We continue to improve the contextual relevance of ads on the conversation page, which drives higher conversion volume and performance revenue. In Q4, we doubled click volume for the

Reddit Inc.

Q4'24 Earnings Call

fourth consecutive quarter and also doubled conversion volume in the second half of the year versus the first half.

We also continued driving CAPI, Conversion API adoptions, with onboarding improvements and new integration partnerships. The share of conversion revenue covered by CAPI tripled in the second half of 2024 versus the prior year.

Advertisers see a 25% reduction in cost per action when they adopt CAPI with Pixel compared to Pixel only. Second, improving usability for our advertisers and productivity for our sales force.

Over the course of the year, we've launched capabilities across two categories. The first is our ads manager where we recently improved our report center to provide advertisers with deeper historical trends, attribution windows and keyword breakdowns to optimize targeting strategy. Next is how we continue to invest in gen AI as a driver of productivity and performance.

In 2024, we launched our AI Headline Generator and acquired Memorable AI, both of which are driving more adoption for mid-market and SMB advertisers, enabling dynamic campaign creation, and providing more predictive insights into creative performance.

We recently launched an LLM-powered ad review system, which increases automated ad review by 70% and decreases review time from 30 minutes to one minute, enabling advertisers to run campaigns faster while also improving ad quality and safety.

We also expanded brand safety measurements to both IAS and DoubleVerify.

With the IAS launch in Q4, we tested the solution against more than 500 million impressions in North America and found Reddit to be over 99% brand safe.

Third, offering advertisers Reddit-unique solutions and formats.

We are developing products that leverage Reddit's community intelligence that can help businesses grow insights, Reddit Pro trends, and advertising solutions that leverage community signals.

As we announced at CES, we began testing Reddit Pro Trends, a tool that helps businesses uncover real-time insights and build an organic presence on Reddit. To date, we've seen thousands of advertisers adopt Reddit Pro and are seeing participating companies posting and engaging more on the site within communities. Next, I'll shift to our content licensing business. Reddit's content is a unique source of authentic insights and perspectives that is valuable to our users, advertisers, researchers, and our content licensing partners.

Reddit Inc.

Q4'24 Earnings Call

In Q4, we entered into a partnership with Intercontinental Exchange to develop new data and analytics products for the financial industry. This partnership explores a new market vertical for our content licensing business and connects anonymous conversations on Reddit with Intercontinental Exchange's infrastructure to provide financial customers with insights into market trends and sentiment.

More broadly, we remain diligent about who we partner with and we will do so when it's complementary to our business.

We are investing in building our own products around our content including Reddit Answers and Reddit Pro that reveal the authentic insights and recommendations that are unique to Reddit.

Okay, looking ahead, I'm pleased with the progress we are making in building a multi-objective ad platform that enables businesses of all types and sizes to be successful on Reddit.

Our opportunity is as big as ever. Reddit covers every topic and interest, and we believe every business can find value on Reddit. The ad market feels healthy, and we're monitoring events that could impact the broader industry and the evolving EU privacy landscape.

I believe we're well positioned heading into 2025 and I'm excited about our roadmap. In the year ahead, we'll focus on three areas that build on our progress to date.

First, delivering more Reddit-unique experiences and communicating value across objectives. This includes bringing more ML optimization to our brand objectives as well as Reddit-unique formats that bring in more contacts and engagement from communities and more product catalog features for shopping.

We believe all of this work can augment performance. Second, bringing more automation to our ad stack. We're in the early stages of exploring end-to-end automation across our performance objectives.

We believe this can help drive performance and lower the barrier to adoption while enabling us to continue to sustain our high marks in customer service. Third, continuing to grow and diversify our advertiser base.

We've made good progress diversifying the business, broadening verticals, having customers use multiple objectives, and adding more advertisers, all of which increase the resiliency of our business.

We believe there's a significant opportunity to bring many more advertisers to Reddit by lead generation efforts like Reddit Pro, partnerships, easier onboarding with features like Dynamic

Reddit Inc.

Q4'24 Earnings Call

Creation, and Campaign Import, and then retaining these advertisers with strong performance outcomes.

Overall, I'm proud of our progress and excited about the opportunity we have to continue growing our share and driving outcomes for advertisers. Thanks for joining and for your continued support. Now I'll turn the call over to Drew.

Andrew Vollero: Thank you, Jen. And good afternoon, everyone. Q4 was a strong ending to a solid opening year for Reddit.

Once again Q4 was our highest revenue quarter of the year, driven by five key financial story lines that have been consistent throughout 2024. They are specifically: first, growing revenues faster than peers. Revenues grew 71% for the quarter; second, scaling profitably.

Adjusted EBITDA hit \$154 million in Q4 and GAAP net income reached \$71 million; third, expanding margins. Gross margins hit 92.6% in Q4. Adjusted EBITDA margin hit 36%, and our net income margin was 17%.

In the quarter, our incremental adjusted EBITDA margin was 74%. Fourth, generating positive cash flow.

Operating cash flow reached \$90 million, and free cash flow margin was 21%.

We had positive cash flow all four quarters in 2024; and fifth, minimizing dilution. Total diluted shares actually fell sequentially to 206.2 million in Q4.

Our earnings per share more than doubled from Q3, helped by a stable share count. Let me provide a little more color on these highlights. First, Q4 revenues of \$428 million grew 71% year-over-year, driven by a ramp in ad revenue, which grew 60% year-over-year in Q4, up 4% sequentially.

By region, the U.S. grew 70% and international grew 76%, marking the first time international growth outpaced U.S. growth since mid-2023. For the quarter, let me summarize three key drivers for revenue acceleration.

First, we're continuing to see success with our revenue investments, which include building new products for our ad platform or adding new sales team members to increase customer coverage.

Second, we saw a strong gain in ad impressions while overall ad pricing was pretty consistent with last year.

Reddit Inc.

Q4'24 Earnings Call

Impression gains remain our primary objective, and these increases were driven by user growth, improved ad click-through rates, and new ad surfaces like comments.

Third, we saw strength across the ad funnel, led by high double-digit growth rates from performance advertisements, which now comprise slightly less than 60% of our revenue.

For the year, revenue ended at \$1.3 billion, up 62%. Now on the cost side, total adjusted cost growth was 21% in Q4, similar to Q3, but with some notable differences in two key areas: cloud hosting costs and hiring pace. Let me comment on each.

In Q4, we signed revised agreements with our key hosting providers, which positively benefited gross margins over 150 basis points this quarter, a key factor in driving our gross margins to 92.6%.

Over time we continue to see both cost opportunities and challenges in the future for gross margins.

We believe these new arrangements will likely serve to help offset future cost increases, which we could see from increased user growth, machine learning investments or new initiatives like search.

For the full year, gross margins were 90.5%. The second area worth a brief mention was hiring pace, which accelerated slightly in the quarter, driven by our growth investments in adtech, sales, and search. Total headcount was up 5% sequentially and 11% for the year.

We ended the year with 2,233 heads, up slightly more than 200 people net for the year.

Differentiated revenue growth and modest cost growth meant we were GAAP profitable again in Q4 and a key focus is to turn profitability into cash flow. Q4 cash flow was \$90 million, \$107 million change from a year ago.

For the full year, operating cash flow was \$222 million.

Our CapEx remains very light, less than 1% in the quarter -- or excuse me, less than \$1 million in the quarter, less than 0.5% of revenue. Free cash flow for Q4 was \$89 million and \$216 million for the year.

Cash in the balance sheet ended at \$1.84 billion, up \$96 million sequentially. The total number of diluted shares outstanding in Q4 was 206.2 million, down 0.1% sequentially and only up 1.1% for the year, excluding the IPO, well below our 2% to 3% dilution target.

Reddit Inc.

Q4'24 Earnings Call

Shares were slightly lower, driven in part by a net settlement of a portion of employee vested shares as well.

Stock-based compensation in Q4 was \$97 million, about 23% of revenue, in line with peers at this scale but slightly higher than the prior quarter, reflecting a full quarter of expense from our annual performance grants, the accelerated hiring pace, and increases in taxes from stock vesting and exercises.

In the fourth quarter, net income was \$71 million or \$0.40 per basic share and \$0.36 per diluted share.

EPS more than doubled from the prior quarter, where basic earnings per share was \$0.18 and diluted earnings per share was \$0.16.

As we look ahead, we'll share our internal thoughts on revenue and adjusted EBITDA for the first quarter which is where we have the greatest visibility.

In the first quarter of 2025, we estimate revenue in the range of \$360 million to \$370 million, representing 48% to 52% year-over-year revenue growth, with a midpoint of 50%; adjusted EBITDA in the range of \$80 million to \$90 million, representing approximately 700% to 800% growth. In Q1, we could see slightly elevated sequential SBC costs due to higher employer taxes depending on share price volatility.

So Q4 was an important proof point for the medium and long-term financial goals we outlined in our last call. Simply put, we are focused on scaling profitably and turning differentiated revenue growth, high margins, and low CapEx into meaningful cash flow generation.

We delivered on all those dimensions in the fourth quarter, but there is much more to do and many more opportunities for progress.

As we enter 2025, these financial goals will remain our North Star.

We've seen the positive impact revenue growth can have on our financial performance. The keys to continued differentiated revenue growth will be innovation and execution as they were in 2024. That concludes my comments. Now let me turn the call back over to Steve.

Steven Huffman: Okay. Thanks, Drew. Thanks, Jen.

So we've posted in the r/rddt subreddit, as we have in past quarters, to get questions from the community from our user investors.

We will take a couple of those questions now.

Reddit Inc.

Q4'24 Earnings Call

Again we do this because we want to include our user investors in as many of these formal conversations as possible alongside the pros. Jen, Drew, and I will also record answers to many more of the questions after our call today. Those will be posted tomorrow morning in that subreddit.

Steven Huffman: Okay. First question is for you, Jen. I've noticed a substantial increase in the quality and quantity of ads since Q3. How focused are you on developing new types of ads going forward?

And how could these potentially differentiate Reddit from other platforms?

Jennifer Wong: Thanks for your question. When we think about building ad formats, we always want to leverage what's unique about Reddit, and I think about two things.

One is Community Intelligence, the trove of opinions and recommendations that are on Reddit that are really trusted and the engagement and interest on Reddit.

So you saw that in last year, we launched the placement ads in the comments. This page is growing in engagement. It's early but we like what we're seeing there in terms of performance.

So we're excited about that placement.

In terms of formats, I'm excited to work on enhancing our AMAs or Ask Me Anythings. That's very unique to Reddit, where there's a two-way engagement and conversation between a brand and our community. Also excited about shopping, more work in terms of product level creative and dynamic product optimization.

Then finally, this is something we've long been excited to want to do, which is bringing in signals from the community and their perspectives into ads to provide more context.

I think all of the above can augment both brand and conversion performance, and we're excited about the work to come.

Steven Huffman: Okay. Thanks, Jen. Drew, the second question is for you. Q4 showed strong profitability but full year 2024 still ended in a major loss. How confident is Reddit in maintaining or expanding profitability in 2025?

Andrew Vollero: Thanks for the question. Really like the question. GAAP profitability is something that really matters and we're focused on that. I think let me divide the question in a couple of parts. Let's talk about the \$484 million loss total in 2024.

Reddit Inc.

Q4'24 Earnings Call

I think if you double-click on that, you'll see that we lost \$575 million in the first quarter. That really was sort of an isolated incident.

We took a \$595 million accounting charge related to stock-based compensation.

What's happening there is you're recognizing your charges for the last multiple years to catch-up charge for the stock that you've been giving employees for a long time.

So you can't expense that as a private company the way that we structured that stock so we had all of those catch-up charges.

So that's really what drove the loss in 2024. The last three quarters, we were profitable on a cumulative basis. That's why when I look at sort of evaluating the health of the company, I'm always looking at three statements.

I'm looking at the income statement that you're looking at. I'm always looking at the cash flow statement and the balance sheet.

We provide an EBITDA metric as well. That also gives you kind of a look at how the financials are going.

We've been EBITDA profitable for the last three quarters.

So those are the ways that I look at the business. In terms of the trends, I think they're good to us, as I mentioned, obviously 71% revenue growth in the quarter.

The margins are strong here. Revenue has been growing three to 5x as fast as costs. Those are all good signs that the business is scaling in a very positive way.

Then obviously most importantly, we made \$71 million this quarter. Last quarter, we were GAAP profitable, we made about \$30 million.

So the last couple of quarters, you're reaching scale on the business and watching the profitability inflect.

So I appreciate the question. Those are my thoughts, Steve.

Jesse Rose: Great. Steve, Jen, Drew, thank you. Krista, why don't we take some questions from the folks on the line, please?

Operator: (Operator Instructions) And your first question comes from the line of Ron Josey with Citi.

Reddit Inc.

Q4'24 Earnings Call

Ronald Josey: I had questions for, I guess all three of you.

But first and foremost, Steve and Jen, I wanted to ask about Reddit Answers. Just wanted to hear about early results, maybe some insights on the rollout.

Then what types of queries are you seeing with this more conversational search format?

Clearly, there's a lot of data and insights to glean with the data on Reddit.

So any insights on what you're seeing thus far in rollout?

Then Steve, you mentioned sort of some insights or some changes in Google Search algorithm. Would love to hear any thoughts on what the change was. Was there any impact to engagement, maybe revenue?

That would be helpful.

Steven Huffman: Okay. I'll take both of those. Thanks, Ron. Great to hear from you.

Okay.

So first, Reddit Answers.

So we turned this on in December and it's basically a prototype.

So it's a beta and the purpose of getting this online was to answer the question of -- actually kind of a couple of questions.

How deep is Reddit's Corpus?

And are there compelling answers to a broad set of questions?

The answer to both of those tests is yes. I think we're off to a very promising start. I think even I am learning and excited at the depth of the answers here.

For example, there are things that I could ask and answer that I feel like I don't get good coverage elsewhere online so I've done it with a number of authors.

What's the best way to get started reading this author?

Reddit Inc.

Q4'24 Earnings Call

And you get -- it turns out that question has been asked 1 million times for every author on Reddit so you get nice annotated answers to that.

The other one that I thought was really cool was I asked, tell me what the fan theories of Severance season one were in preparing for season two.

You get to kind of relive that whole conversation or those conversations that played out on Reddit three years ago. The thing that's interesting about that is the core product, the community and conversation product, you're really only interacting with like the last day, the last 24 hours of content.

But in those conversations for 20 years, our users have left us absolutely massive and deep corpus of information about everything.

So we're starting to unlock that with Answers.

Okay.

So where is this going?

We'll continue to iterate on this product, but really, the work here right now Answers is in the app from a separate place than search.

Over time over this year, we actually want there to just be one product, which is Reddit Search that will help users navigate Reddit, find subreddits on Reddit and even answer subjective, hard, interesting questions.

So we want to bring all these things together, but we wanted to get this Answers functionality out fast and so that's why it came out as its own thing.

So I think just a ton of promise there. We're really excited about where that's going.

Okay. Your second question was about Google as a third-party provider.

Look, these changes happen. They actually happen all the time I'd say ballpark, twice a year, not the first, not the last. For us, it primarily affects logged-out users in the U.S.

This one was particularly interesting because it really was a swing down but then a recovery shortly thereafter.

It happened right at the end of the quarter. It was kind of interesting during this one, the team recovered. I think adapted nice.

Reddit Inc.

Q4'24 Earnings Call

We see these things for all sorts of different reasons.

We did see an increase in the query term "Reddit" in our own search dashboard, which says that kind of despite what happens on the Google side, Internet consumers broadly want to end up on Reddit.

So as we've mentioned, we started off Q1, I think on a great foot, both with our search traffic and then also with the rest of our traffic.

I think in Q4, we grew in all the areas that count, logged-in users up 27% and it's been that way for over a year.

In international, it's starting to pick up steam at 46%.

So we like where we're at, and we like the way things look going forward.

Operator: Your next question comes from the line of Justin Post with Bank of America.

Justin Post: A couple of more follow-ups on search and maybe one for Drew. Can the tools on Reddit do a lot more than what Google can do now?

Then second, how do you think about those searches' commercial relevance?

Is there a percentage or a thought about how much of that search content could be monetizable?

Would be very interesting because you've given us the queries, which is really helpful.

Then, Drew, any thoughts on cost growth for the year?

I don't know if you can give us anything on how you're thinking about headcount or any cost directions for the total year.

Steven Huffman: Okay. We'll do me, search, Jen, search monetization, Drew, cost.

So the reason Reddit Search is interesting is because we're the only search provider who is focusing exclusively on Reddit.

Other search engines are general. They call the entire Internet.

Our relationship with Google has been really good and deep and continues to be symbiotic.

Reddit Inc.

Q4'24 Earnings Call

But Reddit is one of many content providers on the Internet.

What we know is that Internet users broadly want what's on Reddit.

What we're learning with Answers is that there's even more on Reddit than I think we even believed six months ago with this type of behavior, the seeker behavior. And by focusing on Reddit specifically, we can do things like what we're doing in Reddit Answers, which is every fact that Reddit Answers responds with links to a specific Reddit comment that was written by a human being.

And so it's a set of highly annotated answers.

So you can read that sentence, get your answer, but you can also click on it and actually see the whole conversation, right?

You can get the conversation about it.

So I think this is really, really interesting for things like recommendations, travel, advice where there isn't an answer. There are lots of answers and there's lots of conversations about it.

And there's an added benefit that we're seeing in Answers, which is after you read your answer at the bottom, you see where the answers came from.

So there'll be a whole bunch of posts and there will be a bunch of subreddits.

So it actually helps you expand your interests on Reddit.

So I was telling you before about the authors.

I'm not going to name the authors, but I've now joined the subreddits for a number of different authors. I found all these communities. I've been on Reddit for 20 years and I'm still finding new communities.

So just really excited about what we can do when we build something on Reddit specifically for Reddit.

So I think there's a kind of opportunity in the market. Jen, do you want to take the commercial opportunity of search?

Reddit Inc.

Q4'24 Earnings Call

Jennifer Wong: Yes. I mean Reddit is actually inherently commercial in so many ways. About 40% of the posts are actually classified as like really commercial being about products and services.

But in a lot of ways, like joining an interest, starting skiing, I mean that is commercial and that there's gear and things that you want as you start up an interest.

So I think Reddit just naturally has that. What's interesting and exciting about Reddit Answers is this idea of recommendations.

I think Reddit is a place where people are going to for specific recommendations on what to buy, to make decisions, and what Reddit Answers does is reveals the recommendation in a way that shows what's the opinions across all of Reddit.

That's an incredible opportunity because that's -- if you think about search, search is incredibly high-intent, and people are really in the mindset of wanting to convert on that recommendation.

So the more that we build experiences like Reddit Answers that put people in a mindset of recommendations and thinking about what they want to buy, the bigger the opportunity is for us to provide, to bring in a brand or a marketer to meet that demand and drive that into an action.

If you think about what we're building, we're building shopping, right?

Shopping is product level ad creative.

We already have the foundation in keyword targeting, which is around contextual. Those two pieces allow us to create a monetization opportunity at the time that it makes sense, it's an early product test.

But the foundation is there for us to monetize that intent as the product develops.

Andrew Vollero: Justin, on the cost side of things, I think we found a new level here in the last couple of quarters. If I look at kind of total adjusted costs, third quarter, fourth quarter and then the guide here, kind of in that 20% range. That's where the business has been in terms of year-over-year cost growth.

We're not guiding further out than that because the revenue visibility isn't more than a quarter at this point. We're still at a place where we're within the quarter trying to earn about half of our business, right?

And so it's hard for us to give a kind of a full year guide.

Reddit Inc.

Q4'24 Earnings Call

But I think overall, you have the places that we're investing in. I think the pace of hiring will probably be slightly accelerated from what it was the prior year. Last year, we added a little bit more than 200.

We're still hiring a little bit more on the engineering side. We're building a small search team here.

So there will be investments there.

But I also want to speak to -- there's a lot of in-year discussions here.

We could move the needle quickly on some of the sales investment projects that have helped accelerate our revenue growth.

So that's really dynamic information that we're looking at.

So it's hard to kind of give a full year guide.

But I think what you have from the company right now is kind of we've established over the last three quarters and kind of growing costs about 20%.

I do think we'll hire a little bit more than we did last year, but we do want the flexibility to make those in-year investments. They've been driving the accelerated revenue that you've been seeing.

We can snap them in quickly and make things happen.

Operator: Your next question comes from the line of Benjamin Black with Deutsche Bank.

Benjamin Black: Just a follow-up on Reddit Answers. Have you seen an impact on retention, on engagement or even on sort of logged-in conversion?

And longer term, does Reddit Answers potentially alter the way you think about data licensing more broadly?

Then just a quick one on sort of the year ahead. How do you think about the balance of U.S. user growth versus ARPU growth?

And across the two, which one do you think you have the most visibility on?

Steven Huffman: Okay. Thanks, Ben.

Reddit Inc.

Q4'24 Earnings Call

So on Answers, I think too soon to tell on things like retention. It's only in English. It's not even on all platforms yet or it's just barely on all platforms and so it's truly right out the gate.

So we're more of testing kind of the technology and the potential from a product point of view. That's all looking very promising. I think if we were to explain how this would lead into retention, what I'm very excited about is the general user journey on Reddit is often coming to Reddit as seekers.

So that's what I was talking about in my opening statement. They're often coming from Google with the question and then learning that Reddit has answers to their questions.

I think helping the user be able to search directly on Reddit, refine their queries on Reddit, eventually come directly to Reddit for those types of queries, even integrating search into something like onboarding over time I think would all be really interesting things for us to try as on-platform search gets better and better.

So I think it opens all sorts of doors. And just about everything we do on the product is in the name of improving retention.

But I think the number one retention challenge for Reddit is when a user shows up on Reddit, and we help them find the perfect community or communities for them, well that's a search problem.

So search will get at that over time. That's really the point. In terms of licensing, I think what you're seeing here is we're still in the market. We're still working on various deals.

We announced one with ICE, I think just yesterday and we're still talking to some of the big players as well.

But we're also turning inward and looking at the opportunities for us to kind of capture the value of the data ourselves.

And so again that's how we arrive at something like Reddit Answers. Like, hey, this corpus is really amazing. Sure, we can help other people build good products and good models, but we can build the best product on our data and that should be our focus as well.

So we're doing all of these things.

So yes, we're still in the licensing business, but also, I think very excited about all of the things that we can build on our data as well.

Reddit Inc.

Q4'24 Earnings Call

Then in terms of user growth and ARPU growth, I'll spend 10 seconds on users. Like I think we still have a tremendous amount of opportunity on users.

We haven't come, I think close to tapping out in the U.S., which is our most mature market.

We're really getting off the ground in a number of countries around the world. Communities are universal, and so we see very high potential in building a product that is literally universal -- everybody belongs to communities, everybody wants that feeling of belonging.

Everybody has questions. Everybody is going through life's journey, and those things are all on Reddit. The way we get there is the things we've talked about, performance, quality, some of these new products like search actually kind of touches on both of those things.

Then of course things like machine translation and our community -- or excuse me, country growth efforts around the world. I'll turn it over to Jen to talk about ARPU looking forward.

Jennifer Wong: So as we've mentioned before, we don't manage to ARPU. There's nobody who managed it to what it is. It is just the revenue divided by the users. It did grow in Q4 nicely in both regions, the U.S. and rest of world.

There's a lot of headroom there.

We know that, that's an opportunity to grow over time.

But the way we think about it is we're trying to grow revenue by continuing to expand our verticals, drive performance, make our ad platform easier so that we have more advertisers on it, driving more demand into our platform. That grows our share as we continue to also grow users in parallel.

Look, the ARPU in both the U.S. and rest of worldwide, they grew in Q4 are still very early.

The ARPU for the rest of world is just a fraction of the U.S.

So there's a lot of opportunity for growth there.

But again we think of it as really growing our revenue, growing our share and users in parallel.

The -- you see that the user growth has been a really nice driver of value for us as well as some of the brand safety and the personalized ad load work.

And there's a lot more there in addition to the ad format work that we did adding ads in comments.

Reddit Inc.

Q4'24 Earnings Call

So there are a lot of different levers that we have for augmenting on innovation.

Operator: Your next question comes from the line of Brian Nowak with Morgan Stanley.

Brian Nowak: I have two, one for Steve, one for Jen. Steve, I wanted to sort of talk to you about the initiatives that you have in place to continue to convert the logged-out users to logged-in users. Maybe talk to us about where you've made the most progress in '24. And as you look out to '25, what are you focused on internally to sort of continue to convert logged-out to logged-in?

Then, Jen, I know there's a lot of advertising initiatives in 2025.

Can you just help us understand a little bit?

When you look across your pipeline of products, what are some that are sort of the lowest-hanging fruit areas of improvement versus areas where it is a little bit of a higher time that could take a little longer to sort of manifest itself in the P&L?

Steven Huffman: Okay. Brian, thanks for the questions.

So logged-out to logged-in.

So picture the way that we think about it is Reddit is universal, and let's start with the U.S. first.

If Reddit has a community for everybody and it does, then why isn't everybody on Reddit?

Well I think there's two reasons. Either they haven't heard of Reddit, which is increasingly less likely or they've tried Reddit and it didn't work for them. That is the cohort of users that we are focused on.

So those users are either coming from external search like Google or they're coming to Reddit's front door, right?

They're going to Reddit.com or they're opening the app. Those folks who come direct and logged-out, that is where we are the most aggressive because what they're saying to us in that moment is "I am open to joining this platform."

And so the work we've done there that's been most effective is we've made it much, much easier to log in. It used to be very hard.

We used to lose 80% of our sign-ups on the choose a username page. It was a meat grinder.

Reddit Inc.

Q4'24 Earnings Call

It's much, much smoother now. You can log in and register with an e-mail, with a phone number, with Google or Apple.

So really, really fast log-in.

Then much improved onboarding from there.

So what are your interests, and we get you into the home feed.

Our ML in the home feed, our ability to take your interests and expand them or show you more related subreddits, that's gotten much better.

So that's kind of now the top driver of users to join new communities on Reddit, and that's the number one driver for retention.

So that stuff has been working very well in 2024.

Now if you're coming from search, we actually used to be more aggressive. You come from Google, we'd say "Hi, download the app, log in." That is a classic case of it works in the short term, it moves the numbers and it doesn't work in the long term.

It annoys people, makes them mad and then actually tapers off.

So we actually go the other direction. If you're coming from search, we want to give you the answers, right?

We're trying to make our customers happy.

What are they there for?

Answers, give them answers. They're not looking to join a community in the moment.

So our work there and looking forward is can we make Reddit amazing at giving them answers?

So that's things like literally Reddit Answers, that's specialized landing pages for seekers, that's having Reddit search itself be amazing so users can learn that they can ask these specific questions on Reddit.

This idea of building products for the seekers, not just the scrollers, is so important to us that we've expanded our mission to include it.

Reddit Inc.

Q4'24 Earnings Call

So that's what I mentioned in my opening remarks, empower communities and make their knowledge accessible to all.

So a lot of what we're doing requires us to think about each of these use cases specifically.

So that's what leads to higher retention.

Okay Jen, the question was about, what's the easy stuff?

What's the hard stuff in 2025?

Jennifer Wong: Yes. In terms of the roadmap, things that are, I think more lower-hanging fruit, I mean things that we know work, right?

ML, applying ML optimization, applying models to brand, which we don't do extensively today that has worked so well in performance.

I think applying that to brand can deliver really significant performance for our advertisers.

We know that formula works, so really applying ML for opto.

Second is measurement. There's work that you want to do around conversion modeling, really getting credit for the value that we're driving. That's really important moving to industry standard there so you'll see us do that work.

Then finally, creative optimization.

The work that you do in optimizing variant and creative can have such a significant impact on performance.

That's something you grind away at forever frankly.

But that also is, I think an opportunity for us.

It's not an area that we spend that much time on so far but we're excited to do that this year. The rest of our roadmap, I think is again the ads roadmap is about continuous improvement in terms of ease of use, in terms of performance for our advertisers, and in terms of Reddit-unique opportunities.

You'll see us continue to grind away at that.

Operator: Your next question comes from the line of Rich Greenfield with LightShed Partners.

Reddit Inc.

Q4'24 Earnings Call

Richard Greenfield: I got a few that I think are -- some of the key questions investors are concerned about. What exactly did Google change in the algorithm?

I think there's been a lot of view that's sort of Google loves Reddit and was sort of prioritizing Reddit.

So what exactly changed?

And I guess Steve, how do you get comfort or confidence that future changes are not going to be more problematic than this one?

I think Steve, you said that the Google change was mostly logged-out users.

I assume that means it's had very minimal, if not no impact on revenue, but if you could qualify around that, that would be great.

Then just given your comments about DAU growth resuming in Q1, as we think about that, is there any way you could sort of give us what was Q4 adjusted for the Google algorithm change so we could see what the underlying growth is to think about what the implication is for Q1?

I apologize for the three questions.

Steven Huffman: All good. Thanks, Rich.

Okay. What did Google change?

I have my suspicions but it's not my place to say but I'm not worried about it.

Number two, assume no revenue -- impact to revenue -- sorry, assume no revenue impact?

Correct. No revenue impact.

Three, what was adjusted down in Q4, what's it look like in Q1?

Look, I can't put specific numbers on it but I don't think we'd be having this conversation if not for the swing there, and we feel very good about the pace that we're on in Q1.

Like I said, look, we see volatility from Google all the time as does everybody. You can read the blogs a couple of times a year.

Our relationship with them is great.

Reddit Inc.

Q4'24 Earnings Call

We collaborate in a number of ways including how they can continue to crawl us better so there's zero concern from us in this department.

Operator: Your next question comes from the line of Ken Gawrelski with Wells Fargo.

Kenneth Gawrelski: Two, if I may. First, could you talk, maybe Jen, about as you think about your initiatives to grow the advertiser count, could you talk about the progress you've made maybe in the back half of '24 and initiatives maybe you have in place in '25 and '26 to grow that advertiser count including maybe focus on the self-serve side?

Then the second is I just want to go back to the search aspect and maybe approach it from a different angle, which is the intent and signal that it may drive across the platform.

Could you talk a little bit about the power of search and maybe even the power of getting -- growing engagement on that -- on the Answers platform and its ability to drive improved conversion and intent across the rest of the platform?

Jennifer Wong: So I can take the first one about active advertisers.

So we continue to see really healthy year-over-year and quarter-over-quarter growth.

We saw that in Q4 for our monthly active advertiser count.

So that diversification continues. Again there's many more advertisers that can be on the platform, but we're pleased with the progress there. What's unlocking that is a combination of things.

One, our focus on ease of use in terms of the onboarding, in terms of activation, just making it much more simple to activate things like a gen AI Headline Generator, just takes the friction out of getting creative up and running on the platform, automating -- just being able to optimize for like max clicks or lowest cost click. Those kinds of semi-automations allow smaller advertisers to get on the platform.

As a reminder, our strategy is not focused on self-serve right now.

We do have a very nicely growing scaled business in mid-market and SMB, but they are managed. They're managed in that we do give them some treatment, very light treatment to help them through the process.

It's worth it in terms of the average revenue for advertisers that we see and helps with their retention and engagement.

Reddit Inc.

Q4'24 Earnings Call

We're focused on growing those what we call sort of filtered Tier 1, Tier two SMBs.

But that's been growing really, really nicely.

There's a lot more that can be on the platform.

We will continue that drive into 2025.

We will be doing work at the top of the funnel to acquire more advertisers.

So we've been doing that in terms of the acquisitions team that we sort of established embedded in pods in mid-market last year. That will continue this year, as well as top of the funnel, some paid marketing, work in SEO around our business website, building relationships with partners who work with small businesses who we can then bring leads into our platform.

Developing Reddit Pro, which is a landing spot for businesses where they can have a presence on Reddit, get to know the platform and then become advertisers.

So these are all the ways that we're starting to expand our work on the top of the funnel for bringing in new advertisers.

Steven Huffman: Okay.

The second part of your question was about search and opportunities for search. I mean this is why search is so amazing. I was just talking about how the key to retention for Reddit, which is the foundation for growth, is figuring out what users are interested in. Well with search, they're literally typing into a box, this is what I'm interested in.

So it's amazing for us to pick up on that signal.

Then, of course they actually click up, right?

They find their interest on Reddit.

So not only do they tell us, they find subreddits that they can then join and follow.

So it's amazing from that point of view.

And of course that signal has incredible monetization potential, as you all know.

Reddit Inc.

Q4'24 Earnings Call

So search is one of those things where it's a product that is great for new users for the reasons I just mentioned.

It's great for core users like myself, I search on Reddit every day.

It's great for monetization.

So it's not every day we get a product that's on a level that scratches all of our itches.

So we're very excited about it.

Operator: Your next question comes from the line of Eric Sheridan with Goldman Sachs.

Eric Sheridan: Maybe a two-parter on the international side of the business. When you think about your strategic priorities or where the business sits internationally relative to domestically, how should we be thinking about the runway for either user funnel optimization or monetization and building more density around the advertising initiatives globally as opposed to what you've proven out more domestically, just to think about contrasting the business by geographies?

Steven Huffman: Okay. Part 1, i18n users, part two i18n dollars.

Okay.

So i18n users, what I think at the very beginning there.

So Reddit is roughly 50-50 U.S. versus non-U.S.

Users in the space are 80% to 95% non-U.S.

We have no reason to believe that we won't be in that range because Reddit is universal, because communities are universal.

So I think the opportunity is there.

Now everything we've talked about today about growth is really, it's about kind of the quality and performance and search. Those things not only help us grow in the U.S., our most mature market, but helps us grow outside the U.S.

As well right?

Product quality always works.

Reddit Inc.

Q4'24 Earnings Call

Now in addition to that, we have a couple of initiatives that I think are very promising. We've talked a number of times about machine translation. The first country for us to deploy this in was France.

France, even within our focus markets countries, which themselves are outpacing the rest of the world and the U.S., France is growing 30% to 40% faster.

That's because we've got machine translation first.

We're rolling it out into a half a dozen languages right now and more throughout the year and the cost of that has come down so we'll just continue to expand that.

Then there's our community work.

So we have people in country identifying topic areas, for example, sports, cities, important kind of cultural areas, making sure communities exist, recruiting moderators, training moderators, doing meet-ups, all the kind of high-touch diplomatic work.

And we're doing that in a number of countries around the world as well.

So the potential is there because communities are universal.

Our work is working. Now it's very high-touch work because we're growing communities, right?

We can't force it, but it's coming along nicely.

Then the revenue will follow the users.

Jennifer Wong: Yes. I would just say we follow the users and we do have markets like the U.K. which are getting to be more mature markets for us.

Similar to what happened in the U.S., Reddit has become an intentionally entered term into Google in the U.K.

On one of the top terms.

So that's also created, again a stronger base of awareness and understanding of our platform. Look, everything we build in the ad stack and in the ad platform, it's global. It works for advertisers globally.

So they get the benefits of all the performance gains and the ease of use that we built into the platform.

Reddit Inc.

Q4'24 Earnings Call

We are investing in marketing in EMEA to acquire more advertisers, and we have invested in growing our go-to-market teams, again with a focus on acquiring more advertisers and bringing more customers onto the platform.

And as you saw in Q4, that growth rate that we saw from EMEA is a result of some of the investments that we made.

So we feel very good about the opportunity there.

Jesse Rose: Krista, I think we have time for one last question.

Operator: That question comes from Laura Martin with Needham & Company.

Laura Martin: And I'll just stick to one since we're up against time and it's on DeepSeek.

So DeepSeek, as you know a lot of my companies are moving over to DeepSeek and their large language models and also you're seeing Facebook hit all-time highs. Both of those are open source.

So my question for you is, both of the deals you guys have are with proprietary large language models, Google and OpenAI. My question is, are you using these open models to help with your content creation for your customers?

And/or does it threaten your revenue stream coming from your content licensing if, in fact, open large language models win the battle of large language models?

Steven Huffman: Okay. Thanks. Two great questions.

So the first question, let me just kind of cut it in half. Are we using it, period?

Yes.

We and every company, except for two on Earth, love open-sourced AI models.

And so I think a tremendous amount of opportunity there. And look, we use commercial models, we use open source models.

We make our own.

So I think what we're seeing happen is exactly what we said would happen two years ago. Access to this technology will become commoditized.

Reddit Inc.

Q4'24 Earnings Call

Open source will keep pace with the commercial offerings, and ultimately, it will be accessible to everyone.

That's exactly what's happening.

I think it's great for the industry, and it's, of course great for us because basically, every aspect of our business can benefit from this technology, right, moderation, safety, copy generation, internal tools, all sorts of stuff, also search.

The second part of your question is how does this impact our opportunities in licensing?

The short answer is it does not. Look, every foundation model that exists including DeepSeek and including the models that DeepSeek stole from used Reddit data.

So that's something that we've accepted. These models do not exist without Reddit data.

But what we are selling is ongoing access to up-to-date information. Imagine a search engine that stopped indexing in 2021.

It gets less and less useful over time. The same thing is with the foundation level. If it stops getting new information, it just gets less and less relevant over time.

So you need a steady supply of up-to-date information.

And Reddit is a supply of information about all aspects of the human experience, right?

AI can't try a new hair dryer or listen to headphones and tell you what the experience is like, but users on Reddit can and do.

So that sort of information is super valuable. AI can't tell you what it's like to go through a breakup and what you should do.

That information comes from Reddit.

So I don't see any change there. It's actually no change from the situation we are already experiencing, and we're very excited about the open source models.

Jesse Rose: Great. Thanks, Steve, Jen, Drew. Thanks everyone, for joining.

We appreciate you all spending some time with us.

Reddit Inc.

Q4'24 Earnings Call

We look forward to speaking again soon.

Operator: This concludes Reddit's fourth quarter and full year 2024 earnings call. You may now disconnect.