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Earnings Call

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Presentation

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Operator

Good afternoon. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to Reddit's Third Quarter 2024 Earnings Call. [Operator Instructions]

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

Jesse Rose
Head of Investor Relations

Thank you, Rob. Good afternoon, everyone. Welcome to Reddit's Third 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 third quarter letter to shareholders and accompanying earnings press release are available on our Investor Relations website, investor.redditinc.com; and investor relations subreddit, r/rddt.

And now I'll turn the call over to Steve.

Steven Ladd Huffman
Co-Founder, CEO, President & Director

Thanks, Jesse. Hey, everyone. Thank you for joining, and welcome to our third quarter earnings call.

I'm excited to share that Q3 was a landmark quarter for Reddit. We averaged over 97 million DAUq, an increase of 47% from last year. And for the first time, we exceeded 100 million DAUq a few times during the quarter, which has been a long-standing milestone for us.

Our Q3 revenue grew 68% year-over-year, and I'm proud to announce that we also achieved GAAP profitability.

Reddit's influence continues to grow across the broader Internet. In 2024, so far, the word Reddit was the sixth most Googled word in the United States, underscoring that when people are looking for answers, advice or community, they seek out Reddit specifically. We saw this play out in real time when the White House came to Reddit to share critical information during the recent hurricanes. They used our Reddit Pro tools to identify the right communities to reach people affected by these events. In fact, thousands of businesses are now using Reddit Pro, including the MLB and NFL, who were using it to share exclusive content with communities. And we continue to see more businesses and organizations come to Reddit to find their audience.

We remain focused on making Reddit the best place on the Internet for conversations and community, which means, quite simply, we are continuously improving the user experience by making discovery easier, making the platform faster and smarter, enabling seamless contribution and simplifying moderation.

A few highlights from the quarter include: our conversation page views exceeded 90 billion, growing

40% year-over-year in Q3 as users are getting into the conversations faster and more often; we refreshed the Ask Me Anything, or AMA, product which led to a fivefold increase in the number of AMAs created in the new format; and we launched better tools for posting that have both increased posts and reduced moderator removals, which makes a better experience for everybody.

And as for growing beyond the United States, our efforts here are proving successful. International DAU grew 44% year-over-year led by 53% growth in our focus markets, most notably in France, India and the Philippines.

This year, we started using AI to translate Reddit Corpus into other languages, making it more accessible for non-English speakers to enjoy in their native languages. After promising results with French in the first half of this year, we expanded our coverage to include Spanish, Portuguese, Italian and German.

This quarter, machine translation drove 4x more users than last quarter. And based on the success we've seen so far, we plan to expand machine translation to over 30 countries through 2025.

As Reddit becomes a truly global platform, we are focused on ensuring everyone, regardless of their language, can participate in and benefit from the communities on Reddit.

Looking ahead, including the search experience on Reddit is a key part of our strategy. We want to ensure that all users have the best experience possible. This includes users coming to Reddit from external search and those searching directly on Reddit who are looking for recommendations on what to buy, what to watch or what products or services are the best.

We know many users are looking for more than just answers. They are looking for authentic real-world insights and advice from the communities on Reddit. So we're focused on making the experience of finding relevant conversations and content on Reddit easier and more intuitive.

Continuing to look to 2025 and beyond, we'll seek opportunities to accelerate our road map, whether through new product development, global expansion or growing our ads business, all while maintaining our commitment to scaling profitably and ensuring that Reddit continues to be the go-to place for conversations and community on the Internet.

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

Jennifer L. Wong
Chief Operating Officer

Thanks, Steve. Hello, everyone. It was a strong quarter for Reddit as our unique proposition and core platform improvements are driving differentiated growth.

Total revenue in Q3 grew 68% year-over-year to $348.4 million. The advertising business grew 56% year-over-year to $315.1 million driven by strong growth across objectives, channels, verticals and geographies.

Let me discuss our ad revenue drivers in more detail. We saw strong year-over-year growth in impressions from higher user growth, more efficient ad load and expansion of conversation placement ads, while pricing was mostly consistent with the prior year. Revenue across the funnel accelerated year-over-year.

We continue to deliver more value to our customers by improving ad performance, particularly in the middle and lower funnel, which is 2/3 of our road map. Performance revenue from mid- and lower funnel objectives drove more than half the growth in the quarter and accounted for about 60% of total advertising revenue. We more than doubled the number of clicks this quarter as we continue to enhance our lower funnel capabilities.

We saw continued momentum across channels. The scaled business, including mid-market and SMB customers, grew over 80% year-over-year and continues to be an area of investment. This was largely driven by managed clients where we provide service.

We saw strength across verticals led by auto, consumer goods, financial services and pharmaceuticals, all adding new clients and lines of business in Q3. And total international revenue grew 57% year-over-year as we saw strength in the EMEA markets across both large and midsized customers.

In our ad stack, we continue to focus on, number one, driving performance of our ad solutions across the funnel; two, improving usability for our advertisers and productivity for our sales force; and three, offering our advertisers Reddit-unique solutions and creatives. I'll discuss our progress in each.

So first, driving performance of our ad solutions. We continue to invest in delivery formats and measurement and optimization products across the funnel. We saw nearly 50% growth in the number of conversions in Q3 versus Q2. And advertisers are adopting our automation tools, including auto bidding.

We continue to drive CAPI adoption and expand our partner ecosystem. We saw over 2x more advertisers adopt CAPI this quarter versus Q2. We also expanded our ads API offering and ecosystem with the launch of our custom audience API, which allows advertisers to target their audience from their customer data platforms on Reddit. Our partnerships with Tealium, mParticle and ActionIQ now include both CAPI and custom audience capabilities.

Second, improving usability for our advertisers and productivity for our sales force. Over the course of the year, we invested across a few broad categories: ads manager improvements that consolidate steps and remove manual work from campaign creation; automation tools that make it easier to create performance campaigns and reduce the need for manual optimization, for example, multi-placement optimization with auto-bidding automatically sets bids and placement to maximize performance, we're seeing over 90% adoption of this feature across lower funnel campaigns; and AI-driven workflows for our sales force to extract product insights from customer interactions and streamlined sales support with an AI-powered knowledge base.

We also continue investing in brand safety and recently launched prebid protection with IAS, which will expand our partnership to include brand safety and viewability reporting in the coming months.

And third, offering our advertisers Reddit-unique solutions and creatives. In Q3, we launched a refresh design of our Reddit-unique ads product, conversation ads, driving double-digit improvements in conversion rate. We continue to test ad placements within the comments as we expand inventory and improve performance on the surface. In the near term, we anticipate this could reach up to mid-single digit of total impressions.

Next, I'll shift to our data licensing business. We continue to address the data licensing opportunity and are in contact with a small set of potential partners. Other revenue was $33.2 million in Q3 driven by data licensing partnerships we signed earlier in the year.

In Q3, we entered into a new partnership with Meltwater, a media and social intelligence company. Meltwater accesses Reddit's content through our data API, which allows our customers to uncover brand insights, monitor industry trends and tap into the discussions happening on the platform.

Looking ahead, the landscape continues to evolve and we have limited visibility into the timing of additional partnerships. We are focused on ensuring the end customers of our partners continue to see value in their content and meeting uptime and delivery expectations for our existing data partners. Overall, this was another strong quarter for Reddit, and we are pleased with the traction we're seeing in the business.

I want to mention a recent key addition to our sales leadership team, Mike Romoff, our new Chief Revenue Officer. Mike is a proven leader and brings a strong track record of sales, partnerships and operational leadership from Google and LinkedIn. Mike will lead all of our sales and sales support functions reporting directly to me.

With Mike onboard, our strategy remains the same: to help customers grow their businesses on Reddit through our full funnel solution built on our leadership in contextual and interest-based advertising.

Looking ahead to Q4, the current industry environment feels stable, and we are benefiting from structural improvements we have made to the core ad business that have sustained differentiated growth over the past quarters. We are monitoring for any potential impact from the upcoming elections, and we remain focused on our strategies and execution.

Thank you all for joining and for your continued support. Now I'll turn the call over to Drew.

Andrew Vollero
Chief Financial Officer

Thank you, Jen, and good afternoon, everyone. If 3 points make a trend, the business trends remained strong for Reddit in the third quarter as we continue to deliver on our key financial goals, namely scale profitably.

The main financial headline for Q3 is likely that Reddit reached breakeven on a GAAP basis, which has been an important internal goal. Net income was $30 million, up $40 million sequentially. But with a closer look, this quarter featured a number of encouraging signs of strength and key enablers to achieve GAAP profitability.

Let me outline three areas where the company really shined: first, accelerating revenue growth to 68%; second, strong gross margins of 90% and strong adjusted EBITDA margins of 27%; and third, strong free cash flow of $70 million. Let me expand a bit on each.

First, revenues grew 68% year-over-year, a meaningful acceleration from 54% in Q2 and 48% in Q1 driven by a ramp in ad revenue, which grew 56% year-over-year in Q3, up 15 percentage points sequentially.

Let me summarize 3 key drivers for revenue acceleration. First, overall, the investments in new ad products and the additional resources for our sales team are working well, and we're seeing solid early traction with our customers.

Second, we saw strong gains in ad impressions, which continue to fuel our growth all year long. Pricing growth for Q3 was about flat year-over-year, whereas for the first half of the year, it was slightly down year-over-year. A contributor to pricing was improved ad performance and value delivery for advertisers as cost per click declined, while click-through rates increased.

Third, across our channel portfolio, we saw broad strength. More than half our verticals grew over 50% year-over-year, with some growing more than 100%.

While revenues were accelerating, total adjusted cost growth continues to be modest, up 19% in Q3, less than 1/3 of the rate of revenue growth. Q3 growth in total adjusted costs was sequentially higher than the 11% in Q2, reflecting in part the growth investments fueling the revenue acceleration in Q3. Total adjusted costs were $254 million, up $13 million sequentially but down as a percentage of revenue from 86% last quarter to 73% this quarter. Our adjusted cost of revenue remained efficient, with gross margins exceeding 90% for Q3, up 280 bps year-over-year.

We saw tailwinds from incremental revenue growth, coupled with cloud hosting efficiencies, which more than offset hosting cost increases from user and ad growth and investments in ML to support our consumer platform and ad performance.

Adjusted operating expenses were up 17% year-over-year in Q3, slightly higher sequentially, driven primarily by rising people costs and machine translation costs. People costs were higher in Q3 driven by our yearly merit cycle and hire rate. Total head count was up 4% sequentially and 7% year-over-year, slightly higher than last quarter due to the seasonal build from college graduate hiring from our engineering teams.

In the quarter, we launched machine translation in 5 countries with potentially 30 more on the road map. Our translation efforts today have been cost efficient as the translation costs for each language was less than $1 million per language this quarter and total spend was less than 1% of revenue. We'll continue

to test how much content to translate. With strong revenue growth and modest cost growth, it's not surprising. The financials continue to reflect in a very positive way.

Q3 adjusted EBITDA was $94 million and a 27% adjusted EBITDA margin. That's nearly double our Q2 margin of 14%. Adjusted EBITDA was $101 million higher than prior year driven in large part by a 72% flow-through on incremental revenues, marking the fourth time in the last 5 quarters over 70%. That's solid cost leverage.

Our key focus is to turn profitability into cash flow. Operating cash flow was $72 million, a $79 million positive change from a year ago. For the first 3 quarters of the year, operating cash flow was $132 million.

Our CapEx remains very light, less than $2 million in the quarter and less than 1% of revenue. Free cash flow for Q3 was $70 million and $127 million to date. Free cash flow was 20% of revenue for Q3, which is great to see.

Cash on the balance sheet ended at $1.74 billion, up $46 million sequentially. It was particularly encouraging to see we could both grow our cash balances and return capital.

In Q3, Reddit executed a net settlement for the tax withholding for employee shares divested in the quarter. Overall Reddit net settled 1.2 million shares at a cost of $66 million. This strategy helped to lower dilution for employee vesting in the quarter.

Relatedly, the total number of fully diluted shares outstanding in Q3 was 206 million, up 0.7% sequentially to 1.3% for the year, excluding the IPO. We're pacing well against our medium-term goal of 2% to 3% dilution for the year.

Stock-based compensation in Q3 was $83 million, about 24% of revenue, in line with peers at this scale. In the quarter, net income was $30 million or $0.18 per basic share and $0.16 per diluted share. This was a positive change from the prior year where both basic and diluted earnings per share were negative $0.13.

As we look ahead, we'll share our internal thoughts on revenue and adjusted EBITDA for the fourth quarter, where we have the greatest visibility. In the fourth quarter, we estimate revenue in the range of $385 million to $400 million, representing 54% to 60% year-over-year revenue growth with a midpoint of 57%. Adjusted EBITDA in the range of $110 million to $125 million, representing a 30% adjusted EBITDA margin at the midpoint.

Let me close with this thought on areas for financial focus. In the near term, historically, Q4 has been our largest revenue quarter of the year. So we're focused on execution. Medium and longer term, Reddit is scaling profitably. And financially, we are focused on turning differentiated revenue growth, high margins and low CapEx into meaningful cash flow generation. Let me turn the call back over to Steve.

Question and Answer

Steven Ladd Huffman
Co-Founder, CEO, President & Director

Thank you, Drew. Okay. We're going to start with a few questions from our communities that were asked in the RDDT subreddit. So the folks who are in that subreddit asking questions, thank you. There's a ton of great questions in there. I'm going to do two now. And then Jen, Drew and I will do a bunch of others that we'll report later after our call today.

So first question, "With the White House having an official account now, will Reddit be able to get more official accounts from government officials/agencies for getting information out to people? What will Reddit be doing to help expand that process?"

So big picture, we want businesses, brands, creators, people, to be able to have an official presence on Reddit. And so you can see the beginnings of this work with our work with Reddit Pro and some of these official accounts. I think prior to this, there's been no place for a business or entity or even a creator to call their home on Reddit. And so I think that has historically been a gap in our product, and we need a place for them to be as a launching pad or that's distinct from the communities themselves as a launching pad for getting into communities.

And so we want Reddit to be a space for everyone, and we need it to be kind of well-labeled and intentional. So we've got a lot of businesses in there already over the course of this year. And seeing the White House be on Reddit is really exciting and particularly in the way they use Reddit, which was to reach people in local communities to give them timely information and updates. So thanks for that question.

Next question is basically a Google question, "One thing that worries me is Google taketh dynamic, particularly with logged out DAU growth. I guess most of us would be expecting logging in to be outgrowing logged out, but logged in is at 27%, logged out is at 70%. Even the 2-year stacks, the logged out DAU crushes. My questions are, what are the dynamics of those users? It would be good if you could have some color on the conversion of them, if they show intention on the Google queries, et cetera? And how much should we worry about Google diverting traffic in the future?

Also, if you can comment on the famous essay, Google is dying and people are depending on Reddit for their queries?"

Okay. Thank you for the question. Look, we've long had, I think, a symbiotic relationship with Google and the Google Search platform specifically. So I think if you look within the Google traffic, there's a couple of big classes of users that I think are important to recognize. So the first are people who go to Google with the intention of ending up on Reddit. So in that stat I mentioned in my opening remarks, we're seeing a lot of those users. Reddit is the sixth most searched word on Google in the U.S. this year. And so those are people literally typing the word Reddit into Google. So they know they're going to end up on it. They're using, in this case, Google to navigate Reddit.

The second class of users is users who are running maybe a more general search on Google and then ending up on Reddit, also valuable. And so we think of these users as this is an opportunity to teach people that Reddit has the answers to their questions. And so in that case, it's a great source of new users and a great opportunity to kind of show a new audience what Reddit is all about.

It's true, the algorithm does kind of come and go, give us and take us away, as you say. So you'll never hear us celebrate or complain about an algorithm change here. But at the end of the day, Reddit has great content. It has answers to questions. It has advice and perspectives that people are looking for, and that's what Internet consumers want, whether they're coming directly to Reddit or finding us through other means.

Okay. Now I'll turn it back over to Jesse.

Jesse Rose *Head of Investor Relations*

Great. Thanks, Steve. Thanks, Jen, Drew. I really appreciate it.

Rob, why don't we open the line for questions from the analysts that are on the line, please.

Operator

[Operator Instructions] And your first question comes from the line of Benjamin Black from Deutsche Bank.

Benjamin Thomas Black
Deutsche Bank AG, Research Division

Great. So first one really on search. It would be great to get sort of a status update on your efforts to improve on platform search. What incremental investments you need from here on out? How could search potentially improve the DAU growth? And how do you think about sort of the pathway and time line to monetization of search?

And secondly, just quickly on machine translation. Can you just double-click a little bit on sort of your early learnings here so far. Also, are you seeing growth in international content velocity? And could that potentially also support user growth here domestically?

Steven Ladd Huffman
Co-Founder, CEO, President & Director

Thanks, Benjamin. Okay. First question is search, on platform search specifically. Yes, an important part of our strategy and will be a focused investment for us heading into 2025. I think search is a unique opportunity because it kind of strikes out all of the things we care about. It helps new users find their home on Reddit. Even today, many new users in their first session run a search. So they're literally typing into a text box, what they're interested in, what they're looking for. It helps core users navigate Reddit, answer their questions, and it's a monetization opportunity. So it's one of the few products that kind of touches everything.

So we're working on this as an investment area in 2025. I think the timeline for monetization is, first, we think about the consumer product. So we're doing some heavy lifting on both the back end and the front end. You'll see movement on that between now and throughout the year. And I think when the product is in a more, call it, stable configuration, then we can start working on monetization, which I think is, of course, a big opportunity. So first users, then the monetization, but it's one of our top investments heading into next year.

Your second question on machine translation, what are the early learnings? Well, this is a feature that has had a lot of nice stories to it. So first, our primary objective was can we translate English content into other languages. In this case, French has been our focus in the kind of first half of this year. It was our first language. Can we attract French-speaking users in France on translated content? The answer is yes. And so following that simple learning, we're rolling out kind of a full immersive experience into 5 countries. And then we're also beginning to translate the larger corpus of Reddit into 30 countries over the course of next year.

Machine translation is scaling. We drew 4x as many users this quarter as we did last, so we like that trend. And the machine translation has some other positive externalities. One is that the translated content gets indexed into other search engines. And so we start to see new users from external search who are arriving on the translated pages. And we're starting to see a little bit of what you're asking about, does that native language content get translated into English and show up for U.S. users? We're seeing some of that now. I think over time, we'll see more and more of that. And I think that just speaks to one of the, I think, finer reasons to use Reddit, which is to get a view of the world through the lens of somebody else. And so machine translation, I think from that point of view, is really helping us fulfill our mission of connecting people around the world.

Operator

Your next question comes from the line of Ronald Josey from Citi.

Ronald Victor Josey
Citigroup Inc., Research Division

I wanted to ask two, please, and I guess this is for Jen and Drew. So I guess, Jen and Drew, I'm trying to understand the upside to revenue in the quarter. And I understand that impressions drove growth here. But talk to us more about maybe the mix between ad stack improvements. Jen, you mentioned a few newer products that are driving growth. But then also, I would love to hear your thoughts on newer advertiser demand as SMB and others join the platform. That's question one.

And then, Drew, more specifically, you highlighted operating leverage, again, over 70%, clearly achieving positive GAAP OI, which is great to see. Talk to us about just how you view investments versus growth and whether we think we turn the corner on profitability going forward.

Jennifer L. Wong
Chief Operating Officer

Yes. I'll take the first part of it, which is sort of the growth drivers. It's a combination of the work we've done on go-to-market and the ad stack. So first of all, some of the drivers were things like vertical diversification. Like, over half of our verticals are growing more than 50% year-over-year, like media entertainment, pharma, tech, finance. These are areas where we made intentional investments to develop that capability and those client relationships to bring on new lines of business and new customers. So that's really go-to-market driven.

Then you have pieces that are really driven by the ad stack. So things like the lower funnel and the mid-funnel objective growth. The lower funnel almost doubled year-over-year in terms of an objective. That's because we're delivering more conversion volume. Our revenue grows when advertisers, they find the outcomes they want at the volumes and prices that they want in our marketplace. And we're just able to deliver more conversion and traffic outcomes to advertisers, so that's been a significant growth driver in the quarter as you look at the mid and the lower funnel. I mean all objectives grew really nicely, but those two in particular.

And then finally, international, as I mentioned, it grew 57% year-over-year. So in EMEA, in particular, which is an area that we continue to develop, build agency relationships as well as a book of business across both channels, our large customer and mid-market channels. So each of these, I think, is contributing growth drivers.

We are adding new advertisers. Every quarter, there are thousands of new advertisers onto our platform. Now it's not at the levels that we think is possible. I think that TAM is really large compared to where we are today. There are many more lines of business and thousands more advertisers that can be on our platform, but we are adding them and acquiring new customers onto the platform. So those are obviously seeds that are planted for the future while we continue to grow our base book of business. So I'd say both were contributors.

Andrew Vollero
Chief Financial Officer

Ron, on the investment side of the world, I mean it's happening now. The great news about our business is it's a really easy one to invest into. And because the ROI is quick, it's immediate, it's measurable. There's a bias here to invest, and we were a young company, which have done a 90% gross margin. The types of investments that we're making right now are measurable, short-term payback, frankly, really easy financial decisions where you're getting multiples back on some of the investments that you're making.

Where are we investing? We're investing in adtech, right? So there's a number of things that we've added from an adtech perspective that makes sense. You can measure the products. You have direct visibility into how the customers access your platform. And so you can see whether or not you're getting returns for that immediately.

On the people side, we're adding people in channels and countries, easy to take a look at. We're opening up a couple of new markets, easy to take a look at that, run a country P&L. So a simple example would also be the sports deals we talked about last quarter. That was an investment Jen and I made maybe 6 months ago. Small investment, put a team on the ground and you're able to tangibly produce meaningful licenses with some of the leagues in the world.

And so anyway, right now, it's a pretty straightforward decision. You see that happening right now in the P&L. Like, if you look at our cost growth over the last 4 quarters, if I go back to Q3 of '23, we grew 5%, 7%, 9%, 11%; and this quarter, 19% year-over-year. So you're starting to see that come in. Again, we're just in a place where the investments are measurable. They're short term and you can really see the payback. So really, the questions we have are really about, can the organization handle it and can we execute. It really isn't a difficult ROI decision because right now, the returns are very, very strong, as you know, with the high gross margin pull-through.

Operator

[Operator Instructions] Your next question comes from the line of Rich Greenfield from LightShed Partners.

Richard Scott Greenfield
LightShed Partners, LLC

I am tempted to ask one question with 27 parts, but I'll contain myself. Sorry, I just couldn't resist. This sort of follows up on what Drew was saying, but I think Jen's probably the person I should direct this at. As we think about sort of the ARPU growth, it's obviously far more measured and slower. It's solid overall, but it's obviously a lot slower than what you're seeing in terms of user growth. And I guess the question is, how much is the ARPU growth being pressured by the rapid growth in users and, in turn, the number of impressions that you're actually getting on the platform?

And maybe the way of thinking about this is and why we're asking is like the absolute level of monetization per user still feels very low relative to where I think you should be right now given the level of engagement. And just trying to understand the puts and takes as we think about what will drive dramatically faster ARPU growth? Does user growth actually have to slow for that to happen? Or can you actually get to both happening at the same time, if that makes sense.

Jennifer L. Wong
Chief Operating Officer

Yes, thanks for the question, Rich. Just we've always said this, we don't manage to ARPU. It's an output, right? It's an output of revenue, users, and user mix. User mix being things like what geographies the users are in, the mix of logged in and logged out. So all of those are sort of drivers of ARPU. We don't manage to it.

Look, our revenue growth, like I said before, it's driven by advertisers finding the outcomes they want at the volumes and prices they want. And we have really differentiated revenue growth, and we feel really good about that. We also have really differentiated user growth, which we feel really good about. And like we said, we don't focus on ARPU quarter-to-quarter, although we do see headroom in the future over time because we do believe in the value of Reddit users and, over time, Reddit users actually increase engagement as they come in and spend more time with us.

So another way to think about it is the bedrock of our inventory is logged in users. And we do continue to grow the value of our most valuable users who are those logged in users. And there's been very steady growth in those logged-in users. And so it's just another way to think about it. So again, we don't manage to it but we do see the headroom in the future over time.

Operator

Our next question comes from the line of Andrew Boone from JMP Securities.

Andrew M. Boone

JMP Securities LLC, Research Division

I wanted to talk about data sales a little bit from here. How do we think about the puts and takes of that category of growth? I understood there's limited visibility, but can you help us understand kind of the guardrails of where this could go.

Steven Ladd Huffman
Co-Founder, CEO, President & Director

Okay. I'll take it. Look, we're in the market, so there's basically kind of, call it, a barbell of customers. So we've got the big customers on the training side where we're still in conversations with folks, but there's a limited number of deals there. And then there's more customers. That would be smaller deals. We've done a number of deals there that are less training and more real-time access to information on Reddit, social listening, financial services. Those would be the customers we're targeting there.

Look, I think it's still early days for us here. We've built the kind of enterprise level kind of APIs to support this business. I'd say for us, it's a nice-to-have business, and we'll keep those conversations going. But if we're thinking about the future of Reddit, it's really our ads business, it's search, it's more of our kind of on-platform initiatives. But I think the story here is Reddit's data is extremely valuable. It's extremely valuable for a lot of players in the market, including to ourselves. And as I said in my opening remarks, Internet consumers broadly are trying to find Reddit's content for various reasons.

And so look, we're open and we're open for business. And I think finding the right balance between making this information accessible and building our own products on top of it is how we think about this.

Operator

Your next question comes from the line of Naved Khan from B. Riley Securities.

Naved Ahmad Khan
B. Riley Securities, Inc., Research Division

So it's great to see conversation page views up 40%. Can you just maybe talk about the ad load there, where do you think you are in that opportunity in terms of monetizing just that runway?

Jennifer L. Wong
Chief Operating Officer

I think you're asking about monetizing conversation placements. I think, look, we're testing ads and comments right now. I think we're still early in both, honestly, the design of that page from a consumer experience point of view, where I think there's a lot of opportunity in thinking happening because it's such a high-intent page where people are searching for information, and I think we're early in designing the ad format that is appropriate for the different sections of that page: the ad below the the post, which we launched couple of years ago; and the ads in comments. So I think there's a lot of opportunity there. That's a minority of our inventory today but is growing in terms of engagement.

So I do think that, that's an opportunity. But we move both of those things in tandem. And I think there's a lot more actually that we want to do with that page in terms of the experience of when users come in and are guiding, getting the information that they want and going deeper, and the ad experience will follow that. So there's headroom there. Again, we are interested in designing ad formats but ad load is not a lever that we focus on. We're really focused on designing formats and making sure we're delivering performance against the increasing users that we've seen onto the platform. So our inventory really grows with that reach.

Operator

Our next question comes from the line of Eric Sheridan from Goldman Sachs.

Eric James Sheridan
Goldman Sachs Group, Inc., Research Division

Maybe following up on that last answer and asking one of Jen. Jen, when you think about scaling performance measurement, attribution and garnering more direct response, advertising budgets, not in 2024 but over the medium to longer term, what do you see as some of the key investments or unlocks that you're still trying to solve for to continue to progress the budget conversation with the broader advertising community that would have the output or the yield of building additional revenue scale in the years ahead?

Jennifer L. Wong
Chief Operating Officer

Yes. Thanks, Eric. It's a number of things. So end-to-end for performance, we're still continuing on our CAPI drive. It's really important. Measurement is incredibly important to performance. That's proceeding really nicely, but it takes time. We want ideally 100% of our conversion revenue covered by a measurement like CAPI, but we're not there yet. So that's an IT-driven process with our customers. But measurement is incredibly important.

The second is automation simplicity. So I think we have now developed a product that is market-competitive in terms of performance outcomes. That's great. We'll continue to chip away at that; improve performance for advertisers quarter-over-quarter and year-over-year, and that's what the market demands; and allow them to scale, especially with the increased reach of our users. That's great. But it has to be simple in order for smaller advertisers to take advantage of that, which means automation, really end-to-end simplicity. And we're not there yet. That's something that we're building more end-to-end automation in the world of performance, but that will unlock more advertisers.

The third is in the lower funnel is shopping. Shopping, it's a different sub-objective within the lower funnel performance. It requires catalog ingest, its own machine learning models, more complicated measurement and we're building that capability, but it's a longer journey to sort of build that objective. Something we believe in for Reddit, but that's also something that I think would bolster our lower funnel. So those three things.

Operator

Your next question comes from the line of Rohit Kulkarni from ROTH Capital Partners.

Rohit Rangnath Kulkarni
ROTH MKM Partners, LLC, Research Division

Question about just how are you using gen AI in your adtech. Maybe talk about what impact have you already seen with advertising adoption along the lines of, Jen, you mentioned reducing friction in the automation and perhaps what category of new customers are coming as a result of any new tools that you're providing such advertisers around gen AI.

Jennifer L. Wong
Chief Operating Officer

Yes. Thanks for asking. So we launched a couple of quarters ago a headline generator using gen AI where you can just put in the URL from your website, and it actually gives you Reddit-y headlines that actually drive improved ad performance and having Reddit-y type headlines in your ads really does make a difference in the ad resonance. So that's just an example of, I think, what's possible in terms of ad creative.

We did acquire a company called Memorable AI. Their specialty is in understanding the components of creative and how they drive performance, is it an image, the color of the image, the type of text, et cetera. So they drive the insights in how to optimize creative. We have an ability -- we want to take that and integrate into our ad stack. And the next step would be having those insights tied to a gen AI capability to actually do the work based on those insights. So it's early in that we just acquired them, and we're integrating them into our asset, but we do see a very fulsome and exciting road map related to ad creatives in terms of gen AI.

The other automation that you'll see that is coming in the platform is going to really be around ML with a little bit of AI on top in terms of the end-to-end performance. That's taking steps out of the tool to make things easier to execute in terms of campaign setup and campaign optimization.

Operator

Your next question comes from the line of John Colantuoni from Jefferies.

John Robert Colantuoni
Jefferies LLC, Research Division

You talked last quarter about conversation ads creating some pricing headwinds. Can you talk about if conversation ads are still putting pressure on CPMs? and also talk to the impact on pricing early adoption and sort of the reception of some of your newer premium conversation ads?

Jennifer L. Wong
Chief Operating Officer

Sure. Yes, I would say that the conversation placement compared to the feed still has less demand in that placement because it's newer. And we are testing ads in comments. So we'll be adding some ad load into that page, and obviously, adoption for a new ad unit like that does take time. But there are ways that we've been growing that demand. So for example, I mentioned earlier the multi-placement optimization, where customers can get the benefit of us optimizing across both pieces of inventory, especially when they're looking for a specific outcome. That's helped increase demand fluidly across these two surfaces because what the advertiser really wants is the outcome, and they're sort of more indifferent to the placement.

And so that's helping advertisers get acquainted with the performance in that unit where we can fluidly optimize for them and take some friction out and having to set up different ad groups, et cetera, and think about those 2 ad units. And we sort of adjust the creative and the optimization across both. So I do think that there is increased demand. We're seeing good increased demand against that unit. But of course, we're also seeing a lot of supply, as I mentioned earlier, in terms of the engagement on that page. So they're moving in tandem. The good news is there's incredible opportunity on that page. That page is extremely contextual, extremely high intent. It is a high converting page with great outcomes. And we're still early in the ad formats and designing the ads for that page. So it's just an incredible opportunity.

Operator

Our next question comes from the line of Brian Nowak from Morgan Stanley.

Brian Thomas Nowak
Morgan Stanley, Research Division

I have two. The first one, to go back to Eric's earlier question about sort of '25 drivers, Jen, could you just sort of walk us through, when you think through all the ad innovation that you're most excited about, which of the products have you sort of built the back-end tech stack for that are going to sort of roll out into '25 that you think could really be the next driver of performance and ad budget growth for you guys?

And then the second one, Steve, can you just kind of walk us through your conceptual time line about search, building search and then starting to test monetization of search.

Jennifer L. Wong
Chief Operating Officer

Yes. Happy to talk about the ad stack. So for '25, I would say we're continuing on the same journey in terms of our strategy, right? We want to be a full funnel solution for advertisers. We want to deliver market-competitive outcomes across brand and performance advertising. And I think we're doing that in the objectives that we have across brands, some impressions, brand lift, middle of the funnel for traffic and lower funnel in terms of key conversions, things like add-to-cart purchase and

then app install. So there's more there. We're just at the beginning of that journey. There's more that we can do in terms of our modeling. There's more that we can do on measurement, like we can add modeling to measurement. There's a lot more that we can do to give more value and more scale to advertisers in those objectives. And remember, that can all scale with user growth. So it's a really nice position to be in. It's still an efficiency driven market, so we will still deliver more efficiency and return on ad spend to them next year, which will help them scale their work with us.

In addition to that, we see an opportunity to enhance the brand part of our proposition. On the brand side, we've always been very successful because of the high engagement and the big unduplicated reach on a monthly basis. And brand has an opportunity to be a lot more automated and have a lot more selection in terms of the optimizations for advertisers like optimizing for reach or lowest cost. The things that we've given to advertisers on the performance side that drive some automation from them, not end-to-end automation but automation on the optimization to make it easy, we can do that in brand as well. And so that will be something that we're investing in.

The second is on the lower funnel, while we have a really nice foundation in conversions and app install, we want to build out shopping, as I mentioned before. That's just another capability in the lower funnel that I think can get advertisers another way to talk to customers. So that would be the second piece.

And the third, which I think we're now at the moment that we can do, which is the end-to-end automation. And you've seen this with Advantage+ and Performance Max from Google. It really does make the optimization campaign set up much simpler and scalable for advertisers. In order to do that, there's two steps. Like, you have to have every part of the ad stack in place before you automate over it. And the second is you need to build a certain amount of trust with your customers before you automate all of those activities so that they really understand what's happening at each step. I think we are there at that point. And so we've been investing and starting to put together these items into a more automated experience.

So those are the three things that we've been starting to invest in, in the background and think about as we go into '25 on top of the continuing road map from this year in terms of delivering the market-competitive performance.

Steven Ladd Huffman
Co-Founder, CEO, President & Director

Okay. And so then on the search side, look, we'll be doing a lot of heavy lifting throughout 2025. So high-level road map, modernizing our search products, so kind of bringing it up to table stakes or what are table stakes in this era, so really good auto complete, beautiful results pages. We'll start working integrating LLMs into making our results more sophisticated, I mean helping users navigate all of the results that come back from Reddit. And there's a lot of back-end work as well, which is improving our own ability to do retrieval, getting more sophisticated ranking ourselves, and then creating more entry points in the search as well, so not just the search button on Reddit but, for example, users who arrive to Reddit from external search, helping them kind of expand their queries and find more of what they're looking for.

So all of that will be under heavy construction. We do a lot of testing, so you'll start to see this over the course of the next year. In terms of when we start monetization, we need to have some stability in the product, right? It's hard to monetize a product when the pixels are moving all over. So that's the simplest answer. I think most likely is we'll find some products we like next year. That's something we'll begin planning.

And so I wouldn't expect actual dollars to be coming in, in 2025, but hopefully not too far after. So we'll follow the product. There's lots of exciting stuff coming. I think the opportunity is really big. And we're looking forward to getting there. But it is a multistep process. But I think you'll be able to follow along with us each quarter as we go next year.

Operator

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

Thomas Steven Champion
Piper Sandler & Co., Research Division

Jen, maybe for you. Your comments on the market sound quite a bit better than maybe the last call. Curious if you agree, what were maybe the signposts that emerged during the quarter? And just any early take on the market in '25.

Jennifer L. Wong
Chief Operating Officer

Thanks for the question. Yes, I'd say, look, probably when we last spoke, I had some caution about Q4 around the election. And what I would say is, I think it doesn't seem to be affecting bookings. I think there is caution around delivery timing. So there might be advertisers who are going to be a little quiet for certain periods of time, but it doesn't seem to affect their interest in growing their business with us in Q4 and continuing their advertising. So I think that's where at least what we've seen so far.

'25, it's early, but I would say the signals are that it's stable, that there's probably some optimism. I think most folks will say they're going to be up in general, unless there's been major client or share shift, which I think is good. And I think brand advertising has been really healthy. And we've seen strength across all our objectives.

I think it's still an efficiency-driven market. So I do think at the mid- and lower funnel, there are still pressure to improve ROAS year-on-year. But I do think that there is healthy interest and investment in brand, which I think is always a good sign. So I think the full funnel is actually all in a healthy place in terms of investment. That's our view so far.

Operator

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

Douglas Till Anmuth
JPMorgan Chase & Co, Research Division

Great. Maybe two for Steve. With Google and OpenAI already under contract, could you characterize the demand for future large language model partnerships currently? And do you feel like you're making progress in working through some of those data and privacy requirements that you've talked about? So that's one.

And then maybe second, this is a frequent question that we get from investors, but hoping you could just help us think through some of the puts and takes of getting up to 40% of daily traffic coming from Google.

Steven Ladd Huffman
Co-Founder, CEO, President & Director

Sure. Okay. So first question is on data partnerships. So you mentioned a couple of big ones, Google and OpenAI. Like as I mentioned, we are talking to folks. It's important that in, I think, any commercial agreement, or noncommercial agreement for that matter as well, that the partners are respectful of our users. So that's inclusive of our public data policy. And then also, it needs to be fair to our business. And so I think those deals have so far been complex. None of them are existential for Reddit. I'd say they're all kind of nice-to-haves.

Our general principle is we're open and open for business, but it needs to be on terms that work for us, our business and our users. So we're kind of working through each of those. But as you've also seen, we're not afraid to block people or cut people off if we don't think we're going to come to terms there. And so I think there'll be a range of outcomes.

And then on the kind of more traditional external search side, yes, look, I think, as I mentioned, we've long had I think a symbiotic relationship with the Google search platform. It's high utility for some of our core users. Those users are going to come to Reddit regardless. And it's a great source of new users, effectively a marketing channel, to educate new users about Reddit. And look, we've seen their algorithm

change a lot over the years, and of course, it always will. And Google, of course, experiments with all sorts of new search products. Some help, some hurt.

But we've been on this journey for 19 years. So yes, there's volatility in that traffic. But if you look over the last few years, our logged in growth has been very stable and reliable. Our app growth has been stable and reliable. And that's where the vast majority of our revenue is. So yes, volatility on the logged out users, on the external users, but our actual business has been very stable and reliable growth over that time period, and that's what we see looking forward as well.

Operator

Our next question comes from the line of Alan Gould from Loop Capital.

Alan Steven Gould
Loop Capital Markets LLC, Research Division

So Jen, I know you said you don't manage towards ARPU, but domestic ad ARPU had a significant uptick this quarter from minus 12% year-over-year in 2Q to plus 2% year-over-year in 3Q. I know Drew said pricing has improved. How much of that is pricing? And what other areas are contributing to that?

Jennifer L. Wong
Chief Operating Officer

So I mean ARPU is going to bounce around quarter-to-quarter. That's just the reality of being focused on revenue growth and user growth. And so I don't necessarily read too much into quarter-over-quarter movements in ARPU. But yes, I mean the drivers of ARPU in general, definitely things like pricing, and ad formats or ad load are obviously contributors to ARPU growth.

The way I think about it is our business has really grown significantly in the mid- and lower funnel. And you do that by growing volume of clicks and conversions, which increases the value per impression that an advertiser gets, right? And it's increasing their return and the efficiency that we're delivering to them. And that just increases the value of every impression because of the click volume and the conversions that they're seeing from advertising on Reddit.

So I do think that delivering performance is definitely helpful for advertisers and for us in delivering return on ad spend for advertisers which drives demand, which drives spending and which can drive pricing and competition and interest in those objectives and scaling those objectives. So I do think it's driven by a lot of the work we've done in the ad stack to deliver performance.

Operator

Our next question comes from the line of Dan Salmon from New Street Research.

Abdullah Dilawar

This is Abdullah Dilawar speaking for Dan Salmon from New Street. I was just wondering, could you guys give us an update on your go-to-market strategy for data licensing, how it's evolving, both for like large language model trainers in midsized customers. It'd be great to hear about your latest learnings.

Jennifer L. Wong
Chief Operating Officer

Sure. So as Steve mentioned before, our go-to-market is kind of a barbell. We have discussions with a small group of folks who are developing training AI models. The other side is maybe marketing intelligence firms or verticals who are interested in slices of Reddit data, and those tend to be smaller deals, but more volume. And the training folks, there's usually a combination of both freshness that they're interested in as well as the total corpus of information to train on.

Look, I think that we continue to talk to like what I'd say is a small group of folks who are in the world of AI training. It's a really evolving landscape. Many of those companies are trying to figure out their own strategies, what their product is going to be, what they're building, how they're investing, how Reddit fits

into it. It's well-known that we are there to help and be a thought partner in this, et cetera. But I think it is an evolving landscape where they're sifting out their strategies, and we're a part of that strategy. So that's just where we are in the landscape.

The other side of the go-to-market, it's a very small team but is out there talking to marketing intelligence companies and also looking at some verticals. There, what we're doing is we're both engaging who would be the client, the customer to us as well as their end customers, right? So if you're a marketing intelligence firm, you might have customers who are brands and companies. If you're a financial services firm, you might have an end customer who's a financial services firm. And there, what we're doing is really helping them show the value to their end customers and make sure that their end customers have a great experience in understanding how the Reddit data can bring value. And that's how we sort of grow that business. We get more people excited about what you can learn and the insights you can get from Reddit data and to continue to see value in it. And so that's what that work looks like.

Operator

There are no further questions. Please go ahead.

Jesse Rose
Head of Investor Relations

Yes. Thanks, Rob. Yes, I think we'll wrap here. I appreciate everyone joining the call today. If anyone has any follow-up questions, please do not hesitate to reach out. We, of course, look forward to keeping the dialogue open. Thanks, everyone.

Steven Ladd Huffman
Co-Founder, CEO, President & Director

Thanks all.

Operator
This concludes Reddit's Third Quarter 2024 Earnings Call. You may now disconnect.