Sandalphon Research

Reddit Thesis

Analyst Letter

It is my belief that Reddit is a great business operating in a highly attractive industry. Due to its business model, I believe it will be able to increase revenue per user while simultaneously expanding its user base, primarily outside the United States. The company possesses strong competitive moats and significant barriers to entry, while its network effects will allow it to continue growing organically in the future. Furthermore, Reddit maintains a very strong financial position, with no debt and substantial liquid assets, allowing it to withstand potential financial shocks arising from the cyclical nature of the advertising industry. I also believe the market is overestimating the risk of user losses associated with Reddit's dependence on Google search traffic. Based on our valuation and long-term growth projections, we estimate Reddit's intrinsic equity value at approximately **$65 billion**, reflecting its substantial monetization potential, international expansion opportunities, and strong competitive position.

Industry

Customer Base

Reddit's customer base primarily consists of advertisers seeking to promote their products and services to targeted audiences. Additionally, the company serves businesses interested in licensing its data for commercial purposes, including AI model training and market research.

Reddit primarily operates under a business-to-business (B2B) model, generating revenue from businesses that advertise their products and services or license the platform's data for commercial purposes.

Geography of Users

Reddit serves a global audience, with international users accounting for the majority of its user base. In Q3 2026, the platform recorded 130.3 million daily active unique users (DAUq), of which 79.6 million (61.1%) were international and 50.7 million (38.9%) were based in the United States. While user growth in the US is showing signs of stagnation, international markets continue to expand rapidly, representing the company's primary driver of user growth and a significant opportunity for future monetization.

The product or service the business offers to customers

Reddit offers advertisers access to highly engaged, high-intent audiences through targeted advertising and performance marketing tools. It provides brands and publishers with free and paid tools to establish and manage their presence on the platform, while offering AI and technology companies licensed access to its user-generated content. Reddit differentiates itself from competitors through its highly active, niche communities, enabling advertisers to reach specific audiences with relevant products and services, potentially resulting in higher returns on advertising investment.

Where is the firm selling and how do its products and services reach customers

Reddit distributes its advertising services through direct sales to large advertisers and advertising agencies, complemented by a self-service advertising platform that allows smaller businesses to independently create, manage and optimize their campaigns.

Pricing Strategy

Reddit employs an auction-based advertising pricing model, where prices are determined by market demand. Historically, Reddit has priced its advertising at a discount relative to competitors such as Meta, although it appears to be gradually moving toward pricing parity, with the price per advertisement increasing by approximately 34% and impressions growing by 15% in Q3 2026.

Despite this progress, revenue per user remains significantly below that of larger competitors, indicating substantial monetization potential. Reddit benefits from a relatively low-cost business model driven by user-generated content, achieving a gross margin of 91.5% and an adjusted EBITDA margin of 44.9%. This enables the company to adopt a value-based pricing strategy supported by audience engagement, purchase intent and advertising effectiveness.

Regarding data licensing, Reddit has historically employed fixed-fee agreements but is seeking to transition toward dynamic, usage-based pricing to better capture the economic value of its content, although the outcome of these negotiations remains uncertain.

The key assets, partners, and suppliers the business requires

Reddit's primary assets are its engaged user base of 130.3 million DAUq, its niche communities and its extensive library of user-generated content. Volunteer moderators help maintain content quality while keeping operating costs relatively low.

Its advertising technology, including machine learning, audience targeting and Reddit Max, is essential to improving monetization. Additionally, Reddit's reputation as a source of authentic human opinions represents a competitive advantage, although it remains vulnerable to bots and spam.

Key suppliers include Amazon Web Services and Google Cloud Platform, which provide cloud infrastructure. Google and OpenAI are important data licensing partners, while search engines serve as major channels for attracting new users.

Industry Survey

Industry Size and Historical Growth Rate

The global digital advertising industry has expanded from approximately $283 billion in 2018 to an estimated $785–880 billion in 2026, representing a compound annual growth rate (CAGR) of approximately 13.6–15.2%. Reddit has substantially outperformed the industry, with advertising revenue increasing from $61 million in 2018 to $2.06 billion in 2025, representing a CAGR of approximately 65.4%, indicating significant market share gains.

Characterizing Industry Growth: Growth and Cyclical

The digital advertising industry is characterized by strong structural growth, driven by the shift toward digital platforms, e-commerce adoption and AI-powered advertising technologies. These trends support long-term industry expansion at a rate significantly exceeding nominal GDP growth.

However, the industry is also cyclical, as advertising expenditure is highly sensitive to macroeconomic conditions. During economic expansions, businesses increase marketing budgets, while during downturns, advertising is among the first discretionary expenses to be reduced, as reflected in the industry's 2022–2023 slowdown.

Industry Profitability

The digital advertising industry is highly profitable, with major platforms typically achieving gross margins of 75–92%, supported by low incremental costs and scalable digital business models. Operating profitability, however, varies significantly depending on company size, operating efficiency and infrastructure investments.

Profitability generally improves as platforms achieve economies of scale and increase monetization. However, rising investments in AI, cloud infrastructure and advertising technology may put pressure on margins. Therefore, while the industry has strong long-term profitability potential, margin expansion is not uniform across competitors.

INDUSTRY STRUCTURE , Industry Profit Pool & Power Structure

Assessing the Threat of New Entrants:

Have there been significant numbers of new industry entrants in recent history?

The threat of new entrants in the digital advertising industry is relatively low at the platform level, as few new social media platforms have successfully scaled into meaningful advertising competitors.

Barriers to entry are high due to substantial upfront investments in R&D, cloud infrastructure, AI-powered advertising systems, audience targeting, content moderation and sales teams. Additionally, established platforms benefit from strong network effects, extensive user data and existing advertiser relationships, making it difficult for new entrants to compete effectively.

Reddit itself operated unprofitably for nearly two decades before achieving operating profitability in 2025, illustrating the time and capital required to establish a competitive digital advertising platform.

Loyalty

End users demonstrate strong loyalty to specific subreddits, community cultures and Reddit's extensive archive of discussions. These characteristics create strong network effects and increase switching costs, making it difficult for competitors to replicate the user experience.

Advertisers generally exhibit moderate loyalty, as their spending decisions are primarily driven by return on advertising spend (ROAS). However, Reddit's ability to offer community-based targeting and access to niche, high-intent audiences creates a differentiated value proposition. Advertisers targeting specialized consumer segments may become increasingly reliant on Reddit, particularly where comparable audiences are difficult to reach through competing platforms.

Customer Switching Costs – Moderate

Advertisers face moderate technical and operational switching costs when moving between advertising platforms. These include integrating tracking pixels and Conversion APIs, developing platform-specific advertising content, training marketing teams and allowing algorithms sufficient time to optimize campaign performance.

Additionally, switching platforms may result in the loss of accumulated campaign data, established retargeting audiences and access to Reddit's unique niche communities. These costs are particularly significant for advertisers targeting specialized, high-intent audiences.

Preferential Access to Key Inputs

Reddit benefits from preferential access to over 20 years of human-generated, topic-specific discussions across more than 100,000 active communities. This extensive

content library provides valuable first-party data on consumer interests, preferences and purchase intentions, supporting targeted advertising and AI data licensing.

While publicly available content can be scraped, Reddit's direct access to real-time user interactions, community engagement and behavioral data is difficult for new entrants to replicate, creating a significant competitive advantage and barrier to entry.

Regulatory Barriers to Entry

The digital advertising and social media industries generally have no direct licensing barriers. However, regulatory compliance requirements create indirect barriers to entry.

Regulations such as the EU's Digital Services Act (DSA), GDPR, the UK Online Safety Act and US state privacy laws impose significant costs related to data protection, content moderation and platform safety. Established companies such as Reddit can absorb these costs more easily due to their scale and existing compliance infrastructure, potentially placing smaller entrants at a competitive disadvantage

Assessing the Threat of Substitutes

Availability and Pricing of Substitutes – Moderate

Reddit's main substitutes include Facebook Groups, Discord, Quora and other online forums. Reddit historically offers competitive advertising prices, although pricing comparisons depend on audience targeting, advertising formats and campaign performance.

Relative Performance of Substitutes – Low to Moderate Threat

Discord's private, real-time communication model limits content discoverability and advertising scalability, while Facebook Groups generally attract an older demographic. Reddit maintains a differentiated position through its searchable content, specialized communities and access to high-intent audiences. However, AI-powered search represents an emerging substitute for information discovery.

Switching Costs to Substitutes – Moderate

Advertisers can reallocate budgets relatively easily across competing platforms. Nevertheless, Reddit's community-based targeting and access to specialized audiences are difficult to replicate. End users face relatively higher switching costs due to established community relationships, accumulated discussions and platform familiarity.

Assessing the Bargaining Power of Customers

Customer Concentration – Low

The digital advertising industry serves a large and diversified customer base, ranging from small businesses to multinational corporations. This limits the bargaining power of individual advertisers, although large corporations and advertising agencies may have greater negotiating power due to their substantial advertising budgets.

Product Differentiation – Moderate to High

Although digital advertising products are relatively standardized across platforms, Reddit differentiates itself through community-based targeting and access to niche, high-intent audiences. This reduces direct substitutability and gives Reddit greater pricing power where comparable audiences are difficult to reach elsewhere.

Importance to Customers' Budgets – Moderate

Advertising represents a significant portion of many companies' marketing budgets, although its importance varies by industry, company size and growth strategy. Consequently, advertisers are price-sensitive and continuously evaluate advertising performance and ROAS before allocating their budgets.

Threat of Backward Integration – Low

Advertisers are unlikely to backward-integrate by developing their own social media or digital advertising platforms due to substantial capital requirements, technological complexity and network effects. Although businesses can develop their own marketing channels, replicating Reddit's established communities and audience reach would be extremely difficult.

Overall Bargaining Power of Customers – Moderate

Despite low customer concentration and limited backward integration opportunities, advertisers retain considerable bargaining power through their ability to reallocate budgets across competing platforms based on relative advertising performance.

Assessing the Bargaining Power of Suppliers

Supplier Concentration – Moderate to High

Although the digital advertising industry has numerous technology suppliers, critical infrastructure is concentrated among a few major cloud providers, including Amazon Web Services, Google Cloud and Microsoft Azure. Reddit primarily relies on AWS and Google Cloud, increasing its exposure to a limited number of key suppliers.

Supplier Switching Costs – High

Switching cloud infrastructure providers involves significant financial and operational costs, including data migration, software integration, employee training and potential service disruptions. Reddit's long-term contractual commitments provide cost predictability but also reduce its flexibility to switch suppliers.

Supplier Differentiation and Specialization – High

Key suppliers offer highly specialized services, including cloud computing, data storage, AI infrastructure and machine learning capabilities. Differences in technological capabilities, reliability, security and scalability limit the interchangeability of these suppliers.

Availability of Supplier Substitutes – Low to Moderate

Although alternative cloud providers exist, few can offer the infrastructure, reliability and scalability required by a platform of Reddit's size. Developing infrastructure internally is possible but would require substantial capital investment and technical expertise.

Overall Bargaining Power of Suppliers – Moderate to High

The concentration of critical infrastructure providers, high switching costs and specialized technological capabilities strengthen supplier bargaining power. However, Reddit's growing scale, purchasing volumes and ability to negotiate long-term agreements partially mitigate this risk. Furthermore, its reliance on user-generated content and volunteer moderators reduces its dependence on traditional content suppliers.

Assessing Rivalry among Existing Competitors

Price Competition – Moderate

The industry faces a relatively low risk of direct price wars, as advertising prices are determined through auction-based systems. However, indirect pricing pressure remains significant, as platforms compete through targeting effectiveness, conversion rates and return on advertising spend (ROAS).

Number and Relative Size of Competitors – High Concentration

The industry is dominated by large competitors such as Google, Meta and Amazon, alongside smaller platforms such as Reddit, Pinterest and Snapchat. Competitors differ significantly in market share, financial resources and technological capabilities.

Product Differentiation – Moderate to High

Although digital advertising platforms offer similar core services, they differentiate themselves through audience demographics, targeting capabilities and advertising formats. Reddit's specialized communities and high-intent audiences provide a competitive advantage.

Industry Growth – High but Cyclical

The digital advertising industry continues to experience strong structural growth, although its growth rate is gradually moderating as the industry matures. Advertising remains an essential business activity, but economic downturns can intensify competition as companies reduce their marketing budgets.

Barriers to Exit – Moderate to High

Established platforms face significant barriers to exit due to accumulated technology investments, contractual commitments, established advertiser relationships and the potential loss of valuable network effects. However, the industry's relatively asset-light business model limits physical capital-related exit costs.

Nature of Competition – Differentiation-Based

Competition is primarily differentiation-based rather than price-based. Platforms compete through audience quality, targeting capabilities, user engagement and advertising effectiveness. Reddit differentiates itself through its niche communities and high-intent audiences.

Customer Fragmentation – High

The industry serves a large and fragmented customer base across various industries, geographies and company sizes. This limits individual customer bargaining power, although large advertisers and advertising agencies maintain greater negotiating leverage.

Pricing During Economic Downturns – Downward Pressure

During economic downturns, businesses tend to reduce advertising budgets, resulting in lower demand for advertising inventory. Given the auction-based pricing model, reduced competition among advertisers generally puts downward pressure on advertising prices. This can negatively affect revenue growth and profitability, particularly as infrastructure and personnel costs remain relatively fixed.

Growth Quality

Key Demand Drivers – Income and Corporate Profit Cycles

Demand for digital advertising is primarily driven by consumer spending, corporate profitability and economic growth. Additional structural drivers include e-commerce adoption, increased digital engagement and advances in AI-powered advertising technologies, which improve advertising effectiveness and encourage higher spending.

Nature of Demand - Discretionary and Cyclical

Advertising expenditure is largely discretionary, expanding during economic upturns and contracting or decelerating during downturns. However, performance-based

advertising tends to be more resilient, as businesses can directly measure its contribution to revenue generation.

Growth Sustainability – Organic and Self-Funded

Reddit's growth is predominantly organic and increasingly self-funded through its high-margin advertising business. With a gross margin of approximately 91% and an operating cash flow margin of around 41%, the company can finance its expansion without significant reliance on external funding or government subsidies.

Growth Without Margin Erosion – High Potential

Reddit can potentially sustain growth while expanding profitability through user base expansion, higher advertising prices, increased monetization per user and improved advertising efficiency. Its scalable, user-generated content model supports strong operating leverage, although rising investments in AI and infrastructure could partially offset margin expansion.

Cyclicality & Operating Leverage

Revenue Sensitivity to Recessions – Moderate to High

During a mild recession, digital advertising revenue typically experiences a significant deceleration in growth rather than an outright contraction. Reddit is exposed to reductions in corporate advertising budgets and lower auction-based advertising prices. However, continued user growth, international expansion and market share gains could partially offset these pressures.

Margin Sensitivity to Revenue Declines – High

Reddit's high gross margin of approximately 91% and predominantly fixed cost structure create substantial operating leverage. Consequently, a 5–10% decline in revenue could result in a disproportionately larger decline in operating profit. Conversely, during periods of strong revenue growth, operating margins can expand rapidly as incremental revenue exceeds incremental costs.

Fixed Cost Structure – Moderate

An estimated 85–90% of Reddit's cost base is fixed or semi-fixed, primarily consisting of R&D, employee salaries, general and administrative expenses, enterprise sales teams and cloud infrastructure commitments. While this cost structure supports significant economies of scale, it limits short-term flexibility during economic downturns. However, management can partially mitigate these pressures by reducing discretionary marketing expenditure, slowing recruitment and postponing investments.

Capital Intensity & Economic Reality.

Capital Expenditure Requirements – Low

Reddit operates an asset-light business model, relying on AWS and Google Cloud rather than owning physical data centers. Consequently, traditional capital expenditure remains minimal, amounting to approximately $7 million in 2025 and $1 million in Q3 2026. However, spending on cloud infrastructure, R&D and advertising technology remains essential to maintaining competitiveness, even though it is primarily classified as operating expenditure.

Maintenance Capital Expenditure – Minimal

Reddit's maintenance CapEx is estimated at approximately $3–5 million annually, primarily covering corporate IT equipment and office infrastructure. This represents less than 0.3% of revenue, allowing the company to convert a substantial proportion of its operating cash flow into free cash flow.

Return on Invested Capital Relative to WACC – High

Reddit's estimated ROIC ranges between 29% and 44%, significantly exceeding its estimated WACC of 9.5–12.8%. This positive spread indicates substantial economic value creation, supported by its asset-light business model, high gross margins and operating leverage. However, ROIC should be interpreted carefully, as expensed R&D and internally developed intangible assets can understate the company's economic invested capital.

Regulation & Structural Constraints Regulation

Pricing Mechanism – Market-Driven

Advertising prices are primarily determined through auction-based systems, where supply and demand establish pricing. Reddit can influence pricing indirectly by improving advertising effectiveness, targeting capabilities and the quality of its advertising inventory.

Artificial Demand – Low

Demand for digital advertising is organic and driven by commercial needs rather than government mandates or subsidies. Businesses allocate advertising budgets based on expected returns, customer acquisition and revenue growth.

Regulatory Barriers to Entry – Moderate to High

Privacy and platform regulations, including GDPR, the Digital Services Act, the EU AI Act and the UK Online Safety Act, increase compliance costs, disproportionately affecting smaller competitors.

Furthermore, restrictions on third-party tracking strengthen the relative competitive position of platforms such as Reddit, which possess extensive first-party data and

contextual targeting capabilities. This reduces dependence on external data providers and creates an additional barrier to entry.

Political and Regulatory Risk – Increasing

The industry faces increasing regulatory exposure related to data privacy, youth safety, content moderation, AI governance and international taxation. These developments may increase operating expenses, restrict advertising capabilities and expose Reddit to potential fines and reputational risks. However, its community-based targeting model may be relatively more resilient to restrictions on behavioral tracking.

External Influences

Factor	Impact	Implications for Reddit
Political	Moderate Risk	Antitrust scrutiny of dominant technology companies could benefit Reddit. However, geopolitical tensions, digital services taxes and cross-border data restrictions may increase operating costs.
Economic	Highly Cyclical	GDP growth, consumer spending and corporate profitability drive advertising demand. Inflation may increase nominal advertising prices, while higher interest rates can reduce advertising budgets and equity valuations. Reddit's strong cash position benefits from higher interest income.
Social	Strong Tailwind	Growing demand for authentic human opinions, product recommendations and community-driven discussions supports user growth, engagement and purchase intent. AI-generated content may further strengthen Reddit's value proposition.
Technological	Significant Opportunity and Risk	AI-powered advertising, machine learning and automated translation improve monetization and support international expansion. However, AI-powered search engines may reduce organic traffic.
Legal	Mixed but Potentially Positive	Privacy regulations restricting third-party tracking strengthen Reddit's first-party data and contextual advertising advantage. However, stricter content moderation, youth safety and data protection requirements increase compliance costs and legal risks.

Business Life Cycle

Reddit is currently in the growth phase of its business life cycle, characterized by strong revenue growth, increasing free cash flow and expanding profitability. Its business risk remains moderate due to competitive pressures, cyclical advertising demand and dependence on continued user growth.

Debt availability is improving as the company strengthens its profitability, cash flow generation and financial position. Although secured debt may be available, Reddit's asset-light business model and strong cash reserves reduce its reliance on external financing.

The company has moved beyond its early development stage but has yet to reach maturity, with significant growth opportunities remaining in international expansion, advertising monetization and data licensing.

MICRO ANALYSIS (COMPANY FUNDAMENTALS)

Purpose of the Business – Customer Value Proposition

Reddit exists to connect users through interest-based communities, providing access to authentic human opinions, peer-reviewed recommendations and a sense of belonging.

For advertisers, Reddit offers access to niche, high-intent audiences through contextual and community-based targeting. For AI developers, it provides a valuable source of authentic human conversational data that can be used to train and improve AI models.

Barriers to Replication – Strong Competitive Moat

Reddit benefits from over 20 years of accumulated user-generated content, established search engine authority and powerful network effects. As more users contribute, the platform becomes increasingly valuable to other users, advertisers and AI developers.

Additionally, its decentralized community structure and volunteer moderation system allow Reddit to maintain community engagement and content quality at relatively low incremental costs. Replicating this combination of historical content, community culture, user trust and network effects would require substantial time and investment, creating a significant barrier to competition.

Management Quality vs. Structural Advantages

Reddit's financial performance reflects both effective management execution and favorable structural characteristics. However, its primary advantages are structural, including strong network effects, user-generated content, volunteer moderation and an asset-light business model. Management's ability to improve monetization, advertising technology and international expansion determines how effectively these advantages translate into financial performance.

Revenue Growth – Organic

Reddit's revenue growth is predominantly organic, driven by user base expansion, increased advertising demand, improved monetization per user and data licensing. This reduces dependence on acquisitions and demonstrates the scalability of its existing business model.

Relative Profitability – Not Yet Superior

Although Reddit maintains exceptionally high gross margins, its operating margins have not consistently exceeded those of established competitors such as Meta. Larger competitors continue to benefit from greater economies of scale and more mature advertising infrastructure. Nevertheless, Reddit's business model provides significant potential for further margin expansion.

Margin Trajectory – Improving

Reddit's margins are expanding as revenue grows faster than operating expenses. Its high operating leverage, increasing advertising prices and improved monetization support further profitability improvements, although rising infrastructure and AI investments could partially offset these gains.

Relative ROIC – High but Limited Track Record

Reddit's estimated ROIC is attractive relative to peers, supported by its asset-light business model and low capital requirements. However, given its relatively recent transition to profitability, consistent ROIC outperformance has yet to be demonstrated across a full business cycle. Comparisons should also account for differences in R&D expenditure, intangible assets and invested capital calculations.

Quality of Earnings & Cash Flow

Cash Flow Conversion – Strong

Reddit demonstrates strong earnings quality, with net income effectively converting into operating cash flow. Its asset-light business model, high gross margins and limited working capital requirements support cash flow generation. However, stock-based compensation should be considered when assessing underlying cash flow quality and shareholder dilution.

Working Capital Requirements – Low and Stable

Reddit operates with limited working capital requirements due to its digital business model, absence of physical inventory and relatively low incremental operating costs. This allows revenue to grow without requiring proportionate increases in working capital investment.

EBITDA Quality – Strong

Reddit's improving EBITDA primarily reflects organic revenue growth, operating leverage and increased monetization rather than non-recurring gains. However, adjusted EBITDA excludes stock-based compensation, which represents a genuine economic cost to shareholders and should be considered when evaluating profitability.

Capital Expenditure Accuracy – Reasonable

Reddit's low CapEx accurately reflects its asset-light business model and reliance on third-party cloud infrastructure. However, significant investments in R&D, software development and cloud computing are classified as operating expenses rather than capital expenditure. Therefore, low reported CapEx should not be interpreted as an absence of reinvestment requirements.

Balance Sheet & Survivability Equity

Resilience to a Prolonged Downturn – High

Reddit is well-positioned to withstand a two-year economic downturn due to its substantial cash reserves, minimal debt and strong free cash flow generation. Its asset-light business model and limited capital expenditure requirements further reduce financial distress risk, even during a prolonged decline in advertising demand.

Risk of Shareholder Dilution – Low

Reddit generates sufficient cash flow to finance its operations and growth initiatives without relying on external equity financing. Consequently, the risk of dilution arising from capital-raising requirements is low. However, stock-based compensation remains an ongoing source of potential shareholder dilution.

Financial Flexibility – Very High

Reddit's minimal leverage, substantial liquidity and strong cash flow generation provide significant financial flexibility. This allows the company to pursue strategic acquisitions, invest in advertising technology, support international expansion or repurchase shares without materially compromising its financial stability. Furthermore, limited debt obligations allow management to maintain long-term investments during economic downturns.

Management & Capital Allocation Long-term equity returns

Reinvestment Returns – High

Reddit appears to reinvest capital effectively, primarily through advertising technology, AI capabilities, product development and international expansion. Its high estimated ROIC and improving profitability suggest that management is generating attractive returns on invested capital. However, the sustainability of these returns depends on future monetization and user growth.

Share Repurchases – Valuation-Dependent

Reddit's strong cash generation provides management with the flexibility to repurchase shares without compromising growth investments. However, the effectiveness of share

repurchases depends on whether shares are acquired below their intrinsic value and whether repurchases meaningfully offset dilution from stock-based compensation.

M&A Strategy – Disciplined

Reddit appears to follow a disciplined acquisition strategy, focusing on smaller, strategic acquisitions that strengthen its advertising capabilities, technological infrastructure and user experience rather than pursuing large-scale, growth-driven acquisitions. Its predominantly organic growth suggests that management prioritizes internal development over empire-building.

Management Incentives and Shareholder Alignment – Strong

Reddit's management and board of directors appear to be financially aligned with shareholders through substantial equity ownership and stock-based compensation. CEO Steve Huffman's Reddit stake was estimated at approximately $1 billion in November 2025, representing around 85% of his estimated net worth at the time. This creates a strong personal financial incentive to maximize long-term shareholder value, despite stock-based compensation accounting for 0% of his reported 2025 remuneration.

Board members also demonstrate meaningful alignment, with stock-based compensation representing between 59% and 80% of their total annual remuneration. Several directors hold multimillion-euro equity positions in the company, further strengthening their exposure to its long-term financial performance.

However, Reddit's dual-class share structure limits the voting influence of ordinary shareholders. Therefore, while management's economic interests appear strongly aligned with shareholders, governance and voting rights remain an important consideration.

Overall, management's substantial equity ownership and equity-based remuneration structure encourage long-term value creation rather than an exclusive focus on short-term financial performance.

EXPECTATIONS, VALUATION & CATALYSTS

Market Expectations and Relative Valuation

Reddit appears modestly valued relative to its growth prospects and profitability, trading at a P/E ratio of approximately 18x and at a 42% discount to its peers on a growth-adjusted EV/Sales basis. Despite stronger revenue growth and higher gross margins than Meta and Alphabet, investors appear to question the sustainability of its financial performance.

While Reddit recorded 53% year-on-year revenue growth in Q3 2026, consensus expects growth to decelerate to 28.8% in 2027. The valuation suggests that the market

may underestimate Reddit's long-term growth, margin expansion and returns on invested capital. Consequently, if Reddit exceeds these relatively conservative expectations, shareholders could benefit from both earnings growth and multiple expansion.

Catalysts

I believe Reddit will continue to expand its user base, particularly in international markets, where significant untapped growth opportunities remain. At the same time, the company is well positioned to increase revenue per user through improved advertising monetization, greater advertiser demand and strengthening pricing power. The combination of sustained user growth and higher monetization per user should support strong revenue growth, further margin expansion and long-term profitability.

Reddit has a major moat, in terms of network effects that help her retain customers due to their loyalty and naturally grow.

Risk

My investment thesis would be invalidated if Reddit experienced a sustained slowdown in user growth, particularly internationally, or failed to increase revenue per user. Weakening advertiser demand, deteriorating pricing power, declining user engagement or increased competition would challenge its long-term monetization potential. Furthermore, an excessive dependence on external search engines, unsuccessful international expansion or deteriorating operating margins could undermine its competitive position. Ultimately, if Reddit fails to translate its growing user base into sustainable revenue growth, higher profitability and strong free cash flow generation, the perceived undervaluation may prove justified rather than represent an investment opportunity.

Bear Case build Up

1. **Artificial intelligence replaces Reddit as an informational destination.**

I don't think so, due to its humane approach to information. It presents a counter offer to the AI slop. Also it's not the primary reason people are on reddit its community.

2. **Google permanently reduces Reddit's search visibility.**

I think this is something that could happen to an extent. However, due to Reddit's strong network effects, its users can organically generate traffic to individual communities, which is a relatively unique characteristic of the platform.

3. **Reddit becomes a commodity data supplier.** What if Reddit remains an extremely valuable source of human-generated information but loses its relationship with the end user, effectively becoming a data supplier to AI

companies that possess greater bargaining power and capture the majority of the economic value?

I see virtually no chance of this happening. Reddit is not directly competing with AI companies, which have no pricing power over Reddit's core activities. AI represents a potential additional source of revenue for Reddit, but that is about it. In fact, the increasing prevalence of AI-generated slop will likely strengthen the demand for authentic, human-generated content and originality.

4. **AI licensing revenue fails to compensate for lost advertising revenue.**

I believe people pay too much attention to AI-related revenue. AI companies compete for advertising in certain areas that largely fall outside Reddit's core activities. Much of their AI-generated content is likely to annoy users, in contrast to Reddit's highly engaged and targeted communities, which offer advertisers access to more authentic and relevant audiences.

5. **Reddit's US market reaches structural saturation**

My projections already incorporate significantly lower user growth in the US, as most future user growth will likely come from international markets. However, there is still substantial room to increase revenue per user in the US, where Reddit significantly underperforms other advertising platforms in terms of monetisation.

6. **International ARPU remains permanently below US levels.** What if the substantial difference between US and international revenue per user is structural rather than temporary, meaning that investors are significantly overestimating Reddit's long-term addressable revenue opportunity?

International ARPU will most likely remain below US levels, but that is perfectly acceptable in the coming years. Given the expansion of the international user base and the strength of Reddit's network effects, even modest improvements in monetisation could translate into substantial revenue growth. It is also worth noting that Reddit has so far demonstrated significant, rather than modest, improvements in international monetisation.