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Reddit, Inc. (Q1'24 Earnings)

Reddit Q1'24 Earnings Call

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CORPORATE SPEAKERS:

Steve Huffman

Reddit, Inc.; Chief Executive Officer

Jen Wong

Reddit, Inc.; Chief Operating Officer

Drew Vollero

Reddit, Inc.; Chief Financial Officer

Jesse Rose

Reddit, Inc.; Head of Investor Relations

CORPORATE SPEAKERS:

Ronald Josey

Citi; Analyst

Doug Anmuth

JP Morgan; Analyst

Brian Nowak

Morgan Stanley; Analyst

Justin Post

Bank of America; Analyst

Eric Sheridan

Goldman Sachs; Analyst

Benjamin Black

Deutsche Bank; Analyst

Tom Champion

Piper Sandler; Analyst

Richard Greenfield

Lightshed Partners; Analyst

Mark Shmulik

Bernstein; Analyst

Andrew Boone

JMP Securities; Analyst

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PRESENTATION:

Operator

Good afternoon. My name is Julianne and I will be your conference operator today. At this time, I would like to welcome everyone to Reddit's Q1 2024 Earnings Call.

All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question-and-answer session. (Operator Instructions).Thank you.

I would now like to turn the call over to Jesse Rose, Head of Investor Relations. You may now begin.

Jesse Rose

Great, thanks Julianne. Good afternoon, everyone. Welcome to Reddit's First Quarter 2024 Earnings Conference Call. Joining me today to share our results are Steve Huffman, Reddit's Co-Founder and CEO; Jen Wong, Reddit's COO and Drew Voller, Reddit's CFO. Their remarks will be followed by a Q&A session.

We issued our first quarter letter to shareholders earlier today and have made it available on our investor relations website and our investor relations subreddit r/RDDT. Before we get started, I'd like to remind you that our remarks today will include forward-looking statements, including those regarding our future plans, objectives, expected performance, and in particular, our guidance for the next quarter. Actual results may vary materially from today's statements.

Information concerning risks, uncertainties, and other factors that could cause these results to differ is included in our SEC filings, including those stated in the risk factors section of our filings with the SEC.

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. Additionally, the matters we will discuss today will include both GAAP and non-GAAP financial measures.

Reconciliation of any non-GAAP financial measures to the most directly comparable GAAP measures is set forth in our letter to shareholders. Non-GAAP financial measures should be considered in addition to, not as a substitute for, GAAP measures. Finally, today's conference call is being recorded and webcasted.

Now, I'll turn the call over to Steve.

Steve Huffman

Thanks, Jesse. Hi, everyone. I'm Steve, Reddit's Co-Founder and CEO, and I'll be kicking things off for us today. Welcome to our first earnings call as a public company. I'd like to start off by saying thank you for spending a bit of your time with us today.

We believe that great companies are built in the public markets, and we're proud to have made the transition this quarter. Our IPO is an important moment for the company, and I want to say thank you to our employees, our users, and investors who all made it possible, and I also want to say welcome to our new investors, particularly to our new user-investors. For users to be able to own some of Reddit has long been a dream of mine.

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Starting today and going forward, we want to include the community in this process. Our current plan will be to answer a few of their questions on this call, and then we'll do a few more on our r/RDDT subreddit after this call. This process will likely evolve as we go forward.

I also want to acknowledge the research analysts who have been with us on this journey, helping us to prepare by not doing just one, but eight practice earnings calls over the last two years. Very much appreciated. Thank you.

We're happy with our progress this quarter. More people are visiting Reddit than ever before. Users grew 37% year-over-year in the first quarter. We averaged over 80 million users daily and 300 million users weekly, and we grew across Logged-in, Logged-out, and within the US and abroad.

The most reliable way for us to grow Reddit is to make Reddit better. As such, our primary focus this year is to continue to make Reddit faster, easier to use, and safer. Our new web platform, Shreddit, is out to 100% of users, and it's more than twice as fast as the platform it replaces. Speed equals retention, retention equals growth. We also recently updated our native apps with instant comment loading. Comments and conversation are the heart of Reddit, and we made it faster and easier for users to join in.

Our investments in machine learning and AI will continue to improve relevance, engagement, and moderation. We have and will continue to use machine learning to improve our ability to help users find communities they'll love, which in turn increases engagement across the platform. And for moderation, we've trained our own large language models that have dramatically reduced the time required for communities to enforce their own rules. We're in testing with this in a couple of communities right now, and we'll be rolling it out more broadly soon.

To grow outside the US, we're using machine translation to unlock our mostly English corpus. We believe this will not only drive growth in the near term, but also over time will allow users from all over the world to connect, regardless of the languages they speak.

Now turning to some of our emerging areas as we think about the next generation of Reddit, a few of the initiatives we have here are the user economy, developer platform, and search. The user economy refers to a family of features that will allow users to spend and earn money on Reddit. Launching soon is a revamped version of user awards and Reddit Gold, which is our virtual currency that enables both of these things.

Our developer platform, third party developers will be able to push the boundaries of what a subreddit can be, and we're excited with the early progress here. For example, WallstreetBets. has live stock tickers for trending stocks, and a number of sports subreddit have built live scoreboards to track game.

Historically, the value of Reddit to our users has been in conversation about recent topics. But with improvements to on-platform search, we can unlock the huge amount of latent value in all of our past content, including all the answers, reviews, and advice that we have, and we are going to continue to invest here.

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It's an exciting time. The technology landscape is evolving and Reddit is becoming more important and valuable. Reddit is one of the largest places for authentic connection and conversation online, and more and more people are discovering and appreciating this. We believe Reddit is more important now than ever before, not only as an alternative to traditional social media, but as we enter the AI era where the value of our corpus continues to grow.

The paradox I see is that as more content on the internet is written by machines, there's an increasing premium on content that comes from real people, and we have nearly two decades of authentic conversation, unique perspectives, earnest advice, honest reviews, and answers to questions about every topic imaginable.

There are multiple ways Reddit benefits from the evolving ecosystem, and we're still in the early stages of exploring use cases for Reddit's data. This includes both internally to improve the platform and experience for users, and externally through partnerships. We remain committed to the open internet, but we need to be considered of where Reddit's data ends up and what it's used for, and we need to find the right balance between open and fair and respectful of our users. To wrap up, this was a strong start of the year for Reddit, and we're executing better than ever. We see so much opportunity and could not be more excited about our future.

Thanks again for taking time with us today, and now I'll hand it over to Jen.

Jen Wong

Thanks, Steve. Hello, everyone. Our IPO was an important milestone for Reddit and our communities, and I'm thankful for everyone that helped make it possible. I couldn't be more excited about Reddit's future as a public company.

Reddit is still early in its monetization journey. I'm proud of what we have achieved to date with our advertising business and our new and emerging businesses in data licensing and user economy. We aspire to be a leader in contextual and interest-based advertising, and every day we are working to improve our advertiser solutions and bring new advertisers to the platform.

In the first quarter, we successfully scaled and diversified our business, expanded partnerships, and executed on our ads platform roadmap. Total revenue growth accelerated in the first quarter and grew by 48% year-over-year to \$243 million, the fastest year-over-year growth since Q1 2022.

We continue to see traction with our strategies alongside a more favorable ad market versus last year and made progress in our emerging data licensing business. Total US revenue grew 53%, and international revenue grew 30% year-over-year. International revenue represented 18% of total revenue in Q1.

Advertising revenue grew 39% year-over-year to \$223 million, the third consecutive quarter of accelerating growth year-over-year. Other revenue grew over 450% year-over-year to \$20 million, primarily driven by new data licensing agreements we signed in the first quarter.

I'll first discuss our ad revenue drivers. Our investments enabled us to drive performance for advertisers. Click volume doubled, and we improved click-through rates by over 40% year-over-year in the quarter. Our full suite of solutions across the marketing funnel continued to position

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us well for a broad set of advertisers. Our performance advertising business, which drives traffic and conversions, drove more than half of our growth in the quarter.

Ad revenue growth was primarily driven by increases in impressions delivered against a year-over-year decline in pricing. We saw revenue growth across all of our managed channels. Our scaled business, mid-market and S&B, grew at a faster pace than total revenue. This is an investment area for us and was in line with our expectations.

Our large customer service channel, which accounted for slightly over 60% of total revenue, saw broad-based growth. Looking at verticals, the Tech vertical returned to growth, and we experienced particular strength in the finance, pharma and CPG categories, each growing over 50% year-over-year. I'm pleased with our progress to diversify our revenue, and in Q1, there is no vertical that exceeds 20% of our ads revenue today.

In terms of geography, international revenue increased 30% year-over-year to \$43 billion in the first quarter, and acceleration from 21% year-over-year growth in Q4 last year. This was driven by strength across large and mid-market customers in EMEA.

We've also made meaningful progress against our Ad Tech roadmap. Here, we are focused on a few key pillars. Number one, improving usability for our advertisers and productivity of our sales force. Number two, driving full funnel performance of our ad solutions. And number three, offering our advertisers Reddit unique solutions and creatives that they can't find anywhere else.

But first, to improve usability for advertisers, we focused on cutting down the campaign setup time for self-serve and small businesses. We're using advancements in AI to remove friction and reduce setup time. We launched an AI-driven headline generator for Simple Create, which is mainly a self-serve creation flow for small businesses, and we're seeing promising early activation and adoption rates.

Next, to improve performance and measurability of our ad solutions, we made progress building out our conversion API ecosystem to capture more signals and improve our models that drive performance. We launched our CAPI late last year, and this quarter, we announced integrations with Tealium, a leading customer data platform, and Google Tag Manager.

We continue to innovate with our ads products to bring our advertisers closer to our communities. We launched free-form ads, which provides advertisers with a versatile and creative format to drive deeper engagement with users. Testing has shown that free-form ads have a meaningfully higher click-through rate than other ad types, and we've seen double the number of campaigns per day since its launch.

We've also launched Reddit Pro, a free suite of AI-powered insights and tools to provide businesses an opportunity to establish and grow a meaningful organic presence on Reddit. We're currently in beta with over 1,000 businesses, including Taco Bell, Wendy's, NFL, The Wall Street Journal, as well as several SMBs.

We're also continuing to lay the foundation for the future of shopping on Reddit. Users come to Reddit during their purchasing journey and value the rich, human-powered product and review

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discussions on our platform. We launched our first shopping ads and catalog ingest capabilities last year and are now testing dynamic product ads. We're pleased with the early results.

Next, I'll share an update on our data licensing business. Our data licensing business continues to grow and evolve as the market is still nascent. In the first quarter, we signed licensing agreements with various companies in the social listening space and with Google, as we previously announced. The financial impact of the signed partnerships are reflected in our Q1 financials as Other Revenue and in our revenue guide for Q2, which you'll hear from Drew shortly.

Over time, we will strategically explore data licensing partnerships, as well as other uses for Reddit data internally, which we believe is also valuable in improving the platform and experience for our users and customers.

Overall, we delivered solid results in our first quarter as a public company and remain focused on executing and fulfilling our mission. I hope you share the same excitement that we have in Reddit's future and look forward to the journey ahead.

Now I'll turn the call over to Drew.

Drew Vollero

Thank you, Jen, and good afternoon, everyone. As we often say, Reddit has a powerful financial model that's straightforward, advantaged, and scalable. The power of the financial model is evident in the first quarter, and we reached an important inflection point.

In the first quarter, we were adjusted EBITDA profitable, which is both a marked difference from a year ago and a positive start to 2024. The key to that success was that revenue grew over five times as fast as total adjusted costs. In the quarter, revenues grew 48% year-over-year, and total adjusted costs grew 9% year-over-year.

Let's summarize the highlights. DAUq averaged 82.7 million, up 37% year-over-year, driven by structural product changes that have increased speed, onboarding simplicity, and consumer connection to more relevant content. Domestic users were 50% of total users in the quarter. Logged-in users were about 48% of the user base.

Sequentially, we added 9.6 million users in the quarter, our largest increase in three years, with 60% -- with over 60% of those users being Logged-out. Revenues were \$243 million, up 48% year-over-year, driven by both a strong acceleration in the ad business and the incremental data licensing revenue from new, large and small deals. Other revenue was \$20 million in the quarter, up 454% from last year. International revenues were \$43 million, up 30% year-over-year, and 18% of total revenue.

Reddit's business model has a couple of distinct advantages, which really shined in the quarter in two areas. First, our gross margins remained best in class. Gross margins were 88.6% in the first quarter, up 500 basis points versus last year, driven by high margin revenue gains, lower hosting contract prices, tech stack efficiencies, and the creative margin tailwind for the new data licensing deals.

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Second, our CapEx remains very light. CapEx was about \$3 million in the first quarter, and just over 1% of revenue. Low CapEx was a contributing factor to our positive re-cash flow that was \$29 million in the quarter. As we scaled our business, we saw great operating leverage in two areas.

First was leverage in operating expenses and headcount. Non-GAAP operating expenses were up 10% year-over-year as we continued to hire selectively in strategic areas such as sales, ad tech, and machine learning. Total Q1 ending headcount increased 2% sequentially and 4% year-over-year.

Second was operating leverage on incremental sales. In Q1, revenue increased approximately \$79 million year-over-year, and adjusted EBITDA increased about \$60 million year-over-year, implying that over \$0.75 on the incremental sales dollar reached the bottom line in the first quarter. These highly profitable incremental revenue dollars really helped drive positive free-cash flow and swing our business into profitability on an adjusted EBITDA basis.

That said, we did have a GAAP net loss of \$575 million in Q1, driven by stock-based compensation and related taxes from the IPO. Stock-based compensation, including related taxes for the quarter, was \$595 million, up from \$13 million a year ago, driven primarily by one-time expenses related to the vesting of restricted stock units in connection with our initial public offering.

On a non-GAAP basis, adjusted EBITDA was approximately \$10 million in the first quarter, nearly a \$60 million improvement from the first quarter of the prior year. This marks our first profitable Q1 on an adjusted EBITDA basis, which in digital advertising is traditionally the slowest quarter of the year.

Positive adjusted EBITDA was a strong driver of cash flow for the quarter. Cash from operating activities was \$32 million in the first quarter, driven by improved performance and working capital improvements in DSO and DPO.

A couple of other quick financial notes of interest on cash and shares. At the end of the first quarter, cash and marketable securities ended at \$1.67 billion and includes all IPO proceeds at this point. Dilution from employee grants was about 0.6% of our fully diluted shares outstanding, as we issued about 1.2 million shares to employees in Q1. We view stock as a cost of our business and plan to manage dilution to be in line with peers in a low single-digit percentage range over time.

As we look ahead, we'll share our internal thoughts on revenue and adjusted EBITDA the second quarter, which is where we have the greatest visibility. In the second quarter of 2024, we estimate revenue to be in the range of \$240 million to \$255 million and adjusted EBITDA to be in the range of \$0 million to \$15 million.

So, in summary, Q1 was a strong start to the year with accelerated user and revenue growth and modest cost growth, which fueled solid margin expansion, adjusted EBITDA profitability, and positive free cash flow.

Now let me turn the call back over to Steve.

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Steve Huffman

Thanks, Drew. Thanks, Jen. Okay, we're going to take a couple of questions from the community quickly, and then we'll turn it over to the call here.

So, first question from the community, how are your initiatives going in terms of licensing data for AI data models? Plans to expand beyond Google?

The short answer is yes, but we're being considered and selective with our partners, especially for the larger scale search and training deals. We need to be very considerate of where our data goes and what it's being used for.

Can't comment on deals that are under negotiation, but the landscape is bifurcated. There are a handful of large players, and then there are many more smaller opportunities, and we're looking into both.

That said, not all players in the ecosystem, I think, are good fits for Reddit. We're in early days here. I'd say big picture, we have seen an increase in interest in Reddit's data for various uses, and so we'll look forward to how this grows looking forward.

Okay, second question, Jen, I think this one's for you. Can you go into specifics about what types of advertising are most responsible for the strong increase in earnings? Is it mostly increased sales on previously existing types of advertising or new types of advertising on the platform?

Jen Wong

Sure, thanks for the question. We actually saw growth in both supply and demand. Let me talk about the demand side. Across the funnel, we saw growth across the funnel, sort of the brand upper funnel, mid funnel, which is traffic driving, as well as the bottom of the funnel, which is driving conversion.

Brand, in particular, had a nice quarter and showed strength, certainly relative to, I think, Q1 2022 was the last really strong brand quarter, so it was really nice to see brand come back. Mid, I'd say, is doing really well, because we have made those improvements in CTR, 40% year-over-year, double in click volumes, a lot of efficiency for advertisers.

We also saw broad-based strength across the managed channels, particularly mid-market and our large customer channel in North America and in continental Europe, and then we have strength in verticals like finance, pharma, CPG, and tech return to growth.

On the supply side, while designing new ad placements is an opportunity, our inventory today really consists of two core ad types. It's the ad in the feed and the ad in the conversations or the comments page.

We did see strong growth in conversation placement inventory from users spending more time reading comments and diving deeper, as well as from some ad platform work. So both supply and demand were helpful in drivers in our business.

Jesse Rose

Great. Thanks, Jen. Julianne, why don't we open up the line and take some questions from folks on the line?

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Operator

Certainly. (Operator Instructions). Our first question will come from Ron Josey from Citi. Please go ahead. Your line is open.

Ronald Josey

Great. Thanks. Thanks for the question, Steve, Jen, Drew. Great quarter. I want to ask Steve, on global DAUq's growing by 9.6 million sequentially, just talk about the drivers here and the sustainability. Steve, I know you mentioned Shreddit is now fully rolled out, Improved Search is doing better, and the home feed ML. But any insights on the sustainability of just the user growth would be helpful.

And then, Jen and Drew, I think the comment was the ad market is healthy but would love to hear your thoughts as we get into the back half of the year. Certainly tougher comps as well. Thank you.

Steve Huffman

Sure. Sure. Thanks. So, user growth, we're happy with the results. The main driver of growth is the product is better. So, yeah, we mentioned Shreddit. Performance equals retention for users. Web performance also has been driving an increase in traffic from Google, which is driving the increase in largely in the Logged-out users. But Logged-in users, which is the core of our business, the bedrock of our inventory is also up 27% year-over-year. The growth there is really driven by improvements to product quality.

So, Sign Up has gotten much more efficient, Onboarding has gotten better, and then Home Feed relevance. So, users finding content that's relevant to them in their first sessions on Reddit. We've gotten much more effective at that.

We feel confident looking forward because the growth that we've seen isn't a, it's not like a onetime spike. We've been adding users very consistently for the last year. Roughly 2 million users a month or 7 of the last 10 months and 1 million users in eight of the 10 last months.

Long story short, our work is working of focusing on product performance and quality and that driving retention. I'd say the other thing we're looking forward to as we go forward is international growth. We're still 50/50 US versus non US, but our peers are more 80% to 90% non US. So, I think there's a huge opportunity there. I think one of the big unlocks for us in the near to medium term is machine translation.

So, we're translating our entire corpus that's today, mostly in English into other languages and hope that that will help accelerate international growth.

Jen, Drew, do you want to comment on the second half of the year outlook?

Jen Wong

Yeah, I'll kick it off and then pass it to Drew. Look, I think the ad market is healthy. Brand advertising is as strong as it's been since 2022. We're feeling good. Many parts of our business are working well in Q1 and the first half and are well positioned for the second half. So, our strategies are gaining traction.

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In ads, I like the vertical diversification. We like the accelerated growth in the mid-market channel and both in North America and in coming in, Europe. So, a lot of positive traction. The reality is Q1, it had an easier comp, 12% year-over-year growth from Q1, 2023.

We do have low visibility into the second half and 80% of our revenue is in the US and there is a US election, which could impact our advertisers' flight campaign, especially brand advertisers. There's also inflation, geopolitical context and some tougher comps in Q3, Q4. But we feel like we've got a really solid start. Our strategy is gaining traction. We feel good. But we just have low visibility into the back end of the year.

Let me pass to Drew to add some more color.

Drew Vollero

Yeah, no, I think that's well said, Jen. I think that it was a good quarter for us, Ron, start to finish. Even March was very strong. I think, as Jen mentioned, the comps in the first quarter are a little lower than the back half of the year. They're in the 20s. We also may have picked up some momentum from the IPO. Hard to say that to identify that, but we did, as I said, see strength in March.

And look, on the cost side of things, I think we've found a good rhythm right now. I think in the last four quarters, total adjusted costs have been up 5% to 15%, kind of average 9%. I think we're really at a place where we have good scale as a company and we're adding resources where it makes sense. I talked about adding resources in our machine learning teams and in our sales teams.

I think we're in a place where we have scale and we're adding selectively. As you know, headcount is by far and away the biggest part of our cost driver. OpEx is 85% of total costs here, total adjusted costs here at the company. So, I think we feel good, at least for the next couple of quarters on how we're thinking about things. But we'll see how it plays out. I echo Jen's sentiments on kind of the headwinds and tailwinds on the back half of the year and the things that we're watching.

Operator

Our next question comes from Doug Anmuth from JP Morgan. Please go ahead. Your line is open.

Doug Anmuth

Thanks for taking the questions. I have two, one for Steve, one for Drew. Steve, you highlighted the large opportunity in on-platform search. Can you just talk about what excites you here for both users and with advertisers? And then, Drew, if you could just follow up on those comments a little bit more on the investment philosophy this year. You pulled back a lot in '23 that we're obviously seeing big incrementals in one Q. Just how do we think about that 5x spread between revenue growth and cost growth as you go through the course of the year and beyond? Thank you.

Steve Huffman

Sure. Thanks. So first question is on on-platform search. So like a ton of our users run searches in their first session on Reddit. And so when I talk about, one of the biggest challenges and opportunities we face being helping users find their home on Reddit, many of them are typing into a box exactly what they're interested in. So I think just from a user experience point of view, on-platform search on Reddit being great is a huge opportunity.

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Now, today we do over 1 billion queries per month on Reddit, but I think there's an opportunity for quite a bit more. We've been investing in our search back end from quality of life features like spell check and Autocomplete are coming online as we speak. We've got some, I think, very sensible and overdue improvements to the user interface coming up this year as well.

Then as the search product itself gets better, of course, then there's an opportunity to monetize those pages. So, there are no ads today on search result pages, but that's obviously a very high performing product elsewhere on the Internet. I think there's no reason to believe that it wouldn't be for Reddit as well, because the intention is so explicit when users are searching.

So first step, improve the product for users, and then I think when we feel like we have a good foundation there, we'll start looking at monetization.

Drew, I think the next question was investment philosophy.

Drew Voller

Yeah, investment philosophy. Doug, thanks for the question. Look, in terms of the investment philosophy, it didn't change here. What your point about revenue 5x as fast as cost, yes nice to see for sure. It really was about the revenue line or the numerator expanding. Last three quarters, we've averaged about 23% revenue growth, this quarter 48%. If I look at our total adjusted cost growth, last four quarters has been 9%, this quarter was 9%.

So the investments in the business stayed the same or consistent with the four quarter average. It really happened here as we were able to leverage those resources and really drive a top line that was meaningfully different, double the growth rate over the last three quarters .

So, I think that's really what happened in terms of that. I will tell you that's an output metric. We didn't sort of design the quarter to be that way. I think internally, long term, Doug, we'd like our revenue growth rate to be twice as fast as our cost growth. Like that's how we think about running this business over the long term. But there are certainly quarters where we can do better than that, and I think the first quarter was a prime example of that.

Operator

Our next question comes from Brian Nowak from Morgan Stanley. Please go ahead. Your line is open.

Brian Nowak

Thanks for taking my questions. I have two. The first one is on the strong user growth. Is there any way you can sort of help us unpack a little bit the benefit of the new Google partnership, maybe any quantification of the incremental traffic, what you saw in traffic trends coming out of that from Google? And then I guess to follow up on that, where are you on sort of the Google SGE integration? Should we think of it as there's sort of are more queries are going to be integrated in over the course of a year to make this tailwind grow? Or sort of how does that how does that relationship work?

Steve Huffman Sure, Brian, its Steve. The biggest factor driving user growth is the performance and product quality, because that's what's driving, that's what's driving retention. So retention compounds into growth over time. Yes, we're seeing a tailwind from Google and you can see that in our Logged-out numbers. But that's not the agreement we have with Google around the data training. That has nothing to do with traffic.

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I think really the most the biggest driver of uptick in traffic from Google is also performance. Googlebot likes speed. It keeps track of the performance of the pages it crawls, and we made those pages in some cases more than twice as fast, in some cases up to five times as fast. So that has a huge improvement in ranking.

We do see algorithm changes from Google. Usually you can expect maybe two a year, but sometimes they help, sometimes they hurt. So you'll never hear us celebrating or complaining about those. But you can see the consistency in our growth for the last year, right. Over 1 million users a month, basically, for the last year. So that's been, I think that's been really strong and consistent and speaks to the foundational improvements.

Then I think there's a secular trend that benefits Reddit, which is in the AI era people value authentic content more or content written by humans, and that's what Reddit is and that's what Reddit has. So, I think there's a thirst for authentic opinions and advice and commentary and just conversations. So I think that's the kind of irony of the of the technology shift that we're going through is it's the value of humans and fresh ideas continues to grow.

Now, in terms of the Google experiences, how their product impacts Reddit. But that's one of the things we're considerate of when we do any sort of deal, which is like how do you display Reddit data, and making sure that folks link to us in that sort of thing. So, look, I feel pretty confident in how this will play out. Like we've been a beneficiary of Reddit being in search and in Google for a long time, and so I think Reddit being well indexed is good for our respective companies, but most importantly, it's good for the end user who gets to find answers to their questions, gets the it brings new users to Reddit. It helps them find their home on Reddit.

So, I think, Google is getting better and better at displaying our content, it can only help, and we've seen that play out for over a decade now.

Operator Our next question comes from Justin Post from Bank of America. Justin go ahead. Your line is open.

Justin Post Great. I'd like to ask one more about users and then just guidance philosophy. Certainly a good user quarter. Just wondering about retention and churn. Are you seeing more people come at the top of the funnel and that's driving it? Yeah, we're talking about Logged-in, of course. Or are you just seeing less churn or are people coming in more frequently? So weeklies are coming in daily or is it everything? But maybe a little more color on that.

And then, Drew, maybe on the guidance, since this is your first quarter, just tell us a little bit more about your guidance philosophy. Sequential is maybe a little less than last year. Maybe it was a really tough comp, but just tell us how you think about guidance that you want to provide each quarter. Thank you.

Steve Huffman Sure. So on users, the credit has long had a massive top of funnel. You know, we've been reporting more than 500 million monthly users for quite some time. Now, we only update that user, that number periodically because we really run the business on dailies and weeklies. So the way we think about it is we need to improve user retention.

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We're pretty confident that just about every user on the Internet is going to bounce off Reddit periodically, whether it's through search or word of mouth or this or that. The challenge to us is, can we retain those users? And so that's why our focus has been on quality performance onboarding. So we've seen really nice improvement to new user retention and user resurrections, so bringing old users back.

So those are the input metrics that we really look at when we're building new products, and those compound in the growth. So, that's why I keep saying I think what we've done is made improvements to the foundation. We get to mine those improvements for some time as opposed to, this is maybe a one- time shift or things, we had a good quarter. The product is simply better and we're benefiting from that now.

Okay. Second question, I think, Drew, was on guidance.

Drew Vollero

Right. Justin high level, we will guide on a quarterly basis one quarter ahead. We will do revenues and we'll do adjusted EBITDA, that's what we're comfortable with at this time. In terms of the second quarter guide, I take your point. We grew 48% in the first quarter, the midpoint of the guide is mid 30%*s*. So there is a bit of a little bit of a decel there.

Look, I think, as we mentioned, it was a strong quarter for us top to bottom. The month of March was very good for us, as I mentioned. I think we're just looking at the comps a little bit. I think that's a little bit driving where we are at this point. The comp was, as Jen mentioned, 12% in the first quarter, the comp is 23%.

I do think we might have gotten a little bit of tailwind from the IPO in the first quarter. We'll see if those tailwinds continue. A couple of other things that kind of worked in our favor in the first quarter, right? You get an extra day with leap day. Easter was a little bit earlier. Like all things kind of worked a little bit. But overall, as Jen said, it's a good solid start to the year for us, and we'll sort of see how we do.

I think bigger picture, we're keeping our eye on a couple of things, particularly geopolitics. Like that is the one thing that can affect you inter quarter, depending on sort of what the geopolitical situation is. Brand advertisers can pull advertising if things aren't where they want it to be from time to time.

So those are – that's probably the biggest one we're looking at. Inflation and elections, too, those are the other couple of things that we take a look at. But overall, it was a good quarter, first quarter and we ended with momentum. We'll see how the second quarter plays out. But it really is kind of comp driven and sort of a couple of tailwinds that we had in the first quarter. We'll see if they continue the second.

Operator Our next question comes from Eric Sheridan from Goldman Sachs. Please go ahead. Your line is open.

Eric Sheridan Thank you so much. Maybe I could just get a two parter for Jen. Jen, when you're out talking to advertisers and thinking about the future of the platform, number one, which platform initiatives and product initiatives are resonating the most in terms of driving either advertiser account or advertising spend as we get deeper into the 2024 budget cycle. As you go

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out and have those conversations, what is still the big ask or friction points you and the team are trying to solve for to bring more advertiser account budget in beyond 2024 on your long term roadmap? Thank you.

Jen Wong Thanks for the question. I'd say, I think our aspiration to be a leader in contextual and inter-space advertising is very differentiated.

And it resonates with all of our advertising partners, and the idea that Reddit can be a full-funnel solution, I think it is very attractive, and we've made good progress against that. We started at the top of the funnel with brand. I think we have really done a lot of work and delivered a lot of performance and efficiency at the mid part of the funnel with the continuing growth in click-through rates and click volume.

Now with launches like Dynamic Product Ads and you had the catalog ingest last year and the work we're doing in app and install conversions at the bottom of the funnel. I think advertisers see how serious we are in delivering value at the bottom of the funnel. So, this idea of being full-funnel and being differentiated in terms of our targeting capabilities, I think, is really resonating.

We are focused on laying down signals for the bottom end of the funnel. So, you see the work we did with a Google Tag Manager partnership and Tealium. We'll look at more of those. So CAPI Conversion API, incredibly important for signals into the models that we're building at the bottom end of the funnel. Just working with advertisers to start testing spend against the solution and continue to iterate.

I think there's real excitement about, wow, you're doing great in brand and mid funnel, and now the lower end of the funnel is essentially going to open up for us to go truly full funnel. That's really, really exciting. So that's what our advertisers are, I think, particularly excited about to just have that additional objective.

Operator Our next question comes from Benjamin Black from Deutsche Bank. Please go ahead. Your line is open.

Benjamin Black Great. Thank you for the question, Steve, I know you're pretty excited about the Developer program and how that could be transformative longer term. But more near term, what are some of the investments you see as necessary to build that out even faster? And could the Developer Platform have potential positive implications for the ad business as it grows?

And then the second one, I'm not sure if this is for Drew or for you, Steve, but obviously, a big quarter of Logged-out user growth. But just given the fact that Logged-in users monetize at a slightly higher rate, can you just sort of help us understand what the strategy is to convert more of the Logged-out users to Logged-in? Thank you.

Steve Huffman Thanks for the questions, Ben. So first, Developer Platform. Yes, I am very excited about it. But I would actually frame the Developer Platform as a relative near term opportunity. We've got a couple hundred developers playing with it now. Some of their work is in production, as we speak, so some of the kind of scoreboards and stock tickers and things like that.

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But we can see in development another level of interactivity. Our goal is to get this fully open. So all of the developers off our wait list and there is thousands really like call it this summer, and then started getting the monetization features in there later this year.

So I think there's a lot of opportunity there. All hands on deck trying to bring this to market. So I think the Developer Platform and the new Reddit Gold and the user economy kind of dovetail together really nicely later this year.

In terms of the dynamics between Logged-out and Logged-in. Yes, the bedrock of our business today is Logged-in users. Again we see plenty of Logged-out users, particularly from Google. But I don't think from a product point of view, the best strategy for us is to try to convert a Logged-out user into a Logged-in user in any particular session. They're usually coming from search. They have a question and we need to give what they're looking for is an answer, and we want to give them their answer.

Now, I would look at the total DAUq as the look at -- think of that as like opportunity down the road. Those are users, those are human beings that are on the Reddit platform for various reasons. We just know that in any particular session, not everybody's looking to join a community and have a profound experience. Sometimes I just want an answer to that question and that's okay.

The other thing, I think that's really important is that we grow our ability to monetize Logged-out users. Most of them are landing on what we call a post detail page or a comment page. Just a very specific page. In many cases, it's talking about a specific product.

There is an ad unit on that page, but I'd say we're still in early days there, getting advertiser density so that we can have a well targeted ad on all of those pages. So, I think there's lots of potential and monetizing Logged-out users.

So in summary, I'd look at it. The Logged-out users today represent potential for future Logged-in users. They also represent potential and monetization in their own right as well. But from a product point of view, we focus on the Logged-out users having a great experience for what they're trying to do, and when a user hits us, opening the app for the first time or coming to our front page, really focusing on giving them a great experience to maximize their retention.

Operator Our next question comes from Tom Champion from Piper Sandler. Please go ahead. Your line is open.

Tom Champion Hi, good afternoon. Steve, I'm wondering if you could talk a little bit more about the machine translation tools that you're building and maybe with an eye towards the overseas market. I think the release talks a little bit about French or the French language maybe being somewhat underway. Just curious what you're seeing with the user trends in maybe in France or other French speaking countries.

Then, you know, maybe for Drew or Jen, very early days in data licensing and I think we're all very interested in it and just curious the early learnings either financially or the potential with the product. Any thoughts there would be really helpful. Thank you.

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Steve Huffman Thanks. Great question. So, the first one on translation. So, one of the things I think that's most exciting for us with large language model is the ability to do translation at human level quality. This was just quite simply technology that didn't really exist a year ago. Now we can translate Reddit's entire corpus into another language. So, French is the first language we're doing this in. It's in testing now. The results are looking very promising.

So, if you're a user in France, in this test group, you can see all of Reddit, including like big blue chip communities like AskReddit entirely in French. So, this is leading to, as we would hope, improved retention and time on site and then growth among these users, and they're also seeing this content get indexed by French language Google. So, we start to see new users coming to that content as well.

So, I think really promising start here. We're going to do more languages this year. As we get the product polished, the next one would be Spanish, which I think represents a pretty big opportunity. So, this is very exciting.

I think, I keep saying everybody has a home on Reddit. Today, that's a true statement if you speak English. But we want to make that a true statement for everyone in the world. I think it's not a matter of if but when. But we want to make that when as fast as possible, and so, I think this represents our best shot at dramatically accelerating our growth outside the US in a non-English markets.

Second question was about data licensing for, let's start with Jen.

Jen Wong Thanks, Steve. So, on data licensing, Steve mentioned truly a barbell business where one part of the business is well-established markets, things like social listening, maybe financial markets. In social listening, I think we've learned there's clearly an established market. There's interest in Reddit data for insights that lead to business decision-making, marketing decision-making. It is a new market that I think has potential to grow over time. But it's a lot of players and a lot of players in sort of smaller deals, but established market.

I'd say another learning is in this barbell side, we'll take certain verticals like finance, et cetera, which are a little bit outside of our domain. Potentially working with partners who have access to distribution is very interesting to us as we learn those markets. So, that's something that we're thinking about.

On the other side of the barbell, which are fewer deals, fewer partners, and probably a handful, but larger are the folks who are AI model builders. On that side, I'd say, these are midterm deals is how we think about them because it's such a nascent and early market that we want to see how things unfold. So, not forever, but long enough to understand value.

User privacy is very important to us, and that's, very important in how we craft these partnerships and consider partnerships, making sure that users, when they have edits and deletions are respected is very important to us.

I'd say partners where we're non-competitive and where we can grow together, it's not always the case. So, we just want to be sure that the partners are right fit even over the midterm. So,

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those are the things that I think we've learned. And then, I'd say the AI partnerships that, we're sort of more selective given all of those pieces.

Drew Vollero I was going to add two things.

Jen Wong Drew, do you want to add.

Drew Vollero Yeah, let me add two things on the financial side, Tom, both positives. I think, as Jen said, in the barbell market, it's been nice to see on the smaller side. There are seven figure deals available there, and so, that's been nice to see the team work hard and get those done. So, that's been a benefit for a company like ours.

Then, the other piece is just, sort of the cost of putting together the data as we're pulling it. It's a high gross margin business to begin with. This has really been accretive to our business that the cost of preparing the data is probably a little less than we thought it would be and really flows through quite well and the P&L is one of the keys to success that you see in our first quarter numbers.

Operator Our next question comes from Richard Greenfield from Lightshed Partners. Please go ahead. Your line is open.

Richard Greenfield Hi, thanks for taking the question. I guess I wanted to follow up, Steve, on your answer about Google. You really talked about how Google indexing for AI will ultimately be good for Reddit in the long term. But I guess what I'd love to reconcile or help understand is when consumers are using AI platforms, like I go on ChatGPT or I go on Gemini, and when I'm searching for something, I'm sure I'm getting content that I believe is coming from Reddit.

But it doesn't say this came from Reddit or this -- like when I go to Google and do a Google search, I get a very clear set of links that say these are from Reddit, and I click in and I go to a Reddit page. That doesn't happen in AI. Will that happen in AI? Is that the future that we see? And I'm just trying to understand traffic. Does traffic end up slowing to things like reddit.com and to your app versus these applications where you're making money?

How do you see this evolving? Because I think it obviously is impactful to your brand and what your brand means to the consumer.

Steve Huffman Thanks, Rich. Good question. Look, when we do these agreements and the ones we have so far are very clear that, if you're using Reddit's data in an answer, like in your example, you have to link to Reddit or you have to say Reddit, you have to use our branding, you have to link to us. I think that's -- it's really important to your point.

We are starting from a position of we would like Reddit to be out there. I think it's good for the consumer. I think it's been good for our platform. We've lived that for a long time in search, and I think of the AI products that we know today as really extensions of search. Users are typing into a box what they're interested in and getting answers.

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Now, will people be able to take Reddit's data, not send any users to us, take credit for themselves and enrich themselves? Going forward, the answer is no. I think our historical way of handling public data no longer works.

In the past, I think crawling Reddit benefited the whole ecosystem, including users on our platform, as we said. But increasingly, we are seeing folks who hoard public data and they use it to enrich themselves. So we're open minded about having relationships with companies like this and being included in search and use for training.

But it will come with guardrails, with agreements that protect our platform and our users. Similarly, in the past, Reddit has been open for research and we want to preserve that. So, I think there are uses of Reddit data outside of use outside of Reddit that are really important.

I do want to be clear, under no circumstances will we ever license behavioral data or data that is not already public. But I think these guardrails are really important. So, look, we're open and we're open for business. But we're not just going to give it away. I don't think companies that have taken or continue to take our data can expect to continue to do so with no repercussions.

Operator Our next question comes from Mark Shmulik from Bernstein. Please go ahead. Your line is open.

Mark Shmulik Yes, thanks for taking the question. Just a longer term strategy one as we kind of get our first visual of Reddit as a public company. But, as you think about all the different efforts that you've kind of shared underway around advertiser diversification, more ad products, the user economy, data licensing efforts, any way to think through dimensionalizing how you're thinking about prioritizing investments across all those monetization initiatives? Thanks.

Steve Huffman Yeah, look, I'll start and see if Jen and Drew have anything to add. But our top priority and where most of our resources go is the core of Reddit. So this is the community and conversation-platform, our apps and the website, and then the ads business. I think there's a tremendous amount of potential in this area. So, I think we can grow users quite significantly, both in the US and even more so outside the US.

Then we've got a long way to go on that. We're very happy with the progress, but really, it still feels like we're at the beginning of our journey. There's just so much upside. So that's the core of what we do and how we think about the future. Then, kind of next couple of chapters are, yes, the user economy and developer platform and the search opportunity. I think of this as like a 70/20/10 model, right. 70% on the core of our business, and then the rest on these future initiatives.

Now, the things, our future initiatives, user economy, developer platform, search, they're pretty down the fairway for Reddit. These, I think, are very sensible opportunities to expand the platform and to grow our business. So it's not too far afield. I think all these things kind of fit together in a nice way. Of course, the other big opportunity, right, the international growth machine translation, I put that in the core. But it has a tremendous amount of upside itself.

Jen, Drew, what would you add?

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Drew Vollero From here, Steve, I would just add that the margin profile of the business just really encourages investment. We have so many things that I think sort of lead us to want to invest in this business, at least in, we think of our business as a three-legged stool, right, in terms of ad revenues and licensing revenues and then kind of the user economy piece. But at least in the first two, I mean, you've got a great collection of high margin, immediate payback, no capital.

Like, that's where the ad business is, and that's where we're finding the licensing business here. The investments are really headcount driven, and so those are just easy businesses to track. It's easy to see from an accountability perspective what you're progressing here. But, the high gross margins give you a good chance for the payback. The immediate term, you can course correct if you need to. It really does, sort of set yourself up to really look for the right investments and accelerate the revenue growth rate. That's how we think about things sort of conceptually.

Now, this third leg of the stool as it relates to the developed platform, the user economy, that's coming together now, and so we'll see what that ends up being. Right now, we're doing kind of more product market fit work. But, overall, the dynamic of the first two pieces of business, Steve, I think are just really unique and special in the sense that they're short term, high margin, no capital. Those are really financially easy places to invest where you can see your payback quickly and course correct if you need to.

Operator Our last question today will come from Andrew Boone from JMP Securities. Please go ahead. Your line is open.

Andrew Boone^ Thanks so much for taking my questions. Two, please. The first for Jen, you talked earlier about scaling the business and adding diversity as a key area of focus. Can you just talk about your progress here, especially given the strength that you saw in SMBs this last quarter? I think there was 50% growth in the scaled business area. Then, Steve, a bigger picture question. Video is one of the key trends across in-app time spent at large. Can you talk about how you think about video and how you're incorporating video onto the platform? Thanks so much.

Jen Wong I could take the first piece. We are diversifying on multiple fronts. Number one, in terms of geography, growing our monthly active advertisers outside of US. Number two, in terms of advertiser size. So, the scale channel, which is mid-market advertisers and SMBs, we saw strengthen in Q1 in an area of investment for us.

What I like about those advertisers is they really start at the mid-funnel. They tend to be more performance oriented. I think they're benefiting from some of the performance improvements we made in the platform. There are just thousands more advertisers in that segment that can be on Reddit. So, that is something we continue to work against. We are adding and growing our monthly active advertiser count in that segment. That's a focus for us as well.

Then verticals. Verticals is something over the last 12 to 18 months we've expanded into and continue to have a lot of opportunity in. In our large customer segment, while we touch top 300 advertisers, a lot of these have multiple business lines. We're only penetrated in a handful. So there's just a lot more opportunity in sub-brands and sub-businesses.

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Even in that segment, as we grow out the different verticals, and we see segments like finance and pharma and CPG growing 50% year-over-year. It just is a signal that there's just a lot of opportunity there. So, it's a priority for us. We are growing monthly active advertisers. I think that scale segment in particular, there's just thousands more advertisers that can be on our platform.

Steve Huffman Okay. And as for video, yes, as you say, video is obviously a huge, important content type on the Internet. I'd say the way we think about it at Reddit, like Reddit is no different for what it's worth. Video is one of our fastest growing content types. More and more people spend more and more time on video on Reddit. But, I do think from a product point of view, try to think of Reddit as being content type agnostic. That is, whatever type of content that users want to use to communicate or tell stories, they should be able to do so on Reddit.

So, look, we've put a ton of effort into in the last year of just the quality of our video player, making going in and out of video from our feed, making the just the day-to-day experience of watching video on Reddit better, and we've got some nice updates coming even in the near future towards that end.

But images, static images and text are also hugely important to Reddit. So, a lot of our effort is how do we bring these things together in harmony? And so, I'd say the core Reddit product is parts that are still under construction right now. Making a mixed media feed work really well where text and links and hold their own alongside video and GIFs and ads. That's been really important to us.

I think we've made some progress, but I also think there's plenty of room for improvement there. So, we're going to -- my answer is similar to my answer on search. I think we'll make the video playing and creation experience on Reddit better, and when the product is really performing well, then I think we can start talking about monetization. Obviously, it's a huge monetization potential on Reddit.

So, we'll get there before long, but our focus right now is on making the consumption and creation experience better. I think there's plenty of room for improvement.

Okay, I think we're at the top of the hour here, folks. Thank you so much for your time and attention. It's really exciting to be here, I think, for our first public earnings calls. But the folks have been with us, helping us do this for so long. Again, we're so grateful. And we will talk again soon. Thanks, folks. Bye.

Operator This concludes Reddit's Q1 2024 earnings call. You may now disconnect.