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Reddit, Inc.

Reddit Q2'26 Earnings Call

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CORPORATE SPEAKERS:

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Reddit, Inc.; Head of Investor Relations
Steve Huffman
Reddit, Inc.; President, Co-Founder and Chief Executive Officer
Jen Wong
Reddit, Inc.; Chief Operating Officer
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Reddit, Inc.; Chief Financial Officer

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PRESENTATION:

Operator: Good afternoon. My name is Julienne, and I will be your conference operator today. At this time, I would like to welcome everyone to Reddit's Q2 2026 Earnings Call. (Operator Instructions)

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

You may begin your conference.

Jesse Rose: Thanks, Julienne. Hi, everyone. Welcome to Reddit's second quarter 2026 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 second 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.

Steve Huffman: Thanks, Jesse. Hi, everyone. Thank you for joining us. And welcome to our earnings call.

Q2 reinforced something we believe deeply: as the internet becomes more automated, the value of authentic human conversation continues to rise. We saw that reflected in both our commercial success and early progress of our product roadmap.

We delivered our eighth consecutive quarter of over 60% revenue growth, hit an adjusted EBITDA margin of 43%, and crossed a major milestone we've been chasing: $1 million revenue per employee. These results speak to the strength of Reddit's monetization engine and the differentiated value we provide advertisers.

I heard that clearly at Cannes last month, where we met with many of our customers. Across the board, brands told me they believe in Reddit's distinct ability to connect them with highly engaged, highly intentional audiences. More than that, they are rooting for us to win.

Reddit works differently from other platforms, and that's important to advertisers and people alike. As the internet becomes flooded with synthetic content, people are craving real human perspective. We are the antidote to an automated web. AI compresses the internet into summaries. Reddit delivers the opposite: deep discussions, passionate debates, and lived experiences. People don't want a summary of Reddit; they want Reddit.

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As AI makes information more abundant, the challenge is no longer finding content–it is finding context, personal opinion and first-hand accounts. Everything online feels flat, polished, generated or sponsored, so consumers are overwhelmed and increasingly skeptical.

We've never had more information, but we've never trusted it less. That's why decision-making is shifting from single authorities to groups of real people who have nothing to gain from you purchasing a product. And it's not just purchase decisions–it's health, careers, travel, everything.

Our top priority remains growing our daily active user base by improving the experience for new users, so they come back more frequently. Everyone belongs on Reddit because Reddit has content for everyone.

We already have a massive base of weekly users, and our focus is on converting them into dailies. Our product work is improving engagement in key areas. Updated feed models are increasing contribution rates and session frequency, and we're successfully driving more web users to our app, where they are far more engaged.

We've made it easier to post on Reddit and to find the right community to post in. We've also broadened the product in ways that support growth and engagement –video in comments helps expand our upper funnel and interactive games on our Developer Platform drive repeat usage and daily habit.

On a weekly basis, Reddit now reaches over 0.5 billion people including more than 130 million daily. In Q2, we improved our user mix and brought more high-quality users to Reddit across the app and site. And new app user retention, an area we've discussed frequently, was up 50% year-over-year on a relative basis this quarter –now, this is coming from a small base, and we have a lot of work ahead of us, but it's an important sign that we're moving in the right direction. These product efforts, paired with consumer marketing, helped drive daily active users and offset headwinds in users coming from search.

Search referrals were choppy in the quarter, and traffic was more volatile later in the quarter, but the bigger picture is unchanged: the commercial business is strong, our revenue growth is differentiated, and we have much to be encouraged by on the product side.

While our visibility and referral traffic remains low, we're not building for drive-by traffic. We're building a daily destination.

Our product work is what will get us to our goal of 1 billion daily users globally and 100 million in the U.S. That work takes time to gain traction, but is what will deepen engagement, strengthen our monetization flywheel, and drive more durable growth.

The internet is divided between machines and humans. There is room for both, but we know who we're building for. People will always want to hear from other people: real opinions, expertise, stories, and communities where they can ask, learn, argue and belong. Reddit has continued to grow through every major change on the internet because the underlying need has not changed.

Human connection is existential, and Reddit is the most human place on the internet. That's why I'm so confident in where we're going.

Thank you, as always, for being along for the ride with us, and now I'll hand it over to Jen.

Jen Wong: Thank you, Steve. Hello, everyone.

Q2 was another strong quarter for Reddit, reflecting the momentum of our advertising business and the differentiation of our platform. Reddit’s billions of conversations across hundreds of thousands of communities give advertisers a unique way to reach high-intent audiences and drive measurable, consistent returns.

In the age of AI, authentic human conversations have become more distinctly helpful, desired, and valuable. We brought this message to life with the launch of our brand campaign, *People Are the Best*. The campaign celebrates the people who come to Reddit every day for real perspectives, recommendations, and advice, and the communities that help keep the internet human.

And our research continues to show that no matter where the consumer journey begins, Reddit helps influence purchase decisions and accelerate outcomes. This message resonated at Cannes Lions, where we met more than 1,000 customers and partners.

Helping people access human perspective is central to our mission and strategy to reach 1 billion daily users and to help advertisers connect with more audiences.

Now moving to our results. In Q2, total revenue grew 61% year-over-year to $805 million, and advertising revenue grew 64% to $762 million, reflecting broad-based strength across the business. Revenue growth was driven by both pricing and impressions, demonstrating the increasing value we deliver to advertisers. Reddit's content and communities combined search-like intent with the depth and breadth of social, creating a distinct and valuable audience for advertisers to reach and drive results.

In Q2, we turned this attempt into outcomes with conversion volume growing over 100% and click volume growing over 30% year-over-year.

In Q2, mid- and lower-funnel performance objectives contributed meaningfully, with revenue from Dynamic Product Ads and app installs each more than doubling year-over-year.

We saw strength across our sales channels including large customers and scaled. Our scaled channel revenue, which includes mid-market and SMBs, doubled year-over-year. We also saw strength across industry verticals, particularly retail and travel, while active advertisers grew over 70% year-over-year.

Now I'll discuss our progress across the ad stack. Our strategy is to make businesses of all sizes successful on Reddit by delivering market-competitive outcomes across objectives, and our ongoing investments are measurable and delivering returns.

We're executing against three areas: scaling automation through our ads platform and Reddit Max, delivering advertiser value across the full funnel, expanding the Reddit for Business ecosystem.

Starting with automation, Reddit Max launched a private beta earlier this year, and we're seeing strong adoption and performance for mid- and lower-funnel advertisers. The number of advertisers using Max grew over 60% from Q1, while Max revenue grew over 150% during the same period.

We continue to add capabilities to the Max suite. In Q2, we added the app install objective to Max campaigns and launched tailored creatives, which uses AI to identify relevant communities and audiences, then designs variants on advertiser creative to improve ad relevance performance.

Max campaigns are proving to drive better performance for advertisers and high LTV customers.

For example, Lenovo achieved 40% higher purchase value with Max than with standard campaigns, demonstrating how AI-driven optimization can turn high-intent users into high-value customers.

Looking ahead, we plan to expand Max to a broader range of advertisers and make it the primary onboarding experience for SMBs. We also plan to introduce new features that simplify activation and continue enhancing our models to drive stronger performance.

Now moving to our progress across marketing objectives.

With more than half a billion weekly users, Reddit delivers strong outcomes for brand advertisers in the upper funnel. Video views was our fastest-growing upper-funnel objective, more than doubling revenue year-over-year.

Our six-second engaged video views goal, which became generally available in January, helps video-first advertisers optimize for longer, more meaningful views. In testing, the objective delivered over a 130% lift in six-second view through rate, over a 70% increase in video completion rate, and an 80% reduction in cost per six-second video view with autobidding. Video is a growing user and ad content format on Reddit and an area of continued investment across the consumer and monetization roadmaps.

We recently launched video in comments and with investments in our interactive and AMA ad formats, we see an opportunity to offer advertisers more distinctive creative experiences that help them build brand awareness and connect with their customers in a unique way on Reddit.

In the lower funnel, shopping and app install objectives are delivering measurable growth and outcomes for advertisers. Max campaigns for app ads entered beta, with tests showing an average 15% reduction in cost per action and a 28% increase in results volume. Using Max campaigns on Reddit, online pharmacy, DocMorris, achieved a 20% lower cost per install and scaled spend after also seeing a cost per purchase that outperformed benchmarks by over 70%.

Shopping on Reddit continues to be an exciting opportunity. Building on our Dynamic Product Ads roadmap, we launched an alpha test of Shopping Listing Ads. This multi-advertiser product carousel matches product catalogs with high-intent shopping conversations, which are growing 40% year-over-year on Reddit. The format expands our performance offering beyond single-advertiser catalog ads and is designed around the way people compare products and make purchase decisions on Reddit.

Now turning to measurement, we made important investments in our first-party tools while third-party research further validated Reddit's impact and strengthened our position within the broader ad measurement ecosystem.

In Q2, we launched Dual Attribution in beta, giving app install objective advertisers better visibility into Reddit's role throughout the consumer journey beyond what standard last-touch models may capture.

With Dual Attribution, we combine our first-party attribution signals with existing mobile measurement partner signals to improve our ML models, campaign optimization, and advertiser outcomes. Third-party research is validating our impact across categories and geographies. Research from Attain and Circana found that Reddit delivered 1.5x higher return on ad spend for CPG advertisers than other social platforms on average across the U.S. and Western Europe.

The research also showed that Reddit shoppers generated higher lifetime value across categories including food, beverage, and personal care.

In another study, TransUnion identified Reddit as the most efficient paid social channel in EMEA for retail advertisers, driving an average 7x higher ROAS, or return on ad spend, with 13% of Reddit's impact also lifting other marketing channels.

Lastly, I'll discuss how we're expanding the Reddit for Business ecosystem.

We're building more always-on relationships and making it easier for advertisers to scale their spend on Reddit through our Ads API and credit lines. Ads API revenue grew over 40% from Q1 and more than half of our revenue comes from credit line relationships.

Our Shopify integration became generally available in May, and more than 500 accounts are now integrated with strong activation rates and average revenue per advertiser.

We now plan to focus on improving the Shopify product experience, acquiring merchants, and increasing Dynamic Product Ads adoption among Shopify-integrated clients.

Overall, this was another strong quarter for Reddit. Our commercial momentum reflects both strong execution and the differentiated value of the Reddit ecosystem, which is helping our partners generate consistent and durable outcomes. Thank you for joining us and for your continued support.

Now I'll turn the call over to Drew.

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

The financial headline from a strong Q2 is that Reddit's consistent revenue growth continues to fuel compounding growth in cash flow and profitability.

Specifically, revenue grew more than 60% for the eighth consecutive quarter, while operating cash flow, adjusted EBITDA, net income, and GAAP EPS, all more than doubled in the quarter year-over-year.

It's not often most key profit and cash flow metrics double year-over-year. These results speak to the fact we continue to maintain a healthy balance between growth and profitability.

Q2 was our fifth consecutive quarter where our revenue growth rate plus our adjusted EBITDA margin was over 100%. And we're converting that strong growth and margin into cash. It was great to see we crossed $1 billion of operating cash flow on a “Last Twelve Month” basis for the first time.

I'll now provide more color on our Q2 results.

Q2 revenues of $805 million grew 61% year-over-year, driven by ad revenue of $762 million which grew 64% year-over-year. Other revenue reached $43 million, up 24% year-over-year. U.S. revenues were up 56%. International revenues were up 84%. Average revenue per unique user grew 36% year-over-year to $6.18.

Moving to expenses. Total adjusted costs and expenses, which include both adjusted cost of revenue and adjusted OpEx, were $462 million, up 39% year-over-year. That’s very consistent with the 41% rate of cost growth we've seen over the last four quarters.

Gross margin was 91.3%, up 50 basis points versus last year. We saw margin tailwinds from incremental revenues and hosting efficiency programs, offsetting the increased use of compute, including higher AI and ML usage.

In the quarter, cost of revenue was $70 million, up 53% year-over-year which includes thoughtful investments we're making in such areas as machine learning, site performance and safety, and ad targeting.

Now operating expenses remains the far larger piece of our adjusted cost base. It's more than 80%.

In Q2, we saw two positive takeaways.

One, adjusted OpEx was $392 million, 49% of revenue compared to 57% last year. So we continue to get cost leverage.

And then second, as Steve mentioned, we crossed $1 million of revenue per head count on an LTM basis for the first time. This was an important north star we set at our IPO, and a positive signal of an increasingly more efficient and more effective team here at Reddit.

On hiring, we added about 100 people in Q2. We evaluate resource needs with an ROI mindset, focusing on clear opportunities to improve the consumer product, the ad stack, and coverage of advertiser accounts.

We view marketing spending as an important enabler to reach our bold north star goals of 100 million U.S. users and 1 billion worldwide DAUqs.

In the quarter, overall paid marketing results were mixed. We did see some encouraging signals with our newly launched brand campaign called *People Are the Best*, but user acquisition spending needs stronger attention to improve returns. We'll continue to evaluate the mix of our spend moving forward.

Overall, in Q2, total marketing spend was slightly higher sequentially on a percentage of revenue basis across both paid and brand marketing.

Finishing up on costs, stock-based compensation and related taxes were $107 million or 13% of revenue, well in line with benchmarks. SBC was sequentially higher, primarily driven by the timing of our annual grant which happened in Q2. Even with that timing impact, dilution remains manageable.

Total fully diluted shares outstanding were 207 million, up 0.3% sequentially and up 0.2% year-over-year on a net basis considering share repurchases, which became a more meaningful tool this quarter.

We repurchased about $235 million worth of stock, about 1.5 million shares, at an average price of around $157. We have about 100 -- excuse me, $760 million left on our current authorization. Sequential dilution was up 0.3% on a net basis and 1% on a gross basis, excluding the impact of share repurchases.

A couple more financial points of interest. First, income taxes were slightly higher in Q2 than the prior year, but the effective tax rate remains modest. Net income was $253 million, $1.31 per basic share, $1.25 per diluted share, multiples more than the $0.48 and $0.45, respectively, from a year ago.

Operating cash flow doubled from $111 million last year to $262 million this year, while CapEx was $1 million and less than 0.2% of revenue, so still very light.

We ended Q2 with $2.8 billion in cash, cash equivalents, and marketable securities, up over $700 million from a year ago and slightly higher sequentially, as cash generated from operations was mostly offset by cash used for repurchases.

So now turning to the outlook, we'll share our internal thoughts on revenue and adjusted EBITDA for the third quarter, and then I'll cover a few additional items for the back half of the year.

In the third quarter 2026, we estimate revenue in the range of $860 million to $870 million, representing 47% to 49% year-over-year revenue growth with a midpoint of about 48%.

Adjusted EBITDA in the range of $385 million to $395 million, representing 63% to 67% year-over-year growth and an adjusted EBITDA margin of 45% at the midpoint.

The Q3 guide reflects continued momentum in the business which also takes into account our current investment plans.

I'll also share an outlook for stock-based compensation: we are lowering our full year expense guide for SBC from the high teens as a percentage of revenue to the low to the mid-teens as a percentage of revenue. To date, we've seen good leverage on this expense and it's less than 13% of revenue to date, down more than 1,000 basis points versus the first half of last year.

In Q3, we do expect SBC and related taxes to elevate to be between $140 to $155 million as prior grants at lower share prices vest and were refurbished with grants at higher share prices.

We also expect our full year dilution to be at the lower end of our 1% to 3% targeted range. This is before considering any additional factors like buybacks, which would lower the number further, or acquisitions which could increase that total depending on the scale of the deal and the cash/stock mix.

Additionally, as we announced earlier this year, Q2 will be the last quarter we report logged-in and logged-out user metrics.

In Q3 2026 disclosures we'll continue to report total U.S. and international daily and weekly active users, but we'll no longer report logged-in and logged-out daily active users.

As we move forward, we'll continue to assess our user reporting and will ensure it reflects how we look at and run our business.

So to summarize, Reddit continues to scale in a one-of-one way. Most of the major profit and cash flow metrics doubled in Q2. Revenue and monetization continued to grow at a differentiated pace. Margins remain strong. CapEx was light, and we began to deploy capital in a more meaningful way.

It's particularly encouraging to see the way cash flow is scaling.

As I mentioned upfront, on an LTM basis, Reddit's operating cash flow crossed $1 billion.

We have liquidity and cash capability to satisfy our three capital priorities, which is first investing in the business; second, opportunistic M&A; and third, share repurchases - while maintaining a high level of profitability. That concludes my comments.

Let me turn the call back over to Steve.

Steve Huffman: Thanks, Drew.

Before we turn over to the group for questions, let me take one from the Reddit stock community. The question is, what's a memorable conversation and moment you had at Cannes.

Let me give you a couple. The first thing that came to mind was one of our brand ambassadors, I had to clear up that, yes, I work here and no, I'm not 28.

The second, more business focused is, without naming names, I had a couple of meetings with brands that we've wanted as customers for a long time.

And it's just more of the same trend. More and more folks are really starting to get Reddit and understanding how important it can be to them. So really encouraging there.

And then overall, I think I love the way our team shows up. We did, I think, over 500 meetings and that's just about all of our customers or all of our large customers.

And so it's just really encouraging to see folks, I think, really appreciate what we're trying to do. Thanks for the question.

Jesse Rose: Julienne, let's open the line up for questions from the folks there.

Operator: (Operator Instructions) Our first question comes from Tom Champion from Piper Sandler.

Tom Champion: Very strong quarter commercially. Jen, what drove the strength in the ads business this quarter? And then for Steve, as you think about 2Q and early 3Q, what do you want investors to understand about the trend in user growth and your ability to drive high-quality users to Reddit?

Jen Wong: Thanks, Tom. I'll take the first question.

Look, I think it was another strong quarter. You see the consistency in our business. Number one, I think our message is resonating with advertisers broadly. I mean, our influence in the purchase decision journey, I think, is clear. And the -- I think increasingly, they realize that their customers are putting an increasing value on human advice and Reddit is the place for that. So they realize how important our environment is.

We continue to deliver market competitive outcomes. And our strategy, I think, just continues to build momentum. Our strategy has been making every impression more valuable. When you look at the volume of conversions growing and clicks growing, what that means for an advertiser is that they're getting more outcomes and equal or better prices.

So we're just getting more competitive with all of the signals, ML work and optimization work that we're doing.

The other piece that I think is really kicking in is very strong adoption of our tools. So this is making it easier to onboard advertisers.

So this is why you see advertiser growth, like 70% year-over-year, because we're able to make it easier to onboard advertisers. We're then delivering more efficiency, which retains them and allows them to scale spend. And then we're making it easier for them to stay always-on, with more credit line adoption taking friction out of working across the funnel.

And then finally, what I'll say is I think our business is diversifying across so many dimensions that it's made it really resilient.

So you look across verticals, like 11 out of 15 verticals grew over 50% year-over-year.

Our active advertiser count grew over 70%. Our scale channel which houses mid-market and SMB, doubled, Rest of World grew 80% plus. So our footprint is just getting so much more diversified which makes our business also very resilient and flexible.

Steve Huffman: Okay. Second question, Tom, thanks, about users.

So as we said last quarter, our goal is to achieve 1 billion daily users globally and 100 million in the U.S. There's no change there. Reddit is a destination. And in the U.S., we have nearly 200 million users coming every week, and we primarily grow through our product work, and that's how we drive daily direct users, and we're making progress there.

And we added, through that product work, DAU in the quarter, but it was offset by a decline in search referrals. So first, on the product, we improved new app user retention. This is one of our most important metrics and priorities. It was up 50% year-over-year on a relative basis.

We grew our reach. We crossed half a billion weeklies. U.S. and international weeklies both grew sequentially.

On the contribution side, we made it easier to find and post in the right community. So there are now 26 billion posts and comments on Reddit, with 1 billion added since Q1. And our thriving communities are growing significantly. And we're more effectively converting web users into higher-value app and direct users, and we saw success with video in comments, which is expanding our upper funnel.

We did see headwinds in search referrals, particularly late in the quarter, and visibility with the referral traffic remains low, but we're focused on what we can control, which is our direct users, driven by product efforts, and we believe this work will be transformational.

It will take time but this is how we get that 1 billion global, 100 million users in the U.S.

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

Ron Josey: Maybe to follow-up to Tom's question. And Steve, you mentioned in the letter that growing DAU is top priority.

I know you just talked about app usage and the quality of the traffic.

But talk to us a little bit more just around the product that can convert, call it, the pretty strong WAU growth to be DAUs. And particularly, I wanted to hear more about the focus on the feed. And then there's been a lot of articles and reports just about the data licensing partnerships that you currently have. Any updates on strategy as you approach this or anything as we get closer and closer to, call it, the renewal rates in early 1Q for others?

Steve Huffman: Sure. Thanks, Ron.

So on users. Yes. So focus on the WAU to DAUs would be an increase in frequency. We drive that primarily by making Reddit more sticky. You mentioned the feed.

I think over the short, medium, and long-term improvements to our feed will improve that frequency. I think there's a lot of headroom there.

If I -- to be frank, I think our feed technology is just behind the state-of-the-art which gives us a lot of headroom to catch up.

And I'm particularly encouraged at the talent we're bringing into Reddit over the last quarter to help build that next generation of feeds. But all the little stuff works, too.

So we did hundreds of experiments in the last quarter and many of them worked on their path to GA of just kind of chipping away at retention and quality which drives that growth. And so this is in onboarding, this is in posting, this is in performance across the app. So we're really starting to feel that momentum.

And then I mentioned conversion, right? So this is taking that big top-of-funnel web user base we have and converting those into mobile app users.

We've been dialing that up as well and driving more downloads. And those users, many of them are already Reddit users and they retain quite well and do even better in the app.

So we're seeing a lot of progress across the board there. And I think, again, a lot of headroom.

On data licensing, no change in strategy, working hard. Reddit's content is in demand and it's not commodity content. People seek it out intentionally by name and many come directly to Reddit. Our relationships here are multifaceted.

So Reddit is used for training, it's used for post training, to teach models how to talk, it's used for grounding, it's used as a search index. And so there are many layers and dimensions for how this can work. Reddit’s data is valuable beyond just raw training data.

And these deals aren't binary. They have to make sense for Reddit, but there's many ways, I think, for the value to return to Reddit. But our goal is to maximize the value return to Reddit.

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

Rich Greenfield: Steve, I don't want to belabor this point, but your stock is down sharply because there's just a sense from investors that you have -- I don't want to be blunt, a user problem, especially in the U.S., that users are -- it's only a slight tick down, but they're ticked down despite all the investments you've made over the last year.

And I certainly hear you on the weekly improvement, but people are looking at the daily and saying, the logged-out traffic is going to be under pressure because as search shifts to AI, you're not going to get referrals and that it's going to be harder to get people to go from logged-out to logged-in, and that sort of symptomatic of what you're seeing.

And so you're buying back a lot of stock. You don't seem concerned -- or you and Jen seem very confident. You, Jen, and Drew all seem very confident. I guess what gives you so much confidence that you're going to grow to 100 million logged-in users in the U.S. and 1 billion globally versus the slight tick down this quarter because there's obviously a big disconnect, and it's obviously impacting your stock.

And then just the second piece of that to follow up on Ron's question. Do you see any world where you're not licensing data to Google and OpenAI next year?

Steve Huffman: Okay. Thanks, Rich. So look, let me start with the end first. We are confident because our product work is working. Reddit is communities and conversation, communities are universal.

And so we think we have in the U.S., content for everyone, and it's a matter of revealing that. And we're making progress towards that end.

Moving new user retention in the app this significantly in a quarter is something that we're very proud of, and that sort of improvement in retention drives growth, and that is work that we're in control of.

Yes. Search is -- external search is volatile, particularly logged-out web, but that's not where our business lives. And we will make sure that we get as much value from that traffic as we can. And so that's where we've been driving conversions from web to app and that's become more effective as well.

So long term, we are as confident as ever that we're going to get to those milestones that we've set. But the work does take time and we do have a lot of work to do in the product. But driving that direct growth is in our control, and we're seeing some progress there.

Is there a world in which we don't do licensing? Well, I think the range of outcomes is wide, and we have to look at every aspect of this and make sure that we're maximizing value to Reddit.

Within Google, it's not just licensing. There's -- and our relationship with them actually predates the formal data licensing agreement.

Our long history in ten blue links and now the replacement and AI overviews alongside licensing. And we've also seen this development in -- or an expansion of how Reddit’s content is used, both with them and others.

So I don't think there's a binary outcome. I think all of these different touch points, whether we're talking about training or blue links or AI overviews or whatever comes next, those are all independent decisions.

And we will make sure that we're maximizing the value for Reddit. But for us, it's not just traffic or clicks. We want users into the Reddit ecosystem, right? Reddit a community and conversation product. And so we want to bring users into that ecosystem and that flywheel of Reddit.

And so that's what we're looking to do in any of these relationships.

Rich Greenfield: So are there more buyers of that data than just Google and OpenAI in your mind?

Steve Huffman: Of course.

One of the things that we've seen over the last year is more and more people interested in Reddit's data for different use cases or at different scales. And so we do look at this as an expanding marketplace with lots of different opportunities.

Operator: Our next question comes from Mark Mahaney from Evercore.

Mark Mahaney: Two questions, please. You talked about these headwinds and search referrals late in the quarter. Just put some context around this.

Is this something that just pops up from time to time? Were those headwinds greater than what you normally see, less than what you normally see?

Any interpretation as to what caused those referrals? And then just back on the licensing, please, any expectations you want to set as to when we'll get -- you'll get -- we'll get resolution on licensing by the end of this year, halfway through next year? Anything like that?

Steve Huffman: Thanks, Mark. So on the traffic, yes, so the search ecosystem continues to evolve. We've seen changes like this before.

I won't comment on the magnitude, but I think what I've said before is this is not our first rodeo. And I've used that phrase on these calls before.

And so we do see these changes. Specifically, like we don't typically get much insight into what's going on. In this case, we've seen a couple of different aspects to it.

One, we saw a decline in our machine translated content. So this is part of the volatility on the international side.

Machine translation remains a useful strategy within our app for new users, right? So we have content to show them. And then with the evolution towards AI overviews, I think more broadly, what we see is 10 Blue Links has driven tremendous value and growth to the broader ecosystem.

From where we sit, AI overviews has yet to make a similar level of positive impact, and I think that's consistent across the broader landscape, right, us, businesses, publishers, retailers.

But we're still looking for that win-win, but our visibility on search continues to remain low, and we expect it to probably continue to be volatile.

So what we're focused on is making Reddit a destination and driving more direct traffic to our app.

Operator: Our next question comes from Justin Post from Bank of America.

Justin Post: I'll try a different topic. Jen, you think about where you are in the U.S., you did over $20 in ARPU in the first half, approaching $50 for the year. How do you think about where you are with ad loads, auction density, advertiser ROI? Is there still room to grow that significantly from here on your user base?

And then maybe one for Drew. How are you measuring the returns on your marketing spend?

Jen Wong: Yes. Happy to take that.

Look, I think we still have a lot of ARPU headroom because I look at our roadmap, and I see lots of ways that we can continue to deliver value for our advertising partners, i.e., more outcomes at more competitive prices. And if you look at -- we're a marketplace, right? So what's great about a marketplace is that you can have this be demand driven as well as performance driven.

So there's a lot of flexibility in the marketplace for the market to meet each other in terms of the supply and the demand. I do think that when I think about the headroom that we have, it will be driven by, I think, a lot of the outcomes across the funnel.

So if I had to give you where I think we're driving incremental value to advertisers today, it's that six-second guaranteed video view is incredibly valuable.

It's been a really nice performing product for us. And we're being Reddit with high intent, we intend to go like deep on that view, and that's a really high-quality, high-value view.

Obviously, the volume of conversions, the volume of app installs, the volume of leads, this is an area that will continue to do work. So I feel really good about our ability to continue to drive our strategy, which is to make every impression more valuable. And as long as we do that, I think that continues to fuel our business and continue to fuel our ARPU.

Drew Vollero: Justin, the primary metric we use to evaluate marketing spend is really a very straightforward cash model, P&L based, looking at a kind of acquisition of a user or the cost of the user, looking at the retention of that user, the monetization of that user, netted out over a pretty short timeframe.

So overall, it's a pretty consistent look, I think, across the industry, give you a real straight value.

Once in a while, we'll look at the balance sheet value. We'll look at the value of a user overall. But mostly, it's a very straightforward kind of ROI-based quick payback model in the short term. That's how we think about it.

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

John Colantuoni: Wanted to come back to engagement. As you look to continue driving engagement, how do you see that impacting the experience for users on the home page versus in subreddits? And could you see the feed looking more like some other social platforms that are doing a good job marrying machine learning and video content?

And second question, maybe just on Reddit Answers and search. Can you give us an update on engagement trends within search and where you are in launching a generally available advertising offering on that surface?

Steve Huffman: Okay. I'll take the first two and maybe Jen, come in on the other. So thanks for the questions, John.

So in terms of engagement, distribution across the app, even today, the primary surface is the home feed versus subreddits. And so this is why it's such an essential service, and this is why we – or surface – and why we see so much headroom in improving our performance there, improving the technology that backs that feed, because it does a lot of the heavy lifting of juggling user subreddits, and it's one of the primary drivers of subreddit discovery.

So I expect it will continue to do much of the heavy lifting.

You're touching on something we're working on right now, which is how do we show video in the home feed. This has been something on our minds for a while, getting this right, especially as we have more and more video content on Reddit.

And so there's two aspects to this. The first is, just generally, how do we make video work in the feed because it's such a mixed media feed, right? You've got video, you've got text, you've got images.

So those flows between -- from feed to theater mode to the comment page back to the feed are essential. I think, I know there's a lot of opportunity for improvement there. We're working on, I think, some things that really streamlined that and help.

The other thing we're working on is just a video Reddit experience, so letting users not just watch video on Reddit, but listen to posts, background listen to posts.

We see folks doing this off platform. There's an emerging content type elsewhere in the internet of basically, a podcast where people read Reddit content. And so I think this version of like listenedto- or spoken- Reddit can be really engaging as well.

So that would be almost a different format entirely. So there's a lot of things that we're working on now that I'm looking forward to testing later this year.

On Answers and search, we're making steady progress there. The search bar is now universal within the app.

We grew both searchers and searches in the quarter. And I think for many queries - for many queries that I run at least - Reddit is now the best platform for searching Reddit. That hasn't always been the case.

And so we're chipping away at that. But I think any query where you want to know something or want to see multiple perspectives, like what should I watch? What do people think about this? What should I buy? Reddit is -- provides the best answers on the internet.

So I'm really encouraged with the progress there, and we're starting to look towards ads on that surface which I'll turn it over to Jen to address.

Jen Wong: Yes. So search is in a space where it's very married to like a shopping experience. And so we -- there's a couple of different angles to this.

One is that we think that the search page can be enriched with more like rich media modules.

So it can have product visuals from the catalogs that we have when people are searching or discussing or a specific product.

And we’ve started to do that. We had done a test earlier on electronics and consumer electronics and now we've expanded those categories. And so that enriches the core search experience and hopefully increases engagement so people get more out of that experience.

And I do agree with Steve, that I think especially the agentic ask function on Reddit search, I think, is now the best way to search Reddit. The second is, what goes along with that engagement at the product level when you have a match is ads, right? So I talked about our Shopping Listing Ads where you can have a module that has multiple different retailers and product types and brands in one module. That's a great sort for a search page. And that's ultimately how I think ads would be well represented on search.

So that's a space that we're eyeing. We clearly have the capability to do it. We keep tracking as the page settles and as users adopt that, we will -- we do see an advertising opportunity there. And the good news is we have the infrastructure, and I think a lot of that capability, already queued up.

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

Josh Beck: Maybe more of a multiprong on the product side. So the new app user retention, you certainly highlighted as an area of early success. I think you said it was up maybe 50% year-over-year, a small base.

But just kind of curious specifically what – unpack that. And I assume that's part of the confidence in the product work that you have moving forward.

And then on the feed models, I don't know if you can maybe give us some type of purview into the drivers. Obviously, there's a lot that goes into building these models between retrieval and ranking and serving and refresh and there's million different parameters, and I probably don't want to get too much detail, but just kind of any sense can you give us on maybe what are some of the specific areas you're focusing within the feed improvement?

Steve Huffman: Sure. Thanks, Josh.

Okay. New app user retention. Yes, 50% on a relative basis which it's a hard number to move, and it's one of our most important. It's, I think, our best measurement of product quality. So do users open Reddit and then want to come back the next week? So that's what we've been moving.

There's a number of factors here. One of the biggest is conversion. So we're basically taking core users or frequent users from the web and turning them into app users where they become even better users. And we have a lot of those.

Second is within the app itself. So onboarding is much improved. So more effectively connecting users to their home on Reddit. Some of the in-the-trenches work around log-in, account recovery, preserving log-ins after reinstalls, all of these things add up and have pushed this number higher.

I think both the new retention or the new user retention on an absolute basis has still a lot of room for improvement. This is what we've been talking about for years.

Once users get Reddit, they really get it, but it can be a hard product to get. And so every time we make it easier, we grow. And so this is the healthy mix shift we've been looking for, and I can start to see the momentum. That's why we're confident.

On the feed, you're right, we could talk about this all day. I'd say broadly, the models we use today are smaller than state-of-the-art, significantly smaller. So we can scale up the size of the model. Our models update slower.

So days and not instead of versus state-of-the-art which is hours or minutes. And the amount of our user activity that we actually incorporate into the models is like 10% of our user activity, where that could be significantly higher.

So basically across the board -- and our the category set, the candidate set – so posts that are eligible for recommendation, Reddit right now is limited to a week. So Reddit is basically a -- our feed is almost like a real-time feed where we have this actual mass of corpus. Much of that content is timeless.

So think about things like parenting advice or book or movie reviews, things like that are relevant for a very long time. We don't show this on the feed at all. So we can dramatically improve candidate selection, model size, model speed, the signals that go in from users, pretty much every dimension.

We have sometimes order of magnitude improvement opportunity. So we'll be doing that work over the next year, and I expect every improvement we make to work because we're just starting from such a low base.

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

Andrew Boone: Jen, I wanted to ask about SMB. You guys have Shopify coming on board. It sounds like Max is doing well.

Can you just unpack the success that you're seeing with SMBs? And then what should we be thinking about as we think about the back half of the year in that group?

And then, Steve, just going back to engagement. If I think about the feed and platforms that are scaled, everyone kind of has a creator ecosystem that's kind of gone to that 1 billion user level.

Do you guys need to do anything different in terms of the content that's on the platform to really get to the scale? Or do you guys think you have what you need today?

Jen Wong: I'll take the question on SMB. So this is a segment that's been growing really nicely for us, but there's just still thousands and thousands of SMBs globally that aren't yet on our platform. A couple of things.

We continue to acquire into this channel. And obviously Shopify is a partnership that allows us to do that. We'll be doing some joint marketing efforts to accelerate the acquisition now that we have the capability to sync in catalog and have CAPI integrated into Shopify automatically from Shopify merchants. So we'll really be ramping up sort of that co-marketing effort.

The second is, the onboarding to SMB today is not the optimal onboarding with Max. We're still doing the foundational work on what is the right entry point for SMB that takes out more friction that is more tailored to their needs and that allows them to onboard and enjoy Max faster.

So that's to come, that's ahead of us, but we think that, that will be really important for reaching more acquisition -- smoother acquisition, ramping of acquisition as well as a great experience, faster on our platform.

So those are the things that we have in the hopper against SMBs. Obviously, SMBs also benefit from all the horizontal work we do generally making all of our objectives more efficient, everyone benefits from that.

So I mean I feel really good about the momentum in our SMB business. But I think there's a little more tailored product work that we want to do to -- for this customer set.

Steve Huffman: And then on the creator ecosystem, there's a lot of progress that we made in this quarter.

So post per logged-in DAU, comments per logged-in DAU, globally and in the U.S. are all up, as is thriving communities. And there's a lot of work behind us.

So we've got a new post composer on both mobile and web. So it's easier to post, new comment composer, we're better directing users to which subreddit they will be successful posting in, making better community recommendations.

And we're also working on what I think is one of the biggest opportunities which is post success. So making it easier and more consistent for new users.

One of the challenges right now is new users are likely to have their posts removed because their account isn't old enough. These are kind of long-standing strategies that have not aged well, and so using LLM assisted moderation, we can help bring in the prospective great user and continually get better at keeping the spammers and other bad behaviors out.

Video in comments is a new feature. That's already more than 10% of our video posts is from that feature. And so we're seeing nice engagement there as well.

I do think our creator ecosystem will look different than what you see on other platforms. The way I've often described it is: the social media platforms are for the 1% of creators and Reddit is for everybody else.

Our view is that everybody has something interesting to say, even if you're not a professional content creator. Everybody has a question, everybody has a need, everybody has a bit of advice to give or something interesting to share, and that is what Reddit is for. And so I think of social media, there's a lot of professional content creators and Reddit is for everybody else, but making it more - making Reddit easier to post to and increasing the post success rate for everybody is the name of the game for us, but we made some nice progress this quarter.

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

Benjamin Black: Just a follow-up on marketing spend.

It does appear, just given the ARPU that you're generating per user, that the ROI on that spend should be quite attractive.

So I guess the question really is, why not spend more? What are you seeing in terms of the retentiveness of the users that you're bringing through some of these trade channels? And what could you do to improve it, I guess.

And then Drew, incremental margins have remained exceptionally strong. As the company continues to scale, where do you see the largest remaining opportunity for operating leverage over the next few years?

Drew Vollero: Good. Let me take that one.

Look, on the marketing side, look, we think that marketing is a very important piece to get to our bold goals. Like that's really important. We certainly want to continue to do user acquisition spending.

I spent a minute talking to Justin about what our model is, pretty straightforward model. I think it's very similar to other folks in the industry. I think the key unlocker there is we just need better user retention.

As Steve said, we're up 50% this quarter. That's starting to speak to the product work, but there's still more work to do.

On a relative basis, we're lower than others in the space. And so we're going to continue to try at it.

I would say on the marketing side, we did also launch our *People Are the Best* campaign this quarter. That would really – that really shook some things up. We had a lot of positive press from that.

And I think the more that we can balance the user acquisition growth with – the user acquisition spending with brand spending, I think we'll end up in a better place.

And so I think, overall, we're committed to the spend in the marketing area. We think the brand will benefit from it. We'd like to continue to invest through it.

I think there's dialogues about how do we maybe spend a little bit more on the brand.

But overall, I think we're -- I think the real unlocker on just getting more UA spending would be just better retention. It is that simple.

We have a great model from a gross margin perspective. So an incremental user here is worth a lot. You're pointing out the ARPU, it's very high. Those are two things that are terrific here. They should really help us; we just need a little bit more from the retention and we could really move on this one.

Your second question was around the incremental margins. Look, you're right, we've been running incremental margins in the high 50s, low 60s for the better part of a couple of years. The incremental margins here are powerful.

We don't manage the business for incremental margins. We look at individual ROI on investments. I think we continue to be very fortunate with the incremental flow-through here.

When we get incremental revenues, you really can, particularly on the gross margin line, you can flow those between 95% and 99%. And so that's how I really think about incrementality. And then it's just a question of what investments that you want to make.

I mean I think right now we make the investments that we want to make. We don't hold investments back because we say, "well geez, we need the incremental margins here to stay in the high 50s". That's not the way the company runs.

We really look at individual investments. Where it makes sense, we put the money behind it, and we go ahead and do that.

I think we've had a lot of success with our investments. We've invested a lot in the ad tech stack. You can see that results in the monetization. We've invested a lot in our sales team, you can see eight quarters in a row of 60% or more. So those have been two of our probably more prominent investments.

As Steve mentioned, we're investing a lot on the talent side to bring in machine learning talent and really just upgrading our growth team in a meaningful way.

So those are investments we make. We make those investments because that's right. I do think the margins continue to accrete here. The long-term goal is 50%. And so that's what we're focused on right now.

And I think most of that will come from just leverage off of incremental revenues. There aren't huge pockets of costs that we're sort of staring at right now and say we could take that out. That would be my take on your question.

Jesse Rose: Julienne, I think we have time for one last question.

Operator: Our last question today will come from Jason Helfstein from Oppenheimer.

Jason Helfstein: I'll just ask one.

So you're obviously calling out the importance of we'll call it like a high-quality user, app user, logged-in, probably a lot of different ways you think about high-quality user, but is the takeaway that you want us to view here is while, you may be hurt by referral traffic, that – if a high-quality user is worth kind of, I don't know multiples of, let's say, what one like referral traffic –so it's not necessarily equal? And so while the Street is focused on – okay, you're down 300,000 DAU sequentially, U.S., – the idea is that you can offset that over time with your mix of higher quality users?

So maybe just elaborate more how you want us to think about the importance of a high-quality user and maybe other metrics will share about that in the future.

Steve Huffman: Thanks, Jason.

I think you've got it exactly right. The direct users, the app users are worth multiples more than the search referral traffic.

We're not building Reddit for that drive-by traffic, we're building Reddit for direct usage. And that's where our business lives.

And you can see that in the performance of our ads business, right? Despite search volatility, and we've seen volatility like this many times in the past, our revenue growth has been very strong and consistent.

It's because our business lives with those direct repeat users and growing that base.

And both through our conversion efforts and retention efforts, I think we've made nice progress this quarter, and that's the work that we can control regardless of what happens in the broader search.

Jesse Rose: All right.

I think that covers it. Thanks, everyone.

We appreciate you joining and look forward to speaking again soon.

Operator: This concludes Reddit's Q2 2026 earnings call.

You may now disconnect.