

Initiating Coverage:

Reddit, Inc. (\$RDDT)

Scroll to the Bottom Line: Reddit’s Returns Are Just Beginning

Key Take-away: Reddit’s transformation from “the front page of the internet” into a scalable, high-margin digital advertising business is materializing faster than expected and the market may be undervaluing this prospect. After IPO’ing at \$34 in March 2024, shares have soared ~200% to around \$146 today yet it remains at roughly 40% below their 52-week high (~\$230 in Feb 2025). We believe RDDT is currently trading at a discount due to the market underestimating its growth prospects and strengths: despite the stock’s underperformance, the company continues to deliver increasing user and sales growth and is now even posting positive profits which further increases conviction.

Record User Engagement and Revenue Growth: Reddit Inc. continues to post record-breaking metrics that solidify both its content model and monetization strategy. In Q1 2025, the platform hit 108.1 million DAUq and over 400 million WAUq, with international DAUq growth significantly outpacing U.S. growth, partly stemmed from an 80% increase from Brazil’s DAUq in Q1 as well. This momentum directly fueled a 61% YoY jump in revenue to \$392 million, and global ARPU increased 23%. CFO Vollero also confirmed RDDT’s first-ever GAAP profitability: \$26.2M in net income, driven by 90% gross margins and tight expense control. With user growth stimulating monetization and advertising, RDDT is expected to earn \$1B in advertising revenue this year alone.

AI-Powered Ads Drive 4x Advertiser Growth and Improved ROAS: RDDT is leveraging artificial intelligence not only to drive ad revenue, but also to reshape user experience and advertiser performance. The rollout of Dynamic Product Ads (DPA) has been a key success, doubling ROAS in pilot campaigns and increasing DPA advertiser adoption by 4x within months of release. Management is scaling its ad stack through Reddit Pixel, contextual ads, and first enabling a shift from brand to performance marketing without sacrificing user trust or privacy.

Strategic Positioning in the AI Era: Reddit Inc. is positioning itself formidably in the rapidly evolving Artificial Intelligence era, framing the company’s edge and value proposition as human authenticity in their latest earnings call. While search engines and chatbots might summarize Reddit threads, they can’t replace the desire for human interaction and opinions from real people. Reddit also serves a foundational role in the training of LLMs (e.g. via licensing deals like OpenAI’s and Google), while continuing to enhance its own platform with AI-powered tools. Reddit shines where users want nuance but also balance, an invaluable offering in a world of generative AI.

Valuation: We initiate coverage with a \$158 PT.



Consortium Research Group
TMT | Internet Content &
Communications
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Stock Rating:	Overweight
Price Target:	\$158.00
Price:	\$146.38
Potential Upside:	10.3%
Ticker:	\$RDDT
Market Cap:	\$26.86b
Shares Outstanding:	180.32mm
Dividend Yield:	N/A

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Company Overview

Profitability reaches an inflection point: Reddit achieved U.S. GAAP profitability for the first time in Q1 2025, posting \$26.2 million in net income. With gross margins around ~90% and slower-than expected expense growth, this marks a critical turning point from prior years of losses. Furthermore, operating expenses grew just 27% YoY in Q1 2025 — far below revenue growth — showing early signs of operating leverage. This indicates Reddit is scaling efficiently, with potential for sustained profitability as revenue continues to compound.

Buildout of Reddit's First-Party Ads Infrastructure: Beyond DPA, Reddit is investing heavily in vertically integrating their own ad tech stack. This includes the development of tools like Reddit Pixel (for conversion tracking), improved first-party measurement capabilities, and direct advertiser onboarding. These foundational investments allow Reddit to reduce reliance on third-party platforms, increase margin capture, and strengthen its competitive positioning in the performance marketing space.

Licensing & Data Monetization Strategy: Reddit has begun monetizing its vast database of human-generated content through licensing agreements with AI firms like OpenAI and Google. While not yet the core of its revenue model, this strategy reflects a new monetization layer: one that turns Reddit's content ecosystem into a valuable training data set for LLMs. In a recent Q1 earnings call, management views this transition as a high-margin, long-term opportunity that reinforces Reddit's central role in the evolving AI ecosystem.

Industry Overview

Expanding Global Digital Advertising Market: The broader Internet Content & Information industry is benefiting from continued global growth in digital advertising. According to Grand View research, global digital ad spending is projected to surpass \$1 trillion by the end of 2030, with double-digit growth driven by mobile, social, and video formats. Digital platforms that can capture user intent and deliver consistent performance, like Reddit, are well-positioned to gain share in this expanding market, especially as advertisers seek high-ROI environments with authentic engagement.

Generative AI Reshaping Search Engines and Platform Dynamics: Generative AI tools like ChatGPT and Google's AI Overviews are transforming how users discover and consume information online. This is disrupting traditional search referral models and forcing platforms to either integrate AI features or monetize their data through licensing. In recent news, Reddit recently filed a lawsuit against Anthropic, alleging it illegally scraped over 100,000 Reddit posts to train its Claude AI, claiming this violated its user policy and threatened monetization avenues. The legal action underscores Reddit's firm position that its community-generated content is proprietary and should only be accessed through formal agreements. As both a data provider for LLM training and a destination for authentic, multi-perspective discourse that AI cannot replicate, Reddit is reinforcing its relevance in the AI era.

Revenue Verticals Through Content Licensing: Content platforms are monetizing their data as a strategic asset through licensing deals with AI companies. Reddit, X, Stack Overflow, and others are actively negotiating usage rights with firms like OpenAI, Google, and Anthropic. These platforms serve as decentralized aggregators of human knowledge, capturing real-time discussions, niche expertise, and collective sentiment that AI models rely on for context-rich training. As a result, user-generated platforms are unlocking a new, high-margin revenue stream, transforming conversational content into investment-grade intellectual property.

Peer Comparisons

Comparable Companies						
5mm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
SNAP	\$13,270	\$14,270	-19.7x	\$5,530		-\$311
PINS	\$22,900	\$20,430	13.0x	\$3,761		\$221
MTCH	\$7,410	\$10,420	15.2x	\$3,451		\$934
RBLX	\$65,610	\$64,970	-72.5x	\$3,836		-\$615
RDDT	\$26,860	\$23,750	170.0x	\$1,450		\$48

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF	
SNAP	-45.9x	54.1%	(8.4%)	(11.1%)		16.4%
PINS	92.4x	79.6%	5.6%	5.0%		19.4%
MTCH	11.2x	71.9%	25.7%	23.1%		3.4%
RBLX	-105.7x	77.9%	(20.8%)	(26.7%)		28.7%
RDDT	490.2x	90.8%	7.9%	9.0%		61.7%

High	490.17x	90.8%	25.7%	23.1%		61.7%
75th Percentile	92.44x	79.6%	7.9%	9.0%		28.7%
Average	88.44x	74.9%	2.0%	-0.1%		25.9%
Median	11.16x	77.9%	5.6%	5.0%		19.4%
25th Percentile	-45.89x	71.9%	-8.4%	-11.1%		16.4%
Low	-105.66x	54.1%	-20.8%	-26.7%		3.4%

Reddit Valuation		
Implied Enterprise Value (25th Percentile)	\$	(2,224)
Implied Enterprise Value (Median)	\$	541
Implied Enterprise Value (75th Percentile)	\$	4,479

Implied Share Price (25th Percentile)	\$	(2.27)
Implied Share Price (Median)	\$	13.06
Implied Share Price (75th Percentile)	\$	34.90

Source: Morningstar

Investment Theses (around 2-3)

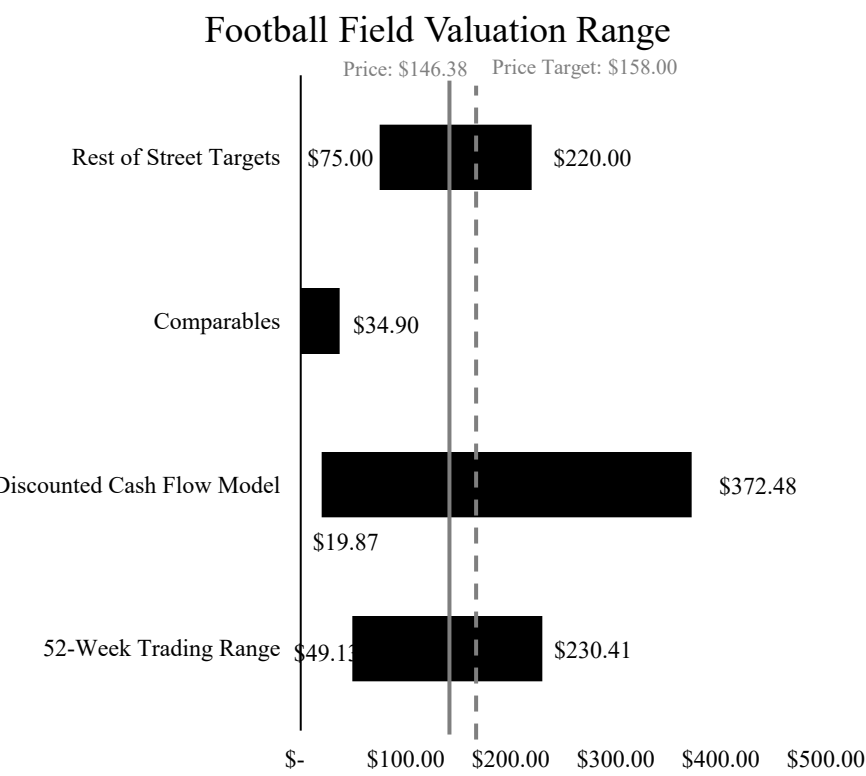
Global User Expansion: Reddit's daily active user base is expanding rapidly worldwide, with international DAUq's climbing 41% year-over-year to 58 million in Q1 2025. This broadening reach beyond the platform's Western roots is driving deeper user engagement and enriching Reddit's first-party data, which in turn strengthens its targeting capabilities for advertisers. We believe this increasingly diversified global audience enhances Reddit's appeal to advertisers and positions the company for sustained user and revenue growth.

Scalable Monetization utilizing Dynamic Ads & AI: Reddit is accelerating monetization through new AI-driven DPA's, which deliver 2x ROAS than standard campaigns and have spurred a 4x increase in advertisers' product catalog integrations. Moreover, the company is also leveraging AI across core ad-tech functions, such as bid optimization and conversion prediction, and in user-facing features like the Reddit Answers AI tool to further improve ad targeting and conversion efficiency. These initiatives have propelled a 23% YoY rise in ARPU, demonstrating that Reddit is scaling a modern, performance-focused advertising platform.

Capital Structure Opportunity: Reddit maintains a highly flexible balance sheet, with only ~\$20 million in debt (less than 1% of assets) and approximately \$1.9 billion in cash. This near-zero leverage profile provides the company with strategic optionality to reinvest, pursue acquisitions, or accelerate shareholder value creation. We hold strong conviction that Reddit's capital-light model, now coupled with early profitability, positions it to scale with discipline and resilience in the next 3-5 years.

Price Target & Valuation

Our analysis gives (\$RDDT) a price target of \$158.00 and an Overweight weight rating.



Potential Downsides to Our Rating

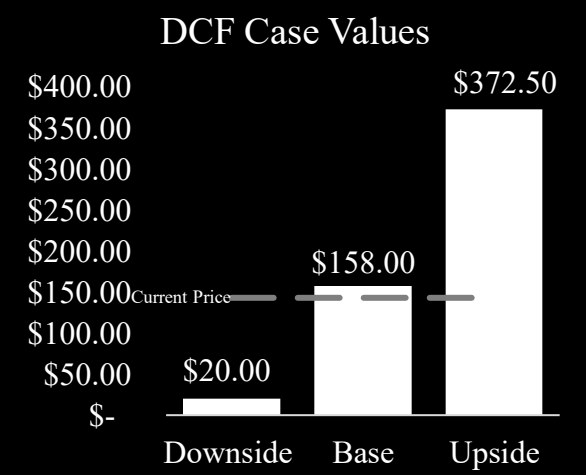
Generative AI Threatens Forum-Based Discovery Models: We see the emergence of generative AI tools such as ChatGPT and Google’s AI Overviews poses a structural risk to Reddit’s referral traffic and visibility within search engines. Google has begun prioritizing its own AI-generated content within search results, which often summarizes Reddit threads directly, reducing the likelihood that users will click through to the platform. Additionally, Google’s growing ties to OpenAI may further entrench AI-native responses, bypassing Reddit’s ecosystem entirely. This disintermediation threatens both user acquisition and ad revenue if Reddit is no longer the destination for high-intent queries.

International Monetization Lags Behind User Growth: Although international user growth continues to outperform the U.S., Reddit’s ability to monetize this revenue segment remains limited. Global ARPU still trails U.S. levels, and the company is in the early stages of scaling international ad infrastructure, including localized sales operations and payment capabilities. Should monetization outside of

Our Price Target: **\$158.00**
Our base case is Reddit will steadily mature into a scalable digital ad platform by upgrading its infrastructure, expanding internationally, and embedding AI across its ad stack. While it doesn’t become the largest player, Reddit maintains a strong niche with loyal human engagement and healthy margin growth.

Our Upside Case: **\$372.50**
Our upside case is based on if Reddit becomes a cultural and commercial utility, leveraging its deep communities and real human interaction as a moat against the rise of synthetic, AI-generated content. Strategic investments in personalization, AI-curated advertising, and licensing unlock new monetization layers, positioning Reddit as the dominant platform for authentic discourse and commerce in the AI era.

Our Downside Case: **\$20.00**
Our downside case is based on if Reddit is increasingly bypassed as generative AI tools like ChatGPT and Google’s AI Overviews replace traditional search and forum browsing. As user intent shifts upstream and Reddit’s content is summarized without attribution, the platform loses traffic, pricing power, and long-term strategic relevance.



North America prove structurally lower or slower to ramp than expected, this would materially impact long-term revenue scalability.

Premium Valuation Implying High Growth Expectations: Reddit continues to trade at a premium despite its limited track record as a public company (since 2024). Netting out its ~\$1.9 billion in cash, the enterprise value stands at approximately \$25–26 billion — a level that prices in strong long-term growth and margin expansion. While early momentum in user engagement and monetization is encouraging, Reddit is still in the early innings of scaling its advertising business and proving sustained profitability. At these levels, the stock offers limited room for execution mistakes; any slowdown in growth or operational obstacles could result in multiple compression and material downside.

Projections

Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	1,300	1,832	2,372	3,034	3,831	43.4%
EBITDA	(545)	470	669	840	1,040	-224.0%
EBIT	(561)	450	641	802	992	-220.9%
NOPAT	(63)	(128)	(173)	(144)	(561)	107.7%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	-41.9%	25.7%	28.2%	27.7%	27.2%	13.4%
EBIT Margin	-43.1%	24.6%	27.0%	26.4%	25.9%	12.2%
Revenue Growth	61.7%	40.9%	29.5%	27.9%	26.3%	37.3%
EBIT Growth	299.9%	-180.3%	42.3%	25.3%	23.6%	42.2%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	-42.2x	66.5x	64.6x	51.6x	41.7x	36.5x
EV/Sales	21.5x	15.3x	11.8x	9.2x	7.3x	13.0x
EV/EBITDA	-51.4x	59.5x	41.8x	33.3x	26.9x	22.0x
FCF Yield	-2.4%	1.5%	1.5%	1.9%	2.4%	2.9%

About \$RDDT

Reddit, Inc. (\$RDDT), founded in 2005, operates a global digital platform built around interest-based online communities. The platform has grown to over 100,000 individual, active communities (“subreddits”) where users share content, exchange ideas, and engage in real-time discussions across diverse topics. Reddit’s user-generated content model is powered by community moderation and an upvote/downvote system that surfaces the most relevant, trusted insights. The company generates most of its revenue through digital advertising, leveraging high-intent user engagement and contextual ad placements; other revenue comes from Reddit Premium, licensing, and its user economy. Reddit completed its IPO in March 2024 at \$34 per share and now trades on the NYSE. The company’s mission is to empower communities and make their collective knowledge accessible to all.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities.

Overweight means the analyst team believes the stock price will outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight**

means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

Reddit Inc.

Discounted Cash Flow

Active Case:2 Base

Current Share Price\$143.01

DCF Analysis (\$mm)																
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Stub						0.49	1.49	2.49	3.49	4.49	5.49	6.49	7.49	8.49	9.49	10.49
Discount Period						0.25	1.01	2.01	3.01	4.01	5.01	6.01	7.01	8.01	9.01	10.01
Revenue	229	485	667	804	1,300	1,832	2,372	3,034	3,831	4,774	5,870	7,123	8,526	10,065	11,717	13,446
Revenue Growth	0%	112%	37%	21%	62%	41%	30%	23%	26%	25%	23%	21%	20%	18%	16%	15%
Advertising Revenue	0	0	653	789	1,185	1,677	2,181	2,798	3,545	4,431	5,465	6,649	7,979	9,441	11,015	12,667
Other Revenue	0	0	14	15	115	154	192	236	286	343	406	474	547	624	702	779
	0.00	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBIT	(63)	(127)	(172)	(140)	(561)	450	641	802	992	1,209	1,455	1,725	2,018	2,326	2,643	2,958
EBIT Margin	-27%	-26%	-26%	-17%	-43%	25%	27%	26%	26%	25%	25%	24%	24%	23%	23%	22%
Tax Expense	0	0	1	4	1	6	0	19	46	85	136	201	282	380	493	621
Effective Tax Rate	0%	0%	0%	0%	0%	7%	0%	2%	5%	7%	9%	12%	14%	16%	19%	21%
NOPAT	(62.66)	(127.55)	(172.78)	(143.96)	(561.50)	443.98	640.55	783.61	945.41	1,124.64	1,318.80	1,524.07	1,735.33	1,946.23	2,149.42	2,336.90
D&A	2	3	8	14	16	20	28	37	49	62	78	97	119	144	172	202
Capex	3	7	6	10	6	12	36	47	62	80	101	127	156	190	228	269
Changes in NWC	36	64	10	30	67	84	95	118	145	175	209	245	284	324	365	403
UPCF	(99)	(196)	(181)	(170)	(630)	368	559	656	788	932	1,087	1,249	1,414	1,576	1,729	1,866
PV of FCF						358	481	524	562	595	620	637	645	643	630	608

Weighted Average Cost of Capital (\$mm)

Market Risk Premium4.33%

Beta1.75

Risk Free Rate4.39%

Cost of Equity11.85%

Weighted Average Cost of Debt1.00%

Tax Rate21.00%

Cost of Debt0.01%

Total Equity\$26,115

Total Debt\$1,868

Equity/Total Capitalization99.00%

Debt/Total Capitalization1.00%

WACC11.86%

Terminal Value

Perpetuity Growth Method

2034 FCF\$1,866

Growth2.75%

Terminal Value\$20,489

PV of Terminal Value\$6,676

PV of Projection Period\$6,303

PV of Terminal Value\$6,676

Implied TEV\$12,979

(-) Debt\$27

(+) Cash\$1,841

Implied Equity Value\$14,793

Basic Shares Outstanding180

Implied Share Price\$82.04

Upside/Downside-42.63%

Implied Exit BF EV/EBIT4.4x

Terminal Value

Exit Multiple Method

2034 EBIT\$2,958

EV/EBIT Exit Multiple35.0x

Terminal Value\$103,534

PV of Terminal Value\$33,733

PV of Projection Period\$6,303

PV of Terminal Value\$33,733

Implied TEV\$40,036

(-) Debt\$27

(+) Cash\$1,841

Implied Equity Value\$41,850

Diluted Shares Outstanding180

Implied Share Price\$232.09

Upside/Downside62.3%

Implied PGR6.0%

Blended Share Price

Perpetuity Growth Method50%

Exit Multiple Method50%

Blended Share Price\$157.06

Upside/Downside9.83%