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Reddit Inc

Third Quarter Earnings Call

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CORPORATE SPEAKERS:

Jesse Rose

Reddit Inc; Head of Investor Relations

Steven Huffman

Reddit Inc; Co-Founder, Chief Executive Officer

Jennifer Wong

Reddit Inc; Chief Operating Officer

Andrew Vollero

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PARTICIPANTS:

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Citi; Analyst

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PRESENTATION:

Operator: Good afternoon. At this time I would like to welcome everyone to Reddit's Q3 2025 Earnings Call.

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

You may begin your conference.

Jesse Rose: Hi, everyone. Welcome to Reddit's third quarter 2025 earnings call.

Joining me are Steve Huffman, Reddit's co-Founder and CEO; Jen Wong, Reddit's COO; and Drew Vollero, Reddit's CFO.

I'd like to remind you that our remarks today will include forward-looking statements, and actual results may vary.

Information concerning risks and other factors that could cause these results to vary is included in our SEC filings.

These forward-looking statements represent our outlook only as of the date of this call.

And we undertake no obligation to update any forward-looking statements.

During this call we will discuss both GAAP and non-GAAP financials. Reconciliation of GAAP to non-GAAP financials can be found in our letter to shareholders.

Our third quarter letter to shareholders and earnings press release are available on our Investor Relations website and Investor Relations subreddit.

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

Steven Huffman: Thanks, Jesse. Hi, everyone. Thank you for joining our earnings call. Q3 was a strong quarter for Reddit with differentiated results and solid execution across product, growth and revenue.

We ended the quarter with 116 million DAUq and 444 million WAUq, both growing around 20% year-over-year. We're especially encouraged by the mix of growth with organic product-led improvements and successful marketing both playing a role. This balance is working, and we're focused on replicating it across markets.

Revenue came in at \$585 million, up 68% year-over-year, and our financial model is scaling very well. We continue to be GAAP profitable with a net income of \$163 million and a net margin of

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28%, an improvement of \$133 million from last year. This quarter, we achieved a targeted adjusted EBITDA margin of 40%, which was a profitability goal we set at our IPO just last year.

Today, Reddit is the #3 most visited site in the U.S., per Semrush October 2025. That puts us in rare company. YouTube is #2 and Amazon is #4, and reflects how Reddit is where people start, not just where they end up. People come here to find trusted perspectives, to participate in communities that share their interests, no matter how niche or mainstream, and increasingly to engage directly with brands, institutions, and publishers.

In September, we launched new Reddit Pro tools tailored for publishers. Early adopters like *The Associated Press* can now sync their feeds, automatically import articles, track how their stories are shared and use AI-powered tools to find the right communities.

Our consumer product strategy continues to focus on making Reddit easier to use and more rewarding from day one, so casual users become daily users. They're already coming to Reddit. Now it's on us to make the experience worth coming back for by being more relevant and intuitive.

To that end, we're making real progress across the three main focus areas we shared last quarter: core product, search, and internationalization.

Let's start with the core product. We're redesigning the Reddit experience with a more modern search-forward interface and streamlining onboarding, so it's easier for new users to find what they're looking for with a dynamic personalized home feed. We're also helping more people contribute to their favorite communities by using AI to interpret subreddit rules and surface post insights.

On the moderation side, we're investing in tools that help mods grow and strengthen their communities. These tools are now live in over 3,000 communities, which are seeing 30% more active moderators on average. Moderators aren't just enforcing rules. They're shaping culture, building communities and helping Reddit thrive. Our job is to give them the tools to do it more efficiently.

Next, search. Search is one of our biggest opportunities because Reddit conversations are uniquely authentic, contextual, and helpful. This is why we're investing in making Reddit a true search destination. In Q3, over 75 million people searched on Reddit weekly, and that number continues to rise.

Reddit Answers provides users with curated, community-powered insights that are often more helpful than traditional web results. We started integrating Reddit Answers into core search, increasing its visibility across conversations, and rolling out to non-English languages. Our aim is to have a single great search experience on Reddit.

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And third, internationalization. Our international growth continues to accelerate. Machine translation is available in 30 languages, and it's a major driver of top-of-funnel growth outside the U.S.

We've built a local content framework to identify top interests in each country, which we use to guide partnerships, content and marketing. This approach worked well in India, and now we're applying it in Australia, Brazil, Germany, and France.

We're focused on finishing the year strong and putting our strategy for 2026 in motion. Looking ahead, our biggest priorities are growing app users by improving the experience and therefore, retention, broadening the types of users and communities that call Reddit Home, both in the U.S. and globally, increasing top-of-funnel growth by diversifying the sources of traffic including organic, paid, and publisher-driven, and of course, scaling monetization and ad formats for our users and partners.

Reddit is in a unique position. We're not trying to be the next anything. We're focused on being the best version of ourselves and what the internet needs most, a place where people can connect on almost any topic and find genuinely useful information. Because no matter what you're going through, someone on Reddit has already been there, done that and shared the story.

Thank you for being a part of this journey. I'll now hand it over to Jen to walk through the business in more detail.

Jennifer Wong: Thanks, Steve. Good afternoon, everyone.

I'd like to start by building on what Steve mentioned about our consumer product strategy.

We're excited about the opportunity to meaningfully grow our user base, both in the U.S. and internationally.

And as we refine our strategies, our consumer product roadmap is focusing more intently on the Reddit app. This is where we can build direct high engagement relationships, which are most valuable to both our users and our business.

The app can be more personalized, have easier onboarding and incorporate search more consistently.

These kinds of changes can impact user retention, increase returns on marketing and help us better convert web users into the app.

We're also working on expanding our users, communities, and contribution across Reddit. We recently introduced tools focused specifically on publishers to help them share content and engage organically on Reddit through Reddit Pro.

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Now moving to monetization.

In the third quarter, we demonstrated continued growth and strong execution with total revenue reaching \$585 million, up 68% year-over-year.

Our unique proposition and ad platform improvements delivered differentiated growth and positive outcomes for advertisers.

The advertising business grew 74% year-over-year in Q3, reaching \$549 million, and the growth was driven by broad-based strength across the business as we continue to expand existing relationships, acquire new customers and diversify our advertiser base. The total active advertiser count expanded by over 75% year-over-year in Q3 as we added new accounts across all channels including large, mid-market and SMB businesses.

Now, moving to our ad stack.

Our strategy is focused on making all businesses successful on Reddit by driving performance of our ad solutions, improving usability for users and productivity for our sales force, and offering our advertisers and partners Reddit-unique solutions and ad formats.

We made meaningful progress against each of these areas in Q3.

First, ongoing investments in our ad models and formats are driving greater performance and efficiency, which means better returns for advertisers.

In Q3, we continued to optimize our models for lower funnel objectives, including app installs and conversions. Model improvements to our lower funnel app ads objective generated double-digit percentage improvements to performance outcomes and ML-driven optimizations in the lower funnel conversion objective improved performance by over 20%.

We continue to enhance our shopping solution, Dynamic Product Ads, or DPA, which launched to general availability earlier this year. We're excited by the capability and seeing ongoing improvements to performance beyond the core conversion objective. DPAs currently account for a small portion of our total lower funnel revenue. Broader advertiser adoption remains an opportunity, as it takes a little more time and resources for clients to implement this more complex ad product.

To strengthen our lower funnel strategy, we continue to make it easier for businesses of all sizes to adopt our measurement tools including Pixel and conversion API (or "CAPI"). In Q3, CAPI-covered conversion revenue tripled year-over-year.

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

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We're investing in automation across our full ad stack to help drive adoption of our ad tools and improve performance for advertisers.

For the upper funnel, we launched the beta of auto-bidding, which simplifies budget management and improves efficiency, leading to over 15% more impressions and lower pricing for advertisers.

In the middle and lower funnel, auto-targeting is delivering strong results and adoption is growing over 50% year-over-year.

We're also in early testing of our end-to-end automated campaign platform that uses AI to streamline campaign setup. It is focused on activating mid- and lower-funnel objectives and provides customers with insights on what made their campaign successful. Early results are promising with advertisers unlocking higher return-on-ad-spend while spending less time managing campaigns. We're continuing to test the solution with a number of global advertisers across business sizes and verticals and adding new features.

Third, building Reddit-unique solutions and ad formats for our advertisers.

In the third quarter, we expanded access to conversation summary add-ons, a distinctive ad format that lets brands integrate positive Reddit conversations into ads. We're now testing this format with a broader set of advertisers across the funnel and seeing encouraging results with brands like Bethesda, the mid-market video game publisher, seeing 15% higher click-through rates.

We're developing interactive ads built on our developer platform, allowing advertisers to create custom experiences, like mini-games or quizzes, directly within an ad. This format is testing now and the plan with plans to scale more broadly next year.

Finally, we're seeing momentum with our free-form ad format launched last year, which lets brands tell richer stories through multiple media types in a post that feels native to Reddit. For example, FootJoy used freeform ads to promote their new HyperFlex line of golf shoes, delivering click-through rates 100% above benchmark and time spent more than 50% above benchmark.

Overall, Q3 was another strong quarter for Reddit. I'm proud of the progress and the improvements we're delivering for our communities and partners and excited about the opportunities ahead. Now I'll turn the call over to Drew.

Andrew Vollero: Thank you, Jen. And good afternoon, everyone.

Our solid Q3 results again demonstrated the financial model continues to scale well. And specifically, Reddit can be a leader in both growth and profitability. Total revenues grew 68% year-over-year, and our adjusted EBITDA margin reached 40%, passing that important

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profitability benchmark for the first time. The key to our financial success is continued traction across our five financial strategies.

These strategies include: first, achieving differentiated revenue growth. Revenues grew more than 60% for the fifth consecutive quarter.

Second, expanding margins. Gross margins expanded 90 basis points year-over-year to 91%, our fifth consecutive quarter of over 90%. Our adjusted EBITDA and net income margins expanded by 1,300 and 1,900 basis points year-over-year, respectively.

Third, scaling profitably. GAAP net income reached \$163 million and adjusted EBITDA hit \$236 million, both new highs for Reddit. Our net income margin was 28%. Our incremental adjusted EBITDA margin hit 60%.

Fourth, generating positive cash flow. Q3 cash flow ended at \$183 million, and our free cash flow margin for the quarter was 31%.

In the last 12 months, we've generated over \$0.5 billion of free cash flow. Cash and cash equivalents on the balance sheet continue to build at \$2.2 billion.

And fifth, minimizing dilution. We continue to view stock-based compensation and dilution as business costs and manage them closely. The progress continues to be evident. Total fully diluted shares outstanding were 206.1 million, down from both 206.6 million last quarter and 206.2 million last year. Similarly, stock-based compensation costs fell sequentially, both in dollars and a percent of revenue basis from 19% to 16%.

I'll provide a bit more color on these headlines.

First, Q3 total revenue of \$585 million was driven by our advertising revenue, which grew 74% year-over-year to \$549 million as we saw strength across objectives, verticals, geographies and channels.

Other revenue, which includes revenue from our data licensing business, reached \$36 million, up 7% year-over-year.

Average revenue per user ARPU grew 41% year-over-year to \$5.04, which is still low on an absolute basis and remains an opportunity. Regionally, revenue grew 67% and 74% year-over-year in the U.S. and internationally, respectively.

In the quarter, four revenue drivers fueled growth.

First, performance ads and brand ads had strong quarters, both growing more than 70% year-over-year.

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Second, impression growth remains our key driver, but we saw a tailwind from pricing in the quarter, a consistent trend so far this year as we continue to deliver value and favorable outcomes for advertisers.

Third, we saw strength across the funnel with growth ranging from mid to high double digits in the upper, middle and lower funnel segments.

And fourth, we continue to see diversified strength by verticals. We had nine of our top 15 verticals grow revenues by 50% or more.

Now moving to expenses. The growth rate in Q3 total adjusted cost was very similar to Q2. Total adjusted costs, which include both cost of revenue and OpEx, were \$349 million in Q3, up 37% year-over-year, consistent with a 38% growth last quarter.

Our main cost driver continues to be operating expenses, which on an adjusted basis were \$297 million in Q3, about 85% of total adjusted expenses. Adjusted OpEx costs grew 35% in Q3, the same growth rate as Q2, close to half the growth rate of our revenue, which was 68%. Most of the increase in OpEx costs were driven by our growth investments in sales and marketing. Adjusted sales and marketing expenses were \$115 million in Q3, about 20% of revenue, in line with peers. Sales and marketing investments were made in two key areas: first, building out our sales team; and second, brand and user marketing. Let me expand on each.

First, our sales team investments are primarily adding people resources in customer-facing areas like sales, marketing and ad tech. In the quarter, the company grew total headcount about 3% sequentially, slightly more than 80 net adds with about 70% of the net hires focused in these three growth functions. Our investment track record continues to be very strong here with fast paybacks and investment returns multiples higher than the cost.

Second, during the quarter, we continued to invest strategically in brand campaigns and user marketing to drive awareness, acquisition and engagement. Our marketing spend was aligned with creative campaigns and targeted specific growth segments. We maintained a balanced approach to investing in brand awareness and performance marketing in both the U.S. and international markets.

We remain thoughtful with our Q3 spending, targeting marketing expenses in the low to mid-single digits as a percentage of revenue. We're poised to scale marketing spend where we see the traction is promising. We'll continue to invest in those areas if we see the returns are sustainable.

Let me finish up the results discussion by adding a couple of other call-outs for the quarter.

In Q3, our CapEx remained a modest \$2 million, less than 0.5% of revenue, which means both operating and free cash flow continue to move in lockstep.

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Net income was \$163 million or \$0.87 per basic share, \$0.80 per diluted share, up four to five times from \$0.18 and \$0.16 last year, respectively.

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

In the fourth quarter 2025, we estimate revenue in the range of \$655 million to \$665 million, representing 53% to 55% year-over-year revenue growth with a midpoint of about 54%. Adjusted EBITDA in the range of \$275 million to \$285 million, representing approximately 78% to 85% year-over-year growth and an adjusted EBITDA margin of 42% at the midpoint.

So overall, we accomplished a lot in Q3 and the output metrics of users, revenues, and margins reflect that progress. The business model remains quite powerful as we saw impressive revenue growth be converted into 90% gross margins, 60% incremental margins, and now 40% adjusted EBITDA margins for the first time. That was a pre-IPO goal for Reddit and an important mile post to pass.

That concludes my comments for Q3, and now we turn our attention to the seasonally important fourth quarter. Let me turn the call back over to Steve.

Steven Huffman: Thanks, Drew.

We'll start, as usual, with a few questions from the RDDT community, and then we'll turn it over to the rest of the call.

Question one: I am impressed by the growth in international DAUq, 31% year-over-year. Can you give any detail on which countries in particular stood out for growth?

Thanks for the question.

We're seeing strength across a number of regions and our focus countries, in particular, France, Brazil, and India. And these are some of the first countries where we launched our international playbook, which includes machine translation, which is a good driver of top-of-funnel growth, local content framework based -- a local content framework, which is based on interests and passions, marketing efforts to drive awareness, and then finally, local partnerships with brands and notable people.

Question two, a question about what we are doing to improve the user experience, making it easier to contribute and helping new users understand subreddit rules.

So improving the onboarding experience and delivering value early in the user's journey is a top priority for us. We want them to see in their first session that Reddit is amazing and has content for them. So our goal is to connect users with relevant content very quickly.

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Community rules are a unique Reddit feature. So every subreddit has rules that are written by its own community and enforced by their own community.

But what we're doing is we're using AI to make it easier for those user-written rules or moderator written rules to be enforced automatically to make moderation more fun and efficient. And so that's coming along. That's out there and working nicely in many cases.

And we're supporting the contribution journey, so users posting successfully using AI-powered tools like post guidance and community recommendations -- to, for example, tell a user before they submit a post, whether or not it violates the community rules, which has historically been a friction point for new users.

Okay.

Now I'll turn it over to the rest of the call for questions.

QUESTION & ANSWER:

Operator: Our first question comes from Ron Josey from Citi.

Ronald Josey: Steve, I wanted to ask about users and then also on product. And so can you talk to us a little bit more or talk to us a little bit more just about user growth trends here, particularly as we go into Q4 and going forward in the context, I think you said on the call we're increasing top of funnel growth by diversifying traffic. So any insights on, call it, immediate-term or near-term trends on traffic and more details on diversifying traffic progress?

And then on Answers, now that we're embedded in search results reaching 75 million WAUq, would love to hear engagement trends from those users? Are they more -- are those users who are using Answers more engaged, asking more questions, things along those lines?

Steven Huffman: Thanks, Ron.

Okay. Question one, user growth trends.

So as we mentioned in Q3, it's a nice balance between organic and paid. External search was basically flat. Of course, that can ebb and flow. The product initiatives including machine translation were the largest contributors. And our product roadmap, we're still working very hard through that. Marketing today is very broad, but we want to focus on growing our most valuable users in the app and improving ROI there.

Looking into Q4, we exited Q3 higher than our average. So we have a head start. Beyond that, we're going to see how the quarter plays out. And thinking bigger and longer term, we're really focused on the product to drive sustainable growth.

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We have 190 million Americans visit Reddit every week. So the reach is there. Our aim is to increase the frequency of those visits. And that really means focusing on that first session user experience to improve retention, which compounds into growth.

As for Answers, that integration is coming along nicely. Our goal there is to build a global unified and modern search experience. The community vote signals that we see on Reddit, the authenticity and trust are all differentiators in Reddit Search.

We're currently handling about 20% of our search volume in Answers or in that kind of core search box, and that full integration is coming in the coming quarters.¹

We've also expanded Reddit Answers to non-English languages very recently last week, Spanish, German, Italian, French and Portuguese. So I think lots of opportunity there.

And then, very high level, Search is something that many users do in their first session. And so this is a part of kind of the general onboarding and retention strategy, which is: make sure that when new users run a search on Reddit, it's great results and it's differentiated, that should turn into improved retention for us, which is why it's such a priority.

Operator: Our next question comes from Tom Champion from Piper Sandler.

Thomas Champion: Jen, I was wondering if you could talk about Publisher Pro. Is there a revenue opportunity here? Or is this about bringing new content into the corpus and maybe driving user engagement on Reddit?

And Drew, maybe for you, curious if you could talk about user marketing, how you're approaching it domestically and in rest of world? And just curious if you intend to ramp user marketing spend going forward?

Jennifer Wong: Thanks, Tom.

I'll take the first one.

So I think we think about Reddit Pro, first and foremost, is bringing, I think, value to the platform.

So Reddit is better when we have a diverse set of users and entities and leagues and businesses and publishers add a lot of vibrancy to our community because they bring content and a lot of our communities are talking about these organizations. And so having them engage on our platform, we think, is a really -- and Reddit Pro is really positive and Reddit Pro is a way of

¹ For clarification, the 20% figure represents quarter-over-quarter growth for Reddit Answers daily query volume, as disclosed in our Q3'25 letter to shareholders.

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finding -- giving them a home on Reddit from which to do that. And of course, obviously if we have more engagement on the platform, that converts into revenue.

Having Reddit Pro also allows businesses to find a home on Reddit. They can have their own profile. They have tools that allow them to find insights about who's talking about their brands, et cetera, or their products. And so that is really helpful because that's -- those are potentially leads into our advertising platform.

Publisher tools specifically, I think our vision there is to help those publishers be able to bring their content on to Reddit. That could be in multiple formats and text and video, et cetera. And I think we'll just increase the contribution, the content on Reddit and the vibrancy of the platform.

So I think it's accretive in a lot of ways.

Andrew Vollero: So, on your second question on how we're thinking about the financials of it and where we're focused.

Look, right now we're in test mode. I would say that we're looking across a couple of dimensions. I would say we're top of funnel, lower funnel in terms of our spend. We're doing some brand spend at the top. We're also looking for conversion down at the bottom.

I'd say we're spending in the U.S. and international markets. Right now I've given you a couple of bread crumbs over the last couple of quarters. on how much we've spent.

We spent about low single-digit percent of revenue last quarter. This quarter, we're kind of low-to-mid-single digits percent of revenue. To be honest with you, Tom, we don't have sort of a pinpoint number that we're going after.

We're really, at this point, looking at that quality user. We're looking at the ROI and we're looking at the retention curves of people that we're bringing on to the platform. That's really what we're focused on. If we find an area that makes sense, we're not afraid to spend. Obviously we have a P&L that we're continuing to show that we can both grow our business and grow it profitably. And so we do have that ability to invest.

I think really right now we're trying to understand how we can really drive that usage on our platform. And if we find an area that makes sense, we're not afraid to invest behind it. But if we don't see that, we won't be putting a ton of money behind it. So that's where we are. We're really idea-driven at this point. and really looking for engagement, users. Over the last couple of quarters, we've been kind of consistent in that spend. It could be more than that if we move forward, if we're starting to see the traction in certain markets or with certain initiatives running.

Operator: Our next question comes from John Colantuoni from Jefferies.

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John Colantuoni: In your new marketing campaign, talk about returns and learnings so far. And maybe you could just sort of help compare how engagement for the users who come to you through performance ads compared to your existing users? And second, as you track engagement of these users acquired through performance channels, how does conversion to logged-in compare to overall company averages?

Jennifer Wong: I can take that. Good questions.

Let me start with some examples.

So we do -- we've done a little bit of brand work. For example, we did a campaign in France, countries outside of the U.S. where our awareness and consideration is lower than in the U.S. because we're newer. We think we need to make some investment at the top of the funnel, very beginning of that journey.

But things we like from that were the fact that we saw an increase in Reddit app installs as a result of a brand campaign, which I think is good. And we saw a movement in brand awareness and consideration, which I think was also positive and provides a foundation for performance later.

Obviously with things like that, you want to keep on being top of mind, et cetera, and that's work that you have to continue to do. But I think there are some good learnings there.

I think over time we can probably toggle how we think about brand and performance as the awareness sticks in some of those new markets outside of the U.S. So just to give you an example of the kinds of things that we're testing.

On the performance side, I'd say it takes -- we've never marketed.

So until recently, we really haven't spent a lot of money on marketing. And so there is some apparatus that you have to build in terms of the infrastructure for marketing and targeting, et cetera. And so the spend that we've done since we turned it on has allowed us to learn there. There's still more to learn.

I think we -- what we're excited about is the opportunity to grow specific audiences -- so if you look at Reddit in the U.S., for example, we have very robust content in parenting, in sports, in gaming.

But yet when you look at the audiences that are available in those areas, like how many parents there are in the U.S. that could come to Reddit and have a great experience, about half of them don't even think about Reddit for parenting, only 1/4 of them are on Reddit today. It's a really big opportunity. That's both a little bit of awareness and a little bit of performance that needs to go into that.

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And there's a little bit of work that we're doing in thinking about the landing page experience for that. Like when we bring them in and show off that we have great parenting content, we bring them in, like, what do we show them first? And maybe it's a variety of different content from different communities – from Daddit and Mommit and parenting, et cetera.

So that's where we're really testing to see where we have the best residence for that audience. And as we go through the testing with one audience group, we want to expand to others. We see a lot of verticals where we have this opportunity.

So that's kind of how we're approaching it.

Operator: Our next question comes from Naved Khan from B. Riley Securities.

Naved Khan: Great. Two questions for me.

One, maybe just on the simplified onboarding flow. Are there any early results you can share in terms of how that effort is going?

And then maybe just another one on referral traffic from AI chatbots. Just trying to understand how meaningful is that in terms of your overall traffic? And what kind of trends are you seeing there? Anything you can do specifically to improve that? Or maybe it's not necessarily very, very important to you?

Steven Huffman: Great. Thanks for the questions.

So on simplified onboarding, we're launching kind of a revamp of that relatively soon to get early results.

I think intuitively, it makes a lot of sense. Reddit, we believe, has some of the best content on the internet. But today, it's behind a couple of screens of interrogation before you actually get to see it. And so really streamlining that or even removing it are the things that we're putting in the test shortly and making sure users are landing on feeds that are relevant to them. Jen was alluding to some of that, where users are coming from specific channels with specific interest, making sure the content matches their expectations and what's going to work for them.

So it's still very early there, but we're excited about where that can go.

Second question on traffic from chatbots. They're not a traffic driver today. I think our relationships with the companies that we work for or work with directly are healthy, and we've both learned a lot over the last couple of years. Really, the value of Reddit's data and where our respective products can go and how we can help each other.

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So I'm looking forward to continuing to work on these things with these partners, but they're not a major traffic driver today. But I think there's plenty of opportunity there as we continue to work together.

Operator: Our next question comes from Jason Helfstein from Oppenheimer.

Jason Helfstein: I'll just start with the LLM licensing.

Is there any kind of color or just thoughts around progress with LLM licensing deals with both either your existing partners or non-partners? And then for those companies that you're kind of involved in lawsuits with, perhaps just share what is their logic? They think they can just take your IP without paying for it?

And then just a quick follow-up. Is there any kind of deals you could do to capture identity for logged-out users that would help with ad targeting, whether it's like a JV or partners?

Steven Huffman: Okay. Thanks for the questions.

On LLM licensing, no news to share here. Our relationships are very healthy and collaborative. As I mentioned, I think we've both learned a lot. And I think we've better identified the areas where we can mutually help each other's products and create better consumer experiences. So I'm looking forward to continuing to work through that with our partners there. But I think we're in great shape.

Second, on the lawsuits, I can't add anything on that. Our complaints are worth a read. There's, I think, lots of information in there. I think you captured their logic, but I don't want to suppose it. But at the end of the day, look, our job is to protect our data for our business, for our users and for our paying partners.

And finally, I think your third question was capturing the identity of logged-out users.

Look, all of Reddit is really built around this idea of connecting users with their interests. So not necessarily what or who they are, but what they're into on Reddit. And so that's how we're different than some other platforms. We don't need to know who you are or necessarily even how old you are or other demographics because we look at your explicit interest on Reddit, right?

Are you part of the skiing community? You're probably in the outdoor stuff. Are you coming from a parenting blog? You're probably a parent. And so that's generally how we think about it. And I think it's a little bit of a different model, but I think it's better for user privacy, and we can target on, I think, a unique but really powerful dimension.

Operator: Our next question comes from Andrew Boone from Citizens Bank.

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Andrew Boone: I wanted to go back to logged-out users and talk about users that are coming in from search. Can you guys talk about the product roadmap of improving that experience?

And then one for Jen. Jen, can you just talk about lower funnel products that you're excited about for '26? What gets you most excited? And kind of what's the biggest near-term impact that you think investors should be thinking about?

Steven Huffman: Okay. Thanks, Andrew.

First question on logged-out users coming in from search.

Look, our focus is on growing logged-in app users. And so we do that in two ways.

One, of course, we want to convert some of those search users into logged in, and I think there's more we can do there. I don't think that's going to be our best channel long term just because of what the user is doing, right? They're running a search. They might be on the internet to get off the internet.

But I do think we can do more there. For example, something we've been doing this year is showing those users not just the direct post they're arriving on, but also a Reddit answer summary of the topic that that's about. And that has helped to increase engagement from those users. So there's plenty we can do there.

But I actually think the biggest opportunity are the users who are opening the Reddit app for the first time. These are the users who are coming for the community and conversation product. And I think we have the biggest opportunity here to give them a better experience, improve their retention, which will obviously compound into more app growth. So that's the cohort that we care the most about.

Second question, Jen, was lower funnel products.

Jennifer Wong: I think I love talking about the lower funnel, and I am excited about a lot of things.

So I'll just pick three.

One is the engine automation, which we've been testing, really excited about that to make our platform easier, more accessible.

I think that allows for the thousands of advertisers who aren't on Reddit today, some of them small, to make it easier for them to activate and onboard on to Reddit and then allows us to deliver even more performance.

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We love making the impressions work harder for our customers and delivering more outcomes for them.

The second is shopping.

Shopping is something that we're really pleased with the results that shopping, or DPA, delivers. And we had a partnership with Smartly that we announced and a piece of that is also just doing work together on shopping, which we're excited about. And so feeling really optimistic of the opportunity around shopping.

So that's another piece and also how shopping comes alive on our platform in general.

And then the third is the ongoing work we're doing in app install.

We've been working on our measurement there and the attribution and this journey of becoming a SAN. And that can, I think, be very powerful in terms of measurement, making sure that advertisers see all the value we're delivering and then two, for signals that go into the ML for even stronger optimization for app install.

Operator: Our next question comes from Josh Beck from Raymond James.

Josh Beck: I wanted to discuss the onboarding flows a little bit. It obviously has historically had quite a few steps and quite a few kind of tiles to choose interest. I think the goal is to simplify that. I'm just kind of curious, as you've done the experimentation with the new flows, is it getting to a place where it's maybe closer to going GA? Or how should we think about maybe what you've learned so far? And how should we think about maybe the rollout there?

Steven Huffman: Thanks, Josh. Great question.

Yes, lots of steps. We want to get rid of those steps.

I think the best -- the best pitch for Reddit is Reddit's content and making sure that first feed is amazing.

And one of the big developments that we've had over the last couple of years since we released the kind of onboarding as we know it, the topic-based selection is our machine learning feed is much more capable, and it's actually the top driver of new subreddit subscriptions today. And so getting users into that feed sooner and letting the feed and the ML do the work of making good community recommendations.

So we're pushing very hard here, getting some things in the test and then hopefully beyond as soon as possible because I think this is one of our biggest levers.

Operator: Our next question comes from Doug Anmuth from JPMorgan.

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Douglas Anmuth: I apologize if this has been asked, but there's just been a lot of discussion around how Reddit shows up on search and on large language model results. Can you just help us understand how that ties to the value of your data licensing deals? Or do you view these as kind of two more distinct or separate items?

Steven Huffman: Thanks for the question, Doug.

Look, I think our relationships with the kind of search and LLM companies are multifaceted, right? Their products are different for sure. And so we look at, I think, all of the different ways that there can be a value exchange.

Look, our top priority is growing the Reddit community and conversation product. So really helping our flywheel go faster. And I think looking the other direction, we can help these companies deliver kind of better search results in those moments. And so that's our attitude or that's our position in this space is how can we make -- like how can we use these relationships to grow the core Reddit product.

I'd say, I guess the color commentary there is I think our relationships are as healthy and collaborative as ever. And so we're, I think, having interesting conversations on how we can help each other do this because we've learned so much over the last couple of years, I think we got into this relationship in maybe perhaps a simpler place.

But now I think we mutually have much more confidence in where our products are going. And of course, I'll just remind everybody that our core business is ads, and that's really the driver of Reddit's revenue.

Operator: Our next question comes from Rich Greenfield from LightShed Partners.

Richard Greenfield: I guess, Steve, more than anything else, you've talked about 50% of your traffic comes direct and 50% from Google.

I guess if you just think from a very high level, what are the top three or top five, whatever the best number to think about is, what are the best drivers of someone becoming a Reddit app user? Like what determines that activity? Because that's obviously where you make your money and what is the biggest determinant of your success.

Steven Huffman: Thanks for the question, Rich.

I'd say those numbers are approximate, but pretty close.

Look, the way somebody becomes a Reddit user, an app user, is they install the app and they find amazing content.

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We see a lot of new app users every day and plenty of what we call, like, a reinstall, or an opportunity for a reengagement every day. And so this is why I keep bringing your and our team's attention back to that first open experience and making sure there are no barriers between the user and seeing content on Reddit, because the biggest driver of retention is following subreddits that are relevant to your interests.

And so it's not rocket science.

Now Reddit is very, very broad, and we don't always have a lot of information coming in. And so we do have to do that work.

Our machine learning there has gotten much better. And then Jen was earlier describing opportunities where we know where a user is coming from, from a particular content source, whether it's a category source, so call it parenting or gaming or TV shows or whatever, to give them a tailored feed as well. And so that's really the way that we think about it.

I think we have enough shots on goal here every day that improving this process will make the whole Reddit machine run much more efficiently.

Operator: Our next question comes from Benjamin Black from Deutsche Bank.

Benjamin Black: Jen, I guess, can you talk a little bit about the operating environment you're seeing as we head into the 4Q holiday shopping season? And what assumptions have you baked into the guide from a macro perspective?

And then secondly, Drew, one on margins. I guess, no good deed goes unpunished. You already hit your margin targets that you laid out at the IPO. So when we look ahead, your incremental margins are sort of hovering around the 60% range. How should we think about potentially sort of updated margin targets?

Jennifer Wong: Great.

I can take the first one.

Look, I'd say the macros -- for us, the market feels largely stable, broadly stable, but I'd say there's low visibility.

I'd say tariffs are on the minds of some of our customers. Efficiency is important. We're certainly delivering that.

And we're definitely counseling our customers as they're navigating through a very dynamic environment and as they're thinking about investment across the funnel.

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I mean the great news is we have a full funnel offering. So we can meet their needs, I think, broadly.

So I think it's broadly been stable in Q3.

Andrew Vollero: Ben, on the margin side of things, you're right, that was our target, that 40% margin that we talked about. That was our north star during the IPO. It's nice to hit it six quarters in. So that is something.

The guide you probably picked up on in the fourth quarter is even higher than 40%. I think how we think about it is -- and the north star is going to be something more than 40%. We're thinking that it's probably in the 50% range. That's our north star.

I think it's, a couple of things are important on the day-to-day and kind of the near- and mid-term. Obviously we want margins to be higher and they will go higher. It won't be every quarter. I think that's the piece that I want to make sure that people understand here.

We're really building a business, and we'll invest in things where it makes sense, right? You have a 90% gross margin, you just have the ability here to really do special things if you can get growth. And so there may be times that we'll have to invest in our business periodically.

I think right now we're doing fine and things continue to scale well. But for a north star, I think 50% makes sense. I think in the medium term, we'll be focused on better than 40%, like that's how we'll be thinking about it. And then remember that our business won't always be that way quarter-to-quarter. We reserve the right to be strategic to grow our business.

Operator: Our next question comes from Ken Gawrelski from Wells Fargo.

Kenneth Gawrelski: Two, if I may, please. Two probably directed to Jen.

First, could you talk about -- I mean first, impressive expansion of the advertiser count again this quarter. Jen, can you speak to whether self-serve has become a meaningful part of that advertiser count expansion yet or when it may become meaningful?

And then maybe a second one, please, probably also for you, Jen, is could you talk about how marketers may use you for GEO, like generative optimization, AI optimization. Is this a major use case for your advertisers? And could you walk us through your pitch?

Jennifer Wong: Sure.

So on self-serve, that -- we do have self-serve today, but it's not a big part of our business.

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We want to have a self-serve offering, and I think the end-to-end automation work that we're doing will be a great step in that direction for more advertisers who want to operate on a self-serve basis. But it hasn't been the focus.

I mean our focus is on the advertisers who really have a lot of significant budget who do want somebody to talk to some -- in a lot of cases.

So they're in our managed segment, either our large customer segment, mid-market or even our managed SMB segment, where they provide some light counsel to them, and we're in, like, what I would call a hybrid configuration where we're kind of both hands-on-keyboard working together in a light way.

Our strategy is to maximize the opportunity across the biggest part of the market, and that sits right now in the managed segment and to optimize like put the customer in the right service channel that maximizes their experience and their ability to spend on Reddit.

So we're not religious about self-serve. I think we're really focused on the right service model for the right advertiser to be successful on the platform and get what they need. But I think self-serve is something that we're interested in as we build more automation.

The second one was about optimizing for, I guess, LLMs. And look, I think Reddit's corpus of information is clearly incredibly valuable and helpful to LLMs because it's human conversation that's fresh, it's authentic. It's just distinctive. There's nothing like it. And we know that LLMs appreciate Reddit's conversation.

But when marketers come to us, they're coming to us because that conversation is on Reddit and for the opportunity to find customers and engage those customers in an environment where that conversation is happening because when they're in that environment on Reddit, they're getting the engagement converting to outcomes that help them grow their business.

So I don't think it's about the influence in LLMs. That's a secondary product of our core amazing platform, the conversations and communities.

What the marketers are getting is real value from the Reddit platform itself in terms of converting that engagement to real business outcomes for them.

It just so happens that, that environment of that conversation is also appreciated by LLMs.

But that environment is on Reddit.

Operator: Our next question comes from Rohit Kulkarni from Roth Capital Partners.

Rohit Kulkarni: A couple of questions.

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One on user mix as engagement has risen and number of users have risen. Can you talk about how the mix has evolved over time over the last couple of years, maybe in terms of people who actively contribute versus we just come in there to consume or then there are those in-between people who kind of amplify through voting and sharing content?

And then the second is on ARPU, any drivers on underlying ARPU growth? How much is ad load contributing to ARPU growth versus other factors?

Steven Huffman: Thanks for the questions.

On user mix, yes, there's been some movement there. I'd say it's in a fairly consistent range. It's something we think a lot about. We haven't talked about it much on this call. Well, we did a little bit.

So our strategy around contribution is -- when we say that, we're really referring to helping new users post successfully on Reddit and eliminating like roadblocks there, one of which we're working very hard on, which is when a user shows up to Reddit and they want to contribute, but they may not be aware that there's a bunch of rules in the community they're writing to. And so we try to catch that early in the journey to give them feedback or find them other places to submit.

So that's been testing very well and improving kind of the contributor mix there.

And then Reddit does have multiple ways of contributing. You described a cohort of users that we colloquially call the lurkers. These are people who don't write comments, but they vote. And the voting is very important for ranking. And today on Reddit, you can't leave a comment or a vote unless you're logged in.

And so getting more people logged in, so this brings us back, of course, to onboarding and those flows, getting people through logged in more successfully, relevant communities more successfully, removing barriers to contribute and finding content they like to increase the voting and engagement are all things that kind of push us in the, I think, in the healthy direction.

I think there's a lot of opportunity here because there's friction at each of those steps.

And then the second question, Jen, was ARPU and ad load.

Jennifer Wong: Yes. Sure.

I can take that one on ARPU.

So just a reminder, our strategy is to make every impression more valuable by delivering hard outcomes, more clicks, more conversions.

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In Q3, we saw eCPM grow, but the quarter had impressions grow and that was a bigger contributor. There are three components that drove the impressions.

One is user engagement and then also ads in comments and then also a temporary operating point that we had when we had a balancing supply and demand in ad load.

Just to be -- just to address ad load directly. So our ad load overall, if you look at the feed compared to peers, is much lower than our peers. And it is not a core part of our strategy to increase ad load. Our strategy is to make every impression more valuable and to design ad units for spaces where we don't have ads like ads in comments.

It is an operating point that we do use when we have supply-demand tightness to make sure that the marketplace is consistent for our advertisers. And so we did use that lever temporarily in Q3, but we turned it back.

So that's kind of the contributors of impressions in the quarter.

Operator: Our next question comes from Youssef Gully from Truist Securities.

Robert Zeller: This is Robert on for Youssef Squali. Just one for me.

It seems like new types of AI content are rising and users are also consuming more video.

So, just curious what Reddit's strategy is in this environment. And if you're focused on building out answers and integrating publishers, does that imply that the focus of content is still going to be predominantly text-based?

Steven Huffman: Great question.

So there's a couple of dimensions to this.

So our very high-level positioning for Reddit in the AI era is that Reddit is for humans by humans. And so yes, there's plenty of AI content on the internet. And -- but we want Reddit to be a place where humans talk to other humans or people talk to people about the stuff that they're interested in.

Now every post on Reddit, which today can be a link, text, image, video, meme, gif, is really a prompt for conversation.

So in terms of what the post is, we don't have a strong feeling there. We just want more posts, and we want to continue to expand the post types that Reddit supports, so kind of evolving with the times.

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And developer platform, which we haven't talked much about today, is one of our big ways of doing that.

So we're seeing all sorts of new posts on Reddit. Users have rebuilt polls. We've got lots of games. There's stock charts, all sorts of things.

But really, all of these things serve as prompts for conversation. Video on Reddit is and has been for a while, our fastest-growing content type. Even though we don't think of Reddit as a video platform, I think there's a lot of headroom for video on Reddit, both as posts, which is what we see today, but also using video and then potentially down the road audio just as a means of communication.

I think there is a kind of very uniquely Reddit way of doing video.

One of the things that I'm very excited about is we did our first video AMA just a couple of weeks ago. So this was done by NASA, so you can find it. And in this case, NASA hosted the AMA, but all of their astronauts answered in video within the Reddit comments.

I think this is a really nice way of letting people kind of, like, really bring their charisma to these moments. And video comment replies is kind of this interesting marriage of video, the modern content format, but in the context of a conversation as opposed to kind of the long-form, short-form influencer stuff you might see on other platforms.

So we always try to think like what's the Reddit version of this content format. And I think there might be some opportunity there.

And then in terms of publishers, yes, look, text isn't going anywhere. Text, you can read quietly. Again, it serves as good as anything as a prompt for conversation.

Now with AI, you can turn text into audio for background listening. And so I don't think video or AI video replaces text any more than movies replaced books.

Really, what happens is the content pie just keeps getting bigger and bigger, and we want to make sure everything works on Reddit.

Jesse Rose: Julien, this is Jesse. I think we're kind of bumping up in time here. So I just want to thank everyone for joining. We appreciate it. Look forward to speaking again soon.

Steven Huffman: Thanks all.

Jennifer Wong: Thanks, everyone.

Operator: This concludes Reddit's Q3 2025 earnings call. You may now disconnect.