AM(A)A Video Transcript
Q3 '24

00:14

Steve Huffman:
Alright, hey, folks, welcome to our Q3 earnings follow up. I'm Steve Huffman. I'm co-founder, and CEO of Reddit, joined by Jen Wong, our COO and Drew Vollero, our CFO, and we're happy to take a few of your questions now. You left a bunch of great ones in the RDDT subreddit and we're happy to dive in. Okay, so let's see, we kind of organized them thematically.

00:44

Steve Huffman:
The first couple of questions were about search. Is there anything planned to improve onsite search? That was the first question. Second question, how will Reddit improve the search functionality so more relevant results come up? The time filters are very broad, so it's hard to see more relevant posts.

Great questions. So the short answer is, yes, search is a big part of our strategy next year. I think search is…it's interesting because it hits the sweet spot across a couple of important things we want to focus on. It's an important feature for new users, because new users often run a search in their first session. And of course our challenge with new users is helping them find their home on Reddit. And many of them are typing into the search box exactly what they're looking for, so better search will just be better for new users, which, of course, is better for growth. It's really important for core users, as core users navigate Reddit and ask questions and so forth.

And then, of course, search itself has monetization potential down the road. So for all those reasons it's a really important strategy for us. Over the next year we'll be doing some pretty serious construction on the back end, on the front end, we'll be using LLMs where reasonable, new entry points into search. And so I think you'll see it improve hopefully across basically every dimension. I think it's really important.

02:12

Steve Huffman:
Okay, next question about Reddit's plans to roll out paid subreddits. Do you think they could act as a platform for content creators and artists to receive funding directly from their followers?

We'd love to get there, is the short answer. But I think there's some gaps we need to close. So the Reddit community broadly holds two ideas in their heads at the same time. One: we love original content. Two: we hate self-promotion. And these ideas are actually in conflict. We have to make Reddit work for creators, otherwise we won't have creators or original content on Reddit. I think the way we do this is by making spaces for them to exist on Reddit that are kind of outside the community structure. So think better profile pages. So creators can have a home on Reddit that they can link to, that they can post their content. And then it can be, you know, pulled into the Reddit communities. And so this, I think, opens the door for things like paid or private subreddits that are maybe built around a creator and the kind of family of features there. And so I think, the bigger idea there is we want creator and creatives, the people who create the original content that Reddit loves, to be able to exist on Reddit. Okay?

03:45

Steve Huffman:
The next question, there's multiparts to it. So let me take each part. The first question is:
Reddit has a huge number of MAUQs and site visits. I believe it is the most 3rd visited website in the U.S. after Google and Youtube. I understand that DAUQ is a more valuable metric to clients. But why do you not comment on the huge number of MAUs / traffic? Is it not possible to monetize these visitors / clicks?

Okay? So it's a good question. I think MAUqs for us, it's such a big number that I don't think it's credible for us to grade ourselves on. I think DAUqs, which were at 97 million this past quarter, are a better apples to apples comparison between us and other platforms. Though that said, we do now report on WAUqs, which themselves have grown to 360 million, which is probably the best representation of the size of Reddit's userbase. But I do think it's important that we use metrics that help people understand Reddit's place in the ecosystem better, which is really DAUqs and WAUqs.

04:58

Steve Huffman:
Okay? The same user had a couple of questions. There was another question about incentives / monetization for content creators. Do you have any plans to bring the livestream feature back or enhanced features regarding following a specific Redditor? Any color on how creator incentives are being planned would be helpful.

So livestreaming. So we used to do live video and live audio, we shut them off both for different reasons.

I'd enjoy seeing them back someday, but it's not on our immediate roadmap. Following, this is technically a feature that exists on Reddit. But it's not really used. I think, in the spirit of my previous answer, of making Reddit work better for creators, I think that's an important feature. But I think there's a lot of details to get right to do so in harmony with the Reddit community structure which is sacred to us.

05:58

Steve Huffman:
You had another question, which is, how are AI translations going for Asian languages? Subtle nuance translation would be much more difficult yet crucial for Reddit success in the region, and would love to know how you're trying to tackle the issue.

The short answer is we're not, we don't have any Asian languages in machine translation yet, because of the reasons you mentioned. It is more difficult. But we will, you know, get there in time. I think there's also kind of cultural differences that would impact how a platform like Reddit might be successful in other countries around the world. So we're not there yet. But we'd love to be there in time.

06:39

Steve Huffman:
Okay? Next question, as the front page of the Internet, Reddit seems to be in a great position to create their own services and replace competitors. For example, the most I use Youtube is via Reddit. Same with adult content, much of it is on Reddit. It's basically ads for OnlyFans. What strategy is there for keeping this content and thereby revenue local, any plans for a Reddit version of streamable? Are there any acquisitions on your horizon?

So again, we're touching on basically the same theme again, which is making Reddit work for creators. Today, for creators who have a following, even if their following is on Reddit, or if their communities are on Reddit, if their content is on Reddit, and the conversation about it is on Reddit, the creators themselves often live on other platforms. Because that's where they go to monetize. And so I think again, this is why we want to work towards having creators exist on Reddit. Be able to monetize on Reddit. But we need to get the product details right so that it's not coming at the expense of communities. I can see a path to get there. And I think that goes through profile pages and some of the monetization features we've talked about, but we do have to to work our way there. But I think the opportunity is there.

In terms of acquisitions, I'd say, over the last couple of years we've done a half a dozen acquisitions that have been mostly like AI startups. Purchasing companies that are, you know, 20ish people. Really for technology and teams. That's where we've developed the muscle, and that's where we're really in the market looking. For bigger acquisitions, nothing on the horizon at the moment. Not that I'd be able to say in this call.

08:34

Steve Huffman:
Okay. Next question, what are some new products set to launch on Reddit this year? Thank you and congrats. Okay, thank you.

So lots of iteration on the core products, including trying new things in the core feeds UI, working on search. A lot of the Creator stuff we mentioned will show up in different ways. Making Reddit work for creators, making Reddit work for businesses, and other official accounts. Developer Platform is coming along, I think there'll be some fun things there. And I think a general kind of investment across the board on Reddit, our strategy the last couple of years has been to make Reddit better. And that strategy has worked, I think, very well for us.

09:18

Steve Huffman:
Okay, next question. At what point have Google, OpenAI gotten enough for Reddit in terms of LLM development and no longer need Reddit content? Is that a short term need for a few years, or will this be ongoing? Are there other companies that want to pay for access to reddit data for LLMs?

So I think broadly, what we've learned is that people need a continuous supply of up-to-date and relevant content and data. So imagine a search engine that stopped indexing in 2021. It would become less useful over time. I think you can think of these big AI models similarly. They need to stay relevant. Otherwise they just become irrelevant over time. And so look, it's a developing market for sure. It's new for us, and it's new for them. But we are in the market talking to companies now. In order for us to do an agreement with somebody, whether it's non-commercial like we do for researchers, or non-profits, or commercial, as we've done with some of these large companies. It does need to be on terms that are fair to our users that respect our users privacy, adhere to our public data policy, and are fair to our business. And so this means we'll do, I think, deals with some, not with everybody. And for other folks, we may even end up blocking them. Although the big picture here is we like Reddit as an open platform. But when we say open, we really mean open for human consumer users. And for other use cases, we need to be much more intentional. And that's where we're at right now.

11:03

Steve Huffman:
Okay, next question: you guys have spent a ton on research and development over the past year. But aside from adding achievements, there isn't much to show for it. So are there any new features you guys are working on that we can know about?

So for us, R&D, just includes all engineering, product, design, research, even data, and so that's it's Basically half of our employees work on actually building Reddit. The last couple of years our focus has been on quality and performance. I think we've got a lot to show there. We've upgraded, if not redone, the core UI on all platforms. We shut down the web platform formerly known as New Reddit. The new web platform is two to five times faster. In the last quarter we redid AMAs we've seen 5x the usage there on just the last quarter alone. We've made a ton of improvements to video, video quality, onboarding, chat, host creation, moderation on all platforms. So I think there's been a lot of progress. But it's been really progress to take the core product of community and conversations and make it work better. And I think we're seeing the results of that labor. Our ad platform has improved dramatically as well. Coming up in the next year, a lot of the stuff we've talked about on this call. Continued iterations on the product, continuing to focus on speed quality, performance, ease of use, investments in search, investments in how do we make businesses, brands and creators have a first class experience on Reddit. And and also expanding Developer Platform further. So I think there's actually lots happening.

Okay, I get a break.

12:55

Drew Vollero:
Okay, let's do it. Let's see, with a quarter like this, what can be asked. All the questions are jokes. Could you slow down your gross margin expansion because it's getting into nosebleed territory at 90%. And so really, the question is about sort of how much higher can gross margins go.

Look, strategically gross margins are very important to a company with a gateway to profitability. It's a very important signaling model to investors. Investors could see when you know, when we were a young Reddit and not making money, they could see the potential that we could have a day like today where we could be net income positive because of those strong, gross margins. You know, on the call, we took a question about investment and the investments you can make. You can pay back your investments here. It really helps us to invest quickly in our business because of the strong gross margins. So strategically they're really important.

Now, in terms of the spirit of the question, it's how much higher than 90% can you go, or do you want to go? The reality is the gross margin of the business today is really a series of headwinds and tailwinds. The 90% that we posted today was not a number we circled on a blackboard and decided that we were going to have 90% in the 3rd quarter of 2024. It's really just a byproduct of the headwinds of the tailwinds of the business, and sort of working as a team. Steve mentioned a minute ago our engineering team. They're center to what we're trying to do from an efficiency perspective. They've done a fabulous job of negotiating things like great contracts with our hosting providers and doing a lot of web efficiency. So they're central to some of the strong, gross margins that we've seen in our business. In terms of the cost pressures that we see that are real today in our business. Machine learning, we use it to target investors, or excuse me, consumers with the right content. We use it to target consumers with the right advertising that's relevant to them that costs money. When we expand our business internationally that costs more money to carry that hosting outside of the U.S. When we talk about things like search that costs more money. So these are cost pressures that are in the business, that naturally probably will be a reason why we can't go much higher than 90, or will be at a cost that we need to overcome as we move forward. Now that said, we do have some nice tailwinds too. Incremental revenue here is our best friend. When we sell more, those revenue dollars are very profitable to us. That's what you saw happen this quarter, and if you look kind of year over year. We were up 280 basis points in gross margin. A big piece was just those incremental revenue dollars coming from advertising and data deals. They're very helpful to our gross margin. So really, it's a series of kind of headwinds and tailwinds. We're at 90%, not by design, but a lot of good work, particularly on the engineering side. That's really kind of helped us be a market leader.

15:39

Steve Huffman:
Couple more for you.

Drew Vollero:
You want me to take them all. Yes, let's do it.

15:44

Drew Vollero:
Okay, next one. One of the biggest issues for another rival social media company is excessive share-based compensation. What safeguards does Reddit have in place to prevent excessive share-based compensation?

The short answer is, we have three checks and balances. The first is, it's a mindset that we have at Reddit. From a mindset perspective, we view share-based compensation as a cost, just like we do cost of revenue just like we do overhead. So we approach this, we track it closely, we measure it, we look at it every quarter. You know, what gets measured, gets managed. We look at share-based compensation. The same way we do with other costs, the P&L. So the mindset here is, I think, one that prevents sort of getting out of control. Secondly, we have a process. So our process here is, we work closely with our Compensation Committee, which is part of our board of directors. They approve our compensation programs. Our compensation programs are a mix of share-based compensation. And also, you know, salary as well. So we benchmark pretty heavily at the Compensation Committee level, where we're looking at our salaries and our stock-based compensation versus other companies. So it's a pretty healthy process, very similar to other public companies, but it's one that we rely on.

The third one is just a philosophy. I mean, it starts with Steve, and Jen and I share it very much. Great companies are profitable companies and profitable companies don't stop at the adjusted EBITDA line. They go all the way to net income. And so net income includes share-based compensation. So for us to be a great company, someday, we've got to be consistent and profitable. And so that includes, you know, making profitability even after you pay for stock-based compensation. So it's a mindset, a process, and a philosophy, I think, that are your checks and balances here on runaway SBC.

17:29

Drew Vollero:
My last question here is, what's the expected forward PE?

And the short answer is, we're not guiding right now on PE at this time. We're guiding really just on quarterly revenues and adjusted EBITDA. So if you're looking for the forward PE, there's a couple of options, you can generally pull that online from any kind of financial website like Yahoo finance. You know, just tactically, the analysts, you know, had the call today. They'll be updating their models over the next couple of days. You can pull that by the end of the week, and you can get sort of a consensus view on what the forward PE Is from the company. But the company doesn't guide on that attribute.

Steve, back to you.

18:07

Steve Huffman:
Okay, thanks, Drew. Jen, I think we've got a couple for you.

18:10

Jen Wong:
All right. A couple of questions on ads. There are a couple of questions about political ads. How much of an ad increase is associated with election related ads that might disappear next quarter? How does Red think about political ad spend?

Well, while Reddit is a great place for conversation on politics, we actually don't play a lot in political ads. It's just not a focus for us. A lot of that advertising is typically very local zip code targeting. You know, our strength is in context and interest based advertising. So very different. So it's it's not a big part of our business at this time.

18:52

Jen Wong:
Okay, second question, how will Reddit remain a good balance of content versus ads, so that the user experience is not affected negatively?

It's a good question. So one of the things that you're seeing right now in our business is that we have very differentiated user and revenue growth. Very elevated compared to peers. And our user growth, it grows both our reach, so the number of people on our platform and the inventory. And while add load is a lever, it's not one of our top levers that we use. And add load is just the ratio of ads to content posts.

Instead, what we think about is obviously the underlying user growth, and two, thinking about designing ads for services where redditors are spending time. But there are no ads today. But there's an opportunity to to design an ad format specifically for that placement. Our ad load today, just for context is about a half to a third of peers. So it's actually very light. And we're very thoughtful about that experience. And we actually launched more personalized smart ad loads. So it adjusts to kind of your browsing behavior. And then, finally, the other piece is that our ads are designed to reflect like Reddit sensibility and formats, and the creative to reflect Reddit sort of vernacular and speech. And because it's rooted in context and interest, as those signals for what add to serve you, we think they can be just a lot, better experience, more helpful and also more effective.

20:27

Steve Huffman:
Okay, thanks. That's it. Right? Okay. Final stretch. Last two questions. How is the company culture settling at this point post IPO? Any difference you all have noticed that are helping push the company forward? Renewed sense of purpose or excitement, etc.

It's a fun time to be at Reddit. I think our work is working. It's fun to see Reddit grow. It's fun to see more people get it. I think we're really proud of the work that we do, and that the platform we get to work on. Post IPO, look I can say, certainly preparing to become a
public company. And now, being a public company, it's made us better. There are requirements and rigor to being a public company, and I think that's made us better. The discipline, the quarterly rhythm, has all, I think, helped this company mature. I'd say our aspirations are as high as ever. We believe that community is universal, and I think we have a great shot at bringing more and more users around the world to Reddit. And I love the culture of this company, and I think the people who work here, one of the things that we all have in common is that we love Reddit, and the opportunity that it presents. So yeah, it's a fun company to be at now. But it's kind of always been that way.

21:55

Steve Huffman:
Okay. Last question, will you keep doing this every quarter?

That's the plan. As long as you keep asking questions we'll keep answering them. Like our our aim here is to take and answer questions the same way we would from, you know investors or analysts, because we want you to have as much information as possible and as much as our thinking as possible. Really appreciate the questions, really appreciate your support, and I hope this was helpful. And until next quarter, or whenever we meet again, thank you all and be well. Bye.