08 - 06 - 2024

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Jennifer Wong
Reddit Inc; Chief Operating Officer
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PRESENTATION:

Operator: Good afternoon. (Operator Instructions) At this time, I would like to welcome everyone to Reddit's second quarter 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: Great. Thanks, Krista. Good afternoon, everyone. Welcome to Reddit's second quarter 2024 Earnings conference call. Joining me today are Steve Huffman, Reddit's Co-Founder and CEO; Jen Wong, Reddit's COO; and Drew Vollero, Reddit's CFO.

Before we get started, I'd like to remind you that our remarks today will include forward-looking statements. 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 second quarter letter to shareholders and accompanying earnings press release are available on our Investor Relations website at investor.redditinc.com and investor relations subreddit, r/RDDT. And now I'll turn the call over to Steve.

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

Welcome to our second quarter earnings call. Q2 was another strong quarter for Reddit in our communities.

We kept up our momentum with both strong business performance and progress on the product. In Q2, both users and revenue grew over 50% year-over-year.

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And for the second consecutive quarter, we had positive cash flow and we're profitable on an adjusted EBITDA basis. User growth has continued to climb, reaching new heights with over 342 million weekly active users and more than 91 million daily active users. More and more people are coming to Reddit to explore their interests, engage in conversations and find their communities.

Increasingly, users are turning to Reddit for answers to their questions via search, recognizing the authenticity and trustworthiness of our content across a wide variety of topics.

Our product work is focused on enhancing the user experience to make Reddit faster, safer, and easier to use.

Conversations are the heart of Reddit, and we've improved our app with near instant comment loading and more intuitive navigation across different post types including text, video and images. These recent improvements bring users into conversations faster and more often, driving more engagement on the platform. The number of comments viewed reached a new high, up 10% from Q1 to Q2.

Over the years, we've hosted some notable Ask Me Anything sessions, ranging from U.S. presidents to celebrities and sports figures to regular people with interesting stories.

We introduced several updates to the AMA feature, making it easier for a host to schedule and post and easier for users to participate.

During the pilot, we've seen hundreds of new AMAs created including those with high-profile brands and artists. These product updates tie into our advertising strategy, allowing us to test new conversation ad placements and AMA ads, which are high-intent services for brands and businesses to reach their audience.

As the platform continues to scale, so does our need for safety and moderation tools. Using AI, we are reducing the moderation burden and making Reddit's platform safer at scale.

We're evolving what the day-to-day looks like for moderators on Reddit, allowing them to spend more time engaging and growing their communities.

International expansion remains a top priority and one of our largest opportunities.

50% of our current user base is outside of the U.S., and we believe we can scale this meaningfully over time.

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International growth was a key driver in Q2, both in users and revenue.

International daily active users exceeded 45 million, growing 44% year-over-year and 11% from Q1. This was led by focus countries like France, India, the U.K., and the Philippines, where we're seeing good results with our growth strategies including through machine translation.

Immersive machine translation is now widely available in French, and as a result, France was one of our fastest growing countries surpassing growth in the U.S.

We will now begin to expand machine translation to German, Spanish and Portuguese, aiming to make Reddit accessible to everyone regardless of their native language.

Looking ahead, we're making progress across our emerging initiatives including the user economy, search and data licensing.

Starting with the user economy.

We're excited to have our developer platform out to public beta with a few hundred active developers.

In Q2, we saw growing engagement with about 3x more custom post views than in Q1 including scoreboards and stock tickers in our international, sports, and investing communities.

We're working towards enabling monetization within the developer platform to empower our users to create and earn money on the platform this year.

I look forward to sharing more about this in the coming quarters.

Okay. Next, let's discuss our opportunity in search. Reddit's content is uniquely valuable and becoming more important in the context of Internet search. Users run over 1 billion search queries a month on Reddit today and our product work is improving the search experience and success rate on the platform. Later this year, we will begin testing new search result pages powered by AI to summarize and recommend content, helping users dive deeper into products, shows, and games, and discover new communities on Reddit.

Turning to third-party search.

We're seeing an evolution in the search ecosystem where Internet search, summarization, and training are blending.

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We are seeking the right balance between openness and protecting our users and platform.

Our partnerships with Google and OpenAI align with our public content policies and uphold our belief in the connected Internet, helping people find what they're looking for and to discover communities on Reddit.

Our preference is for Reddit it to be open and indexed in third-party search, and we are in discussions with both big and small search engines towards this end.

However, some players in the ecosystem have not been transparent with their use of Reddit's content.

In those instances, we've blocked access to protect Reddit content and user privacy.

We believe the Internet and search are better with Reddit's content and we remain open to finding solutions that are mutually beneficial to our users, Reddit and the broader Internet community.

To wrap up, I'm happy with the progress we've made in our first two quarters as a public company.

We're still early in our journey with many opportunities and opportunities for execution ahead to fulfill our mission.

Thank you, again for being a part of this journey with us. And now I'll hand it over to Jen.

Jennifer Wong^ Okay. Thanks, Steve. Hello, everyone. Q2 was another strong quarter for revenue. Total revenue grew 54% year-over-year to $281.2 million an acceleration from the prior quarter and the fastest year-over-year growth rate since Q1 2022.

The investments we made across the business continue to pay off, and we're pleased with the results in the first half of the year. The ad business continued to scale in Q2 and accelerated from the prior quarter as we executed on our strategies and saw a stable ad market. Ad revenue grew 41% year-over-year to $253.1 million.

We made progress scaling and diversifying the business, expanding partnerships and executing on our Ad Tech roadmap.

Let me discuss our ad revenue drivers.

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We saw double-digit year-over-year growth in impressions from personalized ad loads, underlying user growth, and product enhancements to drive ad efficiency against a year-over-year decline in pricing.

We continue to diversify our business across channels, verticals and geographies. The global scaled channel, including mid-market and SMB, grew over 50% year-over-year, driven by both new advertiser activation and by deepening existing relationships.

Strength in our verticals was led by retail, pharma and financial services, which each grew over 50% year-over-year.

International revenue accelerated from the prior quarter and grew 49% year-over-year, driven by strength across large and mid-market customers in EMEA.

The big six agency relationships were also growth drivers in the quarter.

Our Q2 growth was across the full funnel. Performance objectives drove more than half of our revenue in the quarter and we more than doubled the number of clicks again as we continue to enhance the lower funnel capabilities of our full funnel advertising business.

We made measurable progress against our Ad Tech roadmap in Q2.

We focused on: number one, driving performance of our ad solutions; number two, improving usability for our advertisers and productivity for our sales force; and number three, offering our advertisers Reddit unique solutions and bringing them closer to our communities.

Now let me discuss each.

First, driving performance of our ad solutions.

We continued building out our conversion API ecosystem with a new partnership with mParticle. This adds to our partnerships with Google Tag Manager and Tealium as we execute our one-to-many approach for CAPI adoption.

We launched a performance ad solution, dynamic product ads, or DPA, to public beta.

Early adopters have seen about a 2x higher return on ad spend, or ROAS, compared to other conversion campaigns.

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Now it's still early for this solution, and we'll continue to invest in improving performance with this new solution.

We recently announced the acquisition of Memorable AI, which helps accelerate our roadmap to bring AI-driven intelligence tools and ad creative to our advertisers to help drive performance.

With this acquisition, we're adding AI foundational models to our ad stack to help optimize creatives, and we are working towards integration beginning to have impact next year.

Second, improving usability for our users and productivity for our sales force.

We've launched our Reddit ads API to GA, allowing partners and advertisers to integrate with Reddit's Ad Manager and build customized campaigns and analytics, which help to expand our platform's reach. Sprinklr is the first marketing intelligence platform to integrate with both Reddit's ads API and data API, offering advertisers unique insights and capabilities.

In Q2, we extended our partnership with DoubleVerify and announced a new partnership with IAS to provide advertisers with brand safety and suitability measurement, complementing our robust first-party brand safety controls and fostering transparency and trust with the major brands.

Third, offering our advertisers Reddit-unique solutions and bringing them closer to communities.

We expanded ad placements on the conversation page, a high intent and valuable surface for both our users and advertisers and where nearly 50% of all screen views occur.

We launched the test of ads between comments and a new refreshed set of ad formats for conversation ads that are driving higher click-through rates in early testing. Advertisers using both in feed and conversation ads experience a lift in action intent compared to those using only in-feed ads.

We also invested in bringing new content types to our users and offering businesses and advertisers new ways to reach and engage with communities.

In Q2, we launched the next-generation version of our Ask Me Anything AMA product, resulting in hundreds of new AMAs created. Businesses are hosting AMA and promoting them with ads to engage with communities and to share more about their brands and products.

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We also announced a partnership program, which brings sports content to Reddit's ad communities including highlight videos, AMAs and behind the scenes material. This helps drive engagement on the platform and offers new ad formats and placements for our advertisers.

Sports are a global interest and a category that our users are deeply passionate about. With over 1,000 active sports communities on Reddit, partnering with sports leagues was a natural place to start.

We'll see how this program unfolds later this year and consider how we might expand to other verticals and categories in the future.

Next, I'll shift to our data licensing business.

Other revenue grew over 690% year-over-year to $28.1 million, primarily driven by data licensing agreements signed in the first half of the year. This market is still evolving, and we are exploring agreements with partners across the landscape who are aligned with our public content and user privacy policies and where there is commercial alignment.

The recent partnerships with Sprinklr and OpenAI make Reddit's corpus of authentic conversations available for these partners to access, while also putting guardrails in place that protect our users' privacy and Reddit's content. To date, our data licensing strategy has focused on marketing intelligence platforms and large-scale enterprise technology and search companies, and we've made good progress addressing these markets.

We'll continue to explore opportunities with new verticals and potential ways to work with additional large and smaller scale emerging AI companies.

Overall, this was a good first half of the year for Reddit, and we've made a lot of progress.

Our focus now turns to the back half of the year as we work to continue growing the business.

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

Andrew Vollero: Thank you, Jen,and good afternoon, everyone. Reddit delivered very strong second quarter results across the board, which built on the sound start in Q1 and rounded out a solid first half of the year.

In the quarter, three key financial themes developed: first, our most important growth and cost metrics really shined; second, our profitability continues to inflect rapidly as our business scales;

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third, we saw continued traction on important economic drivers like cash flow, CapEx, dilution and stock-based compensation.

Let's speak to each point starting first with strength and key metrics, specifically users, revenues, gross margins and OpEx.

We saw really solid growth in the quarter with both user growth and revenue growth exceeding 50% year-over-year. The DAUq was 91.2 million, up 51%, logged out users were about 70% of the end quarter growth, but total logged-in users grew 31% year-over-year, the fastest rate in the last few years.

Revenues were $281 million, up 54% as impression gains continue to fuel our growth. Ad revenue grew 41% in Q2, while other revenue grew over 690%, primarily driven by new licensing deals with Google, OpenAI, and others. Margin growth also really shined in the quarter. Gross margins were nearly 90%, up from 84% in the prior year, driven by operating efficiencies, lower pricing from our cloud hosting contracts and the leverage from incremental revenues.

For Q2, our 12% adjusted OpEx cost growth is very consistent with the last four quarters where adjusted OpEx growth has averaged about 9%.

The company continues to leverage the organizational scale it's built over the last few years as we targeted modest hiring in the front of house areas like Ad Tech, machine learning and sales. Total headcount was up less than 1% sequentially and 3% year-over-year.

So as you can see, terrific traction on key metrics.

Second, let me touch on how profitability is inflecting rapidly as the business scales.

On a GAAP basis, our net loss was $10 million, $31 million better than prior year and very solid progress against our internal goal of reaching GAAP breakeven. Q2 adjusted EBITDA was nearly $40 million, up $30 million sequentially and up $75 million year-over-year. Adjusted EBITDA margins reached the mid-double-digit level at 14% up from 4% in Q1 and negative 19% in the prior year. The key to our significant gains in profitability continue to be both execution and our strong economic model.

Revenue grew over 5x as fast as total adjusted costs in Q2, similar to Q1, as revenues grew 54% year-over-year and total adjusted costs grew slightly less than 11% year-over-year. That's well ahead of our long-term internal goal of revenue growth twice as fast as total adjusted cost growth.

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Now relatedly, our incremental adjusted EBITDA margins were 76% for the quarter, slightly higher than our last four quarter average of 73%.

In Q2, we saw a $75 million positive change in adjusted EBITDA on a $98 million change in revenue.

Now to the third point, we're not only seeing good traction in areas like growth and costs, but also on important metrics like cash flow, CapEx, stock-based compensation and dilution.

Operating cash flow was $28 million in Q2, an $82 million positive change from Q2 of 2023.

For the first half of the year, positive operating cash flow was $60 million.

Our CapEx remains very light, about $1 million in the second quarter, less than 1% of revenue.

Stock-based compensation including related taxes, was $67 million, down substantially from the last quarter due to the recognition of IPO-related stock expenses.

Stock-based compensation was about 24% of revenue for the quarter.

Share count movements were modest in Q2 as basic shares outstanding were $166 million, up 1% sequentially, but fully diluted shares were $205 million, down sequentially.

On the other hand, cash was $1.7 billion, which gives us a lot of flexibility as our business scales into profitability and positive cash flow.

In the medium term, we believe the right amount of cash on hand for the business today is around $800 million to $1 billion. The company will look to deploy capital where it makes sense over time with capital priorities being: first, investing in our business, M&A and share repurchases.

As Jen mentioned, we recently completed and announced the acquisition of Memorable AI, an ad creative optimization platform, to help drive lower funnel performance for our advertisers.

The preliminary purchase price consideration was $19.9 million including $17.1 million of cash. The deal closed in late July and will be reflected in the Q3 financial statements.

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

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For the third quarter 2024, we estimate revenue in the range of $290 million to $310 million and adjusted EBITDA in the range of $40 million to $60 million.

These estimates include the anticipated benefits from the recently signed content partnerships with the sports leagues.

We anticipate these deals will contribute modestly to revenue this year, more in Q4 than Q3 and should have a greater financial impact in 2025 and beyond.

So to summarize, the strength and consistency of the numbers were nice to see throughout the first half of 2024. Both Q1 and Q2 were solid quarters for Reddit.

That said, our business historically scales seasonally, and we've turned our attention and focus to the back half of 2024.

Now let me turn the call over to Steve.

Steven Huffman: Thanks, Drew. Thanks, Jen.

Okay.

We're going to do two questions from our community, and then we'll open it up to everybody else.

First question. In past interviews, you have mentioned using large language models to translate Reddit's content into other languages to better connect Reddit's communities internationally.

Is this something that is being actively built or just a vision for a distant future?

So it's something that's being built.

It's testing and for French, which was our first language for doing this, it's now in GA, or general availability, which means if you're -- in France, speaking French, minus a small holdout group, you can see the full immersive real-time translation experience.

It's working very well.

So now we're kicking off German, Spanish, and Portuguese with our aim to get those out later this year as well. Long story short, the test was successful.

This is a really promising feature.

So it's real, and I think it should have an impact in the short term.

Second question, I'll read and this one's for Jen. Advertising is the prime source of revenue for Reddit. To increase this revenue, do you plan to focus on increasing the quantity, number of ads, or quality, profit generated per ad, of ads featured on Reddit?

Jennifer Wong: Thanks, Steve.

So what's important to growing revenue in our auction is that advertisers find the outcomes they want at the volumes and price they want.

Our ads platform and marketplace is still early, still young.

So we do see opportunity to drive more demand and performance which can drive more value per ad or eCPM, cost per thousand impressions.

Ad load on Reddit, where there are ads today like in the feed, for example, is light compared to peers.

And the best we can tell outside in is about half of peer platforms.

But there are still many places on Reddit without ads today.

So we're more focused on designing ads for spaces where users are spending more time versus increasing ad load in existing spaces.

So for example, 50% of screen views, they're now in conversation pages, that's an opportunity.

Steven Huffman: Okay. Thanks, Jen.

For the community questions, Jen, Drew, and I will record answers to the rest of them and post them tomorrow.

Okay. Jesse, back to you.

Jesse Rose: Great. Thanks, Steve. Thanks, Jen. Christa, why don't we open up the line, take some questions from the folks that are on the line now. Appreciate it.

Operator^ (Operator Instructions)

Your first question comes from the line of Doug Anmuth from JPMorgan.

Douglas Anmuth: One for Drew and one for Steve. Drew, I was hoping you could provide some more color on the 3Q guide, in particular, any more insight into the ad market and the health in the third quarter. Just -- it looks like the revenue outlook is either very conservative or perhaps you're seeing something in the business because if you back out OpenAI incremental contribution and then perhaps even some of the sports league benefits as well,

It doesn't suggest much sequential growth in revenue.

So I was just checking if there's anything to call out there.

Then, Steve, you talked about testing new search results pages.

Can you just elaborate there?

Is this going to be done all internally?

Or are you partnering with third-party providers here as well?

Andrew Vollero: Okay.

On the guide, Doug here, we guided $290 million to $310 million.

If you take the midpoint of that, year-over-year growth is mid-40s.

We think that's a good number.

We think that's differentiated versus the peer set.

If you look over the last four quarters, we've been growing in the mid- to high 30s.

So we feel like it's a differentiated number.

I take your point that your measurement stick is a bit different. You're looking just only at the second quarter.

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So I take your point there.

In terms of the revenue drivers that you're looking at -- sort of the incrementality of them.

Look, I think that the sports deals are something that's probably a bigger idea for us in 2025 and beyond.

We have to get that sold through our sales force, et cetera.

So I would look for a very modest impact in Q3.

I think we'll have a little bit more, particularly with the NFL, in the fourth quarter.

That's kind of the main part of the NFL season.

So I think that incrementality in the third quarter will be pretty modest.

As it relates to OpenAI, we saw about half the benefit of the deal in the second quarter.

So there will be a little bit of incrementality to your point.

But overall, I think the guide feels good. Are there particular things that we're looking at in the third quarter that we can put our finger on?

No. There isn't anything that's particularly different than what we've seen.

Now for the full year, there still is some macro uncertainty and particularly in the fourth quarter around elections.

So I think that's a little bit in the background.

But I think overall in the third quarter, I think the guide feels good to where the business is right now, feels better than where we've been over the last four quarters.

But I do take your point, it's a little bit lower than we've been in the second quarter, but I think we take a little broader lens than that.

Steven Huffman: Okay. Thanks, Doug.

Second question about search.

So we're talking about on Reddit search. A lot of our work over the last couple of years has been on the back end.

So improving the actual results, so the speed and relevance of those results.

Some of that is on first-party technology.

Some of that is third-party technology.

We're also beginning to enhance the results with AI. Again some of those are first-party models.

Some of those will be third-party models.

What I was really referring to in my script is the rest of this year, we'll start to see the front-end product actually change, so the user experience and how we package these results because that's gone unchanged for a long time.

Search on Reddit is a huge opportunity. Many new users run a search. You've heard me talk about onboarding, helping connect users to their interest on Reddit.

For many users, they're literally typing into a box exactly what they're interested in.

So it's, I think, a really important consumer product service area.

Then, of course over the long term, there's significant advertising potential there as well.

But really, what I'm referring to here is -- it will be our in-house efforts to improve the presentation of that product.

Operator: Your next question comes from the line of Laura Martin with Needham & Company.

Laura Martin: I will obey your request to only have one question.

So I'm going to ask one of Steve. Putting on your protector of culture hat, Steve, Historically, these are conversations and there hasn't been a hidden agenda about earning money.

You guys are going to try to earn money now for people and creators on the platform which sort of moves it more towards a Twitch or a YouTube in my mind.

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So how do you protect this wonderful unique culture of Reddit at the same time, you're going to let people make money from these conversations?

Steven Huffman: Thank you, Laura. Great question.

So yes, I think one of the truly special and honestly, almost magical things about Reddit is the amount of time and effort people spend helping each other, giving advice, helping people through decisions, sometimes small decisions, what should I watch tonight, sometimes big decisions like should I go through this breakup.

It's really, I think truly profound. Your question is if we start to include other incentives in there, like monetary incentives, does that change.

In my experience on Reddit, whenever we add basically a new way of using Reddit, what happens is it expands Reddit, but we've not seen it cannibalize existing Reddit.

So I think the existing altruistic, free version of Reddit will continue to exist and grow and thrive just the way it has.

But now we will unlock the door for new use cases, new types of subreddits that can be built that may have exclusive content or private areas, things of that nature.

A good example of this, for example is, at Reddit, we didn't host images back in the past.

It was all text and links and images were linked.

So we'd link to other websites or platforms for images. When we added image hosting, all of a sudden, there's a ton of new communities built around that feature, but the existing text and link based Reddit also continued to grow.

So I'd look at this as an opportunity of expansion as opposed to one that is going to cannibalize the existing Reddit, which as I said, is magical.

It's something that we think is truly precious.

So we'll of course watch these things closely, but that's how we see it playing out.

Operator: Your next question comes from the line of Ron Josey with Citi.

Ronald Josey: I wanted to ask on usage and in advertising.

Steve, I think we saw logged in DAUqs up 32%, maybe amongst the fastest growth in the past couple of years and we saw comments also, comments viewed, I think up as well.

So I wanted to hear about the changes the team has made on the site itself, whether it be Shreddit, new onboarding processes that have driven this, and really curious about the lasting implications here.

Then, Jen, you mentioned the stable ad market.

We saw each other a few weeks back over at Cannes and

 I just wanted to hear how your conversations with advertisers have evolved really over the past few months just in terms of how the dynamic has changed in terms of advertising on Reddit.

Steven Huffman: Okay. Ron, thank you for the questions. Yes, as you observed, logged in DAUq is up over 30% last year. That is indeed our fastest growth rate among that segment in years.

So we're very happy with that.

And you answered your own question, improved onboarding, Shreddit, which represents web performance.

I would say broadly a general push around quality on Reddit has helped a lot.

Then there is a structural change that we've been going through over the last couple of years, which is it used to be when you're a new user to Reddit, we were putting you into a basically global feed.

So we call that the popular feed today. That was the core Reddit product for the first maybe 15 years of our life.

And now what happens is we get you into the community onboarding experience.

So we try to find the interest specific to you.

Then we put you in a home feed that has those communities and subreddits, and we grow from there.

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So that first user experience has gotten much more dialed in and relevant to new users, which has been driving meaningful improvements to new user retention and of course that compounds in the growth.

So the story of Reddit, I think for a long time is, we've had this very big top of funnel from third-party search and word of mouth.

And the question has been, can we retain those users because we get so many shots on goal every day.

So really, over the last year, we've gotten much better at retaining new users, and we've been growing over 1 million users a month more or less since spring of last year. Jen, there was a second question on the stable ad market.

Jennifer Wong: Yes.

I think we saw a stable ad market in Q2, Ron.

I'd say post Cannes, I think -- first of all, I think Cannes has a very strong sentiment. Post Cannes was working with Reddit, so very, very positive.

Look, we're watching a few things.

We're watching inflation, geopolitics, and elections.

I will say a few things.

One, there are real election jitters.

We did see some pauses in the U.K. around the snap election, we saw pauses around the time of the Trump rally shooting.

So I think there's a lot of caution.

I will also say that recently, agencies have signaled a little bit of back half caution, budgets being more flattish versus growing.

So I think there is caution from the large holdcos, and we're not a big player in political ads, which some might have a political (inaudible), but that's not something that we play in. That's kind of how I think about the back half.

So overall, I think it is -- if there's still a little bit maybe more caution but I think we're still well positioned.

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

Brian Nowak: I want to go back to the ad markets, Jen.

Can you talk to us about sort of what you're seeing on your branded advertiser spend?

Are you still seeing your advertisers who are mostly branded spend?

Are they spending more on the branded side?

And so sort of what's driving that -- then just sort of any update you can give us, I remember the pre-IPO.

Walk us through sort of progress on growing your advertiser count, growing your advertiser spend, your advertiser spend per advertiser over time.

Anything you kind of help us kind of what's going on actually beneath the headlines on driving this really strong ad growth in the 3Q.

Jennifer Wong: Sure. Happy to.

So just on your question on the brand. Brand as an objective was growing really nicely for us.

In fact, I think brand, we've seen both folks come into the auction, so fitting against brand objectives, as well as using our takeover product, which is a reserve product where they can align against specific subreddits, so specifically the category takeovers, you can buy category like sports, et cetera.

So we see brand advertisers come into both of those products as well as nice adoption of some of the Reddit unique formats like AMA that have been refreshed in the free format.

So brand has actually been solid as an objective, and there is really diversified spend across brand and performance.

In terms of the underlying pieces of our business, I think it's really healthy in a number of ways.

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So number one is we've been growing the number of active advertisers, particularly in the managed segment that has large customers in mid-market and managed SMB.

Those are really seeds for the future because you start small and you can grow those advertisers in some more products and more objectives.

So that, I think allows us to plant seeds for the future.

The second is we had a number of growth drivers across our business. The scale part, mid-market and SMB growing over 50%, international becoming a growth driver, 49% year-over-year, vertical diversification.

So it used to be that our tech group was our number 1 vertical group. This quarter, it actually was the group that included retail, pharma, financial services, CPG, so really interesting. That diversification continues in our booking, it's actually changing the face of our book, I think which has been really positive.

And so -- and then the final thing I'll say is we've been investing in the lower funnel and specifically converging and that has accelerated in growth as an objective in our auction.

So that's really nice to see because as that objective delivers more performance, that allows an unlock for more advertisers, particularly in the scale channel.

So I think the business is really healthy.

We're doing a good job retaining at high rates our managed advertisers as well as adding new advertisers to the book because of the new platform capabilities.

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

Eric Sheridan: The topic really is Memorable AI.

Can you talk a little bit about why you felt that was the right asset for you as a team to acquire?

How you thought about building organically around that broader theme versus maybe accelerating the path to market and going down the acquisition route and how we should be thinking about that asset being integrated and having an impact on the business in the years ahead.

Jennifer Wong: Sure.

So one of the layers in our ad stack that we want to develop and that was on our roadmap is around creative, both insights and optimization, and then creative generation.

We know that, that can be really valuable for driving performance and also just making an easier, more automated, scalable experience for advertisers.

It is something that we had on our roadmap that we could build, but acquiring Memorable, which is one of the leaders in the market, I mean all of our diligence just showed how much customers value their technology and insight it just accelerates our ability to come -- to add this part of the ad stack.

So we're integrating -- we get technology and talent with the acquisition, and we're doing that integration work in the back half of this year to start having impact next year, but it will really accelerate our ability to deliver performance at the lower end of the funnel, in particular.

I mean it will help all the performance, but particularly at the lower end of the lower funnel where ad formats and creative can have a lot of impact on click-thru rates and conversions.

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

Rich Greenfield: I got a couple of questions.

Steve, you talked about sort of the improving engagement in sort of that upper funnel, which I assume you're talking about sort of how search drives people into the platform.

But your DAUq -- or your weekly users are still growing faster than your daily users.

I guess the question is how do you close that gap over time?

Is it product changes?

Like it's obviously great that you have all of these people coming and touching Reddit every single week.

But how do you get them to be addicted and become daily active users?

What is that -- like is there something that you've seen historically that sort of converts somebody from either a search-based user or someone who comes in once in a while to an actual daily user.

Then just two, I wanted to follow up on, I think you've made a comment about CPM's pricing being down.

Is that the same issue that you, sort of, are seeing in ARPU?

Is it just simply that the users year-over-year are just growing too quickly and you can't keep up with the overall growth of the platform? Any just color on given how early you are, what's happening on the eCPM side of pricing on the advertising side from Jen would be great.

Steven Huffman: Great.

Okay. Rich, thanks.

I'll take the first half. Jen will take the second half.

So look, let's -- first things first.

We're happy with growth.

Weekly is growing, daily is growing, logged in, logged out growing, so I think we're in a good position there.

I think your observation is correct.

Weeklies, and of course monthlies even more so, can be more volatile because they can be more affected by third-party search or events in the news and what have you.

And of course we want to grow dailies, and that's really how we operate the company, is growing dailies.

But we don't think necessarily about how do we convert weekly to dailies.

We think about it a little bit differently, which is how do we retain the dailies that we see on the platform every day, both the new users, getting them to come back at all and the core user is getting them to come back more.

Our work there is -- it's hard work, but it's easy to explain. Relevancy, ML, onboarding product quality. Do you see something -- a very simple question.

Do you see something in your first session on Reddit that is uniquely engaging?

One assumption that I would caution against making is that search users, third-party search users, many of them are core users.

So they're using other search engines to effectively navigate Reddit, and I include myself in that cohort.

But there are a number of logged out users or new potential users that come from search.

I think of that experience is they're learning that Reddit, over time, has the answers to their questions.

They may not be in that session looking to join a community. That's maybe a little bit of a heavier experience.

But eventually, we get them through the front door. They'll come -- they'll download our app, but they'll come to the website.

Then that's where everything I mentioned around relevancy and product quality come into play to retain those users.

We're growing retention and we're growing DAUq.

So we're happy with that result.

Then there's another interesting dynamic on Reddit, which is the longer somebody has their account, the more time they actually spend on Reddit. They join more communities and they go deeper and deeper.

And so users on Reddit where they maybe on other platforms age out, they actually age into Reddit and spend more time over the course of years.

So I think this is a really powerful trend.

Okay. Jen, the second half of the question was the interplay between users and ARPU and users in eCPM.

Jennifer Wong: Sure.

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So Richard, look, nobody in the company manages ARPU.

We manage revenue growth, we manage the DAUq growth and we're in the, I think, fortunate position of having really strong revenue and user growth with users being a little bit more, and that's why ARPU is down.

But I think when I look at the headroom that we have, I think we've been growing share in the top row around the revenue side and I think continue to have headroom on ARPU.

So I think it may be a first-class problem that we have in the math of ARPU.

On the eCPM side, what's really driving the decline in eCPMs is the placement on the conversation page.

So that's a newer unit that -- and then -- and so there -- right now we're still building demand for that unit.

There are a couple of things we're doing to do that.

So one is educating the market about that unit.

It's very unique.

It's very different than anything else in the market.

In fact, most people don't -- most platforms don't have an ad in comment, partially because the comments aren't the best part of their platform. They are the best part of Reddit, but there's some reeducation to be done. The second is that we've actually refreshed that format so that it has a broader set of creative capability.

One of the things that our advertisers wanted is just a little more functionality in that format.

So we've recently released that, and they'll be able to take advantage of it.

I think that can increase demand.

Then finally, we're testing ads inside the comments.

So that adds some more inventory to that page that there's very low demand for it because it's in testing.

It's very new.

It's just experimental.

So obviously that wouldn't have high eCPMs in that unit yet.

So when you look at the page, but I think I mentioned earlier that 50% of screen views are now on the conversation page.

So the traffic is really going to that page, which is a great high intent, highly contextual page, but we have to match the demand through the flow of the ad impressions on that page.

So we'll continue to grow the demand on this new unit.

I think it's a really good unit, high performing, but it will take time for the demand to catch up with the supply that's been generated. That's why you see the differential in eCPMs.

Operator: Your next question comes from the line of Andrew Boone with JMP Securities.

Andrew Boone: You guys have seen an influx of new users just via search as well as just an improved product.

Steve, you mentioned this earlier about the maturation of new user cohorts and how people spend more time. Are you seeing anything different with new users more recently?

Then, Jen, retail is just a massive opportunity.

Can you talk about DPAs and what you guys need to do to unlock the retail advertising opportunity more acutely?

Steven Huffman: Okay. Thanks, Andrew. Me first then Jen.

Okay.

So the question was, are we seeing anything in the latest cohort of new users?

Broadly, we're seeing new user retention go up. That's one of our core internal operating metrics.

I think that's really a measurement of is onboarding working, is the performance ML relevance, all of those things working and so we've actually seen over the last couple of quarters, steady improvement in new user retention, which we're very happy with.

In my experience at Reddit, that is the hardest number to move because you can't always see it in an individual experiment.

So you have to kind of let these product improvements run for a while.

But our strategy of just make Reddit better, simpler, faster, safer, easier to use, that's been working for the last year.

So, happy with the new user retention, particularly among that new cohort. Jen, the question was about the retail opportunity on Reddit.

Jennifer Wong: Yes. I think the question is about DPA.

Look, I think this is a really big opportunity given the commercial intent on Reddit.

But it's also one of the hardest, right, in the industry. Dynamic product ads, they have their -- its own objective, it has its own models and prediction models and it has its own end-to-end workflow from ingesting catalogs all the way to how measurement is done at a detailed level to feed back product level information for the targeting and retargeting.

So it is a big ecosystem onto itself.

So what we're working on is, one, improving our models and we're driving performance; number two, CAPI, so conversion API, incredibly important for signal and feeding signal into the models for better and better performance. Third is enabling first-party data from an advertiser to match into our platform for targeting; and then, obviously on the measurement side, they have very specific audiences, maybe loyalty programs for some cases, like retail media networks that they want to be able to target against; and then finally, just continuing to improve both the format and the catalog ingest

So we can ingest catalogs today but we want to make that process easier and even more scalable.

So we are working across all of these areas to continue to improve DPA.

I would just say it is -- our goal for this year is to test with a handful of partners and really build the foundations of DPA so that it can be a more material contributor to the business in '25 and beyond.

It is a longer road, but I think a big opportunity.

Operator: Your next question comes from the line of Tom Champion with Piper Sandler.

Thomas Champion: Steve, you've talked in the past about the most reliable way to grow is to make Reddit better.

So I'm just curious between sports content, subreddits functionality search, text translation, the laundry list of things you guys are working on.

What do you think has the potential to be the most impactful from a customer experience perspective?

Steven Huffman: Thanks, Tom. Good question.

I'd say there are broadly two -- two dimensions to this or kind of two ways I think about it.

So the first is like the general quality.

So this is, call it, the search experience, onboarding, ease of use.

In mature markets like the U.S. is actually still one of our fastest-growing markets. Product quality has an outsized impact because the content is already there.

If you speak English, if you live in America, I guarantee you have a home on Reddit. Your interest, your passion, whatever you're into are going through is on Reddit somewhere.

And so the question is can we reveal that?

And so anything we do around onboarding and relevance more effectively reveals that.

So that's driving a lot of the growth in the U.S.

Now outside of the U.S., we need the content base to grow.

So machine translation is one of the best opportunities we've ever seen to rapidly grow the content base outside of English.

So I've mentioned this over the last couple of quarters, our tests in French. That went very well.

We're expanding to other languages.

So I think this is a very exciting opportunity.

Now of course all of the quality and onboarding efforts that works -- that will work in every market, but you have to have the content base, the community base to recommend people to.

So that's where the machine translation is really affected.

So to summarize, in the U.S., it's the block and tackle product quality work.

Outside of the U.S., it's the machine translation to get them to the point where the quality can be like a multiplier effect on top of that.

Operator: Your next question comes from the line of Daniel Salmon from New Street Research.

Daniel Salmon: Steve, you talked a lot about search and third-party search and the relationship with model training and thus your data licensing business. You also talked about beginning to restrict access to Reddit content in some cases.

We have seen news reports that, that includes Microsoft Bing.

I'm sure you don't want to speak too much in detail about one potential partner but is that an example of the type of back and forth that's beginning to transpire with some of your potential partners?

Or just more broadly, can you take us a layer deeper in those conversations and tell us a little bit more about the variables that tend to be the more important ones in those dialogues.

Steven Huffman: Sure. Thanks, Dan.

So look, the corpus of content on Reddit is super valuable. The old status quo, so search engines crawl us, index us, put us in search. Everybody wins in that.

The consumer finds content, we get some users, the search businesses grow. Reddit in that arrow is the most open.

By the way I think Reddit is still the most open of our peers.

But what's changed is folks are crawling Reddit for training and other use cases that we can't see.

So we can no longer assume intent for what Reddit's data is being used for.

And so we went from a situation of being default open to default blocking crawlers.

Now we're still open for users. You don't even have to have an account to see Reddit.

We still make our corpus available for free for noncommercial use. Our preference is for Reddit content to be out there, to be open and indexed, but it has to come with important terms.

So -- we created a public content policy; we released that a couple of months ago.

And it basically speaks to user privacy, not using Reddit data to identify users or target ads to them, you can't resell the data because, again we want to know where Reddit data is going and what it's being used for.

So those are the terms of engagement.

Now we've had some big players sign up for that.

We've had some medium and small players sign up for that as well.

We still make Reddit available for free for researchers and noncommercial use.

But the ecosystem has changed.

I'd say it's a dynamic market for sure. All of our conversations are ongoing.

Look, I think as I said many times, our preference is to have relationships with everybody, but we need to be very considered of where Reddit data goes and what it's used for.

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

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Benjamin Black: So on the developer platform, so opening it up to monetization is coming earlier than we anticipated.

So -- can you talk a little bit more about the results from the public data and what surprised you to the upside for instance?

Then Drew, quickly on margins, the flow-through was, I think 76% the last couple of quarters, the midpoint of 3Q guide implies a bit of a step down.

Is there some comparative built in?

Or maybe just more broadly, talk to the swing factors embedded in your EBITDA guide.

Steven Huffman: Okay. Yes. Thanks, Ben.

First question on dev platform.

So the beta is going nicely.

So we are in closed beta for most of this year.

We're still iterating on the technology.

It's one of the more complex things we've built because we're effectively running user code both on our servers and on the client side. That's in a public beta now.

We've got a few hundred developers playing with it.

There's some cool stuff in the works.

So I'm excited to see where users take it.

Our aim for this year is to both get some of these dev platform apps kind of at scale out there.

We see some fun ones of scoreboard, stock tickers and Wall Street bets, things like that.

I'd love -- I'd be very excited to see some of these more interactive ones, and I'll be very, very excited to see somebody build something that we didn't anticipate, which is kind of a common story of Reddit is users surprising us.

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So one milestone we're looking for is that surprise.

Then the other milestone we're looking for is just to connect the dots on monetization.

So really getting an end-to-end prototype where a user can basically buy something through a developer platform app written by another user.

So I can't promise scale or anything like that this year.

But getting to that kind of end-to-end proof of concept will be, I think a really important milestone.

But we're making nice progress towards that. Drew, the second question was about margin and flow-through, Q3.

Andrew Vollero: Yes. Look, it's really been a good run for us last four quarters, as you mentioned, 73%, 76% last quarter.

Look, there's nothing enormous going on. There's a couple of things on the margin the guide itself sort of has, I think an incremental margin in more of the 60s range, there's a couple of things in between that are happening.

I mean I think again incremental revenues are our friends.

The guide is a little higher than where we were in the second quarter, $281 million.

So we'll pick up something there, which is nice. I think there's a couple of things to think about as you think about our margin structure.

But again just small stuff on the margin, a nice benefit that we got over the last 12 months has been contract prices on hosting.

So we signed those contracts in kind of mid-third quarter last year.

We've enjoyed kind of a full year of those benefits you remember, our gross margins were up 500 basis points in the second quarter. We'll start to lap that contract pricing now here in the third quarter.

So that will be a little bit of a -- we won't see the benefit that we have seen over the last four quarters on that. Again a couple of other small things in the margin. The company pays raises typically in the third quarter.

So there'll be a little bit more on the cost structure there, again on the margin, small stuff.

Then also we hire a bit more in the third quarter. Historically, we have a lot of folks that come in, the folks that we've hired from universities typically start during that time.

So it's a little bit on the margin again.

So nothing huge. Maybe a couple of points lower we'll see sort of you can do the math around kind of what the guide margin is.

But overall, there's nothing significant in the quarter.

There's a little bit also in the model for business translation, right?

So we're starting to translate, as Steve said, some of the markets into foreign languages, there's some hosting costs associated with that as well.

So those are things, but no huge change right now in the margin structure.

Operator: Our final question today comes from Alan Gould with Loop Capital.

Alan Gould: I've got two. First, what impact as Olympics and political historically had for you on users' engagement.

I'm assuming not much on revenue?

And the second one for Drew, is that cash guide that you were a cash goal of $800 million to $1 billion is significantly less than what you have now. I'm assuming that's a multiyear period to get to that.

Steven Huffman: Okay. Thanks, Alan. First question, maybe Jen and I will tag team that real quick.

So there are certainly moments in the world that are huge, right?

Olympics, elections, major sporting events like the Super Bowl has been a big one on Reddit.

What we've seen -- and we've seen this for a long time, is there's always some subreddit on Reddit that's having a moment, that's twice as large as they were yesterday or sometimes significantly more.

But when you zoom out, our traffic doesn't fluctuate that much because there are many thousands of subreddits, and so somebody is always having a moment, somebody is always growing, but our traffic is actually pretty steady despite kind of feeling that activity on the Internet or even feeling it on Reddit. Jen, is there anything to add from a kind of revenue point of view around these events?

Jennifer Wong: No.

We don't play in political ads, so there's not a bump from that, not a focus for us and something like Olympics, I think tracks to Steve what you just said, which is there's always these moments happening on Reddit, but overall, they kind of smooth out, and that's how it reflects in the revenue. Those are opportunities -- sales opportunities, but they tend to smooth out because there's moments happening in different parts of Reddit throughout the year.

Steven Huffman: Okay.

The final question was Drew.

Andrew Vollero: Yes.

On the cash side, you're right, Alan. Thanks for the question. $800 [million] to $1 billion is how we think about things over the medium term.

We wanted to dimensionalize the cash that we have on the balance sheet right now at $1.7 billion. I gave you a sense on kind of the cash flow over the last couple of quarters, which has been positive and nice.

So the cash is starting to build.

We also wanted to give you a sense on how we think about the priorities here. The first priority will be and continues to be investing in the business. There aren't huge ideas right now from a capital investment perspective.

And so we're also starting to look at M&A. You saw us tuck in Memorable in the quarter.

So there's money available for that.

Then sort of we'll start to think about share repurchases as we move forward as well.

So those are sort of the capital priorities.

I think of $800 million to $1 billion is sort of how we look at our business from a stress test perspective.

We think that's the right amount of cash.

Obviously we have a credit facility behind it, too.

So I think the company has a lot of capitalization and certainly has the liquidity to do what it wants, but I wanted to start to dimensionalize a little bit for you how we think about what cash might be available for things like M&A and share repurchases in the future.

Jesse Rose: Great. Thanks, Krista. Thanks, everyone, for joining.

We look forward to keeping the dialogue open. Take care.

Steven Huffman: Appreciate it, folks. See you.

Operator: And this concludes today's conference call. Thank you for your participation.

You may now disconnect.