Reddit Inc:
Great Content, Fragile Traffic

August 17, 2026

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Overview

reddit

Ticker: RDDT

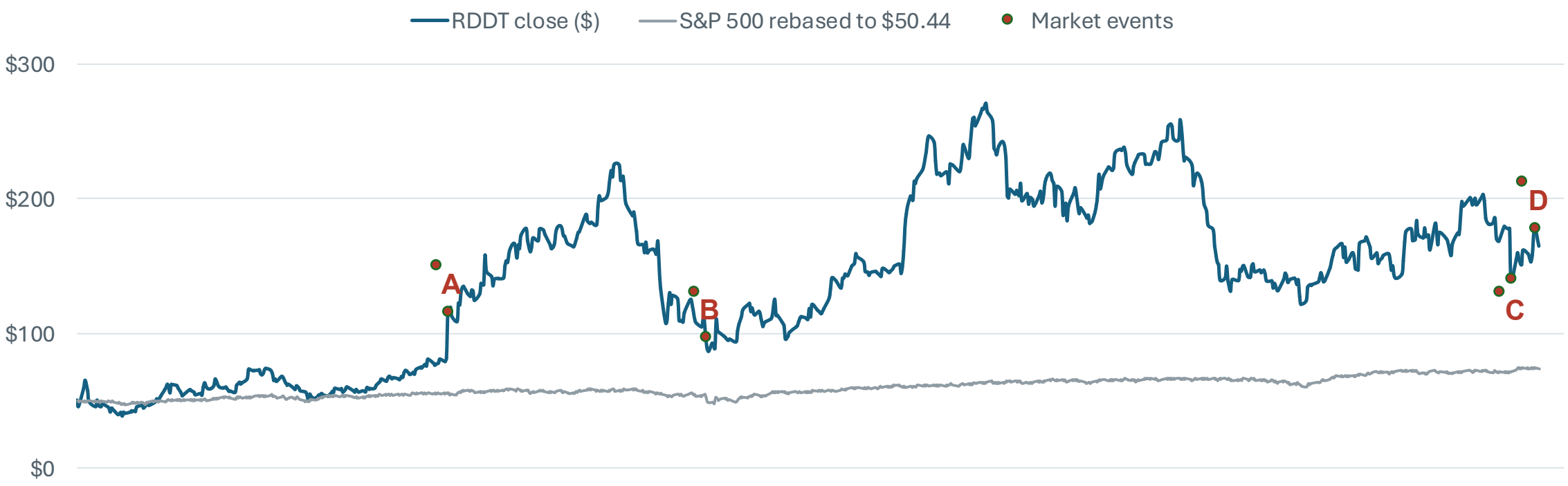
Stock Price:

$164.50

- Social media platform and forum
  - Founded 2005; IPO 2024
- $2.20 billion in 2025
  - 94% from advertising
- ~$31.6 billion market cap
- Founder / CEO Steve Huffman has led company since 2015

Stock Performance Since IPO

RDDT +226.1% S&P 500 +47.8% Outperformance +178.4 pp



A Oct 30, 2024: first profit, +42.0%
B Apr 3, 2025: tariff selloff, −11.5%
C Jul 31, 2026: Q2 user concerns, −21.0%
D Aug 14, 2026: S&P addition announced, +12.6%

A quality product

$294.6B

U.S. digital advertising revenue in 2025
13.9% year-on-year growth

Industry outlook

Performance ads and automation support demand. Google, Meta and other platforms compete hard for the same budgets.

Product quality

26 billion+ posts and comments, deep topic communities and fresh personal experience are hard to reproduce.

Company opportunity

514.6 million weekly users leave room to build daily habits, improve ad tools and expand internationally.

Short concern: valuable content does not ensure control of the customer relationship.

Monetization and cash generation

Actual Q2 results ($m, except margins)

Metric	2025	2026
Revenue	500	805
Gross margin	90.8%	91.3%
Adjusted EBITDA	167	343
Free cash flow	111	261
Capital expenditure	0.5	1.1
Stock compensation	89	101
Cash + investments	2,060	2,786

Q3 revenue guide: $860–870M (+47–49% y/y)

Room to monetize

U.S. ARPU rose 51%. The risk is relying on further gains while U.S. usage stalls.

Advertiser value

Max, shopping and app-install tools work. Wise reported 7% lower install costs. Better tools still need an audience.

Capital efficiency

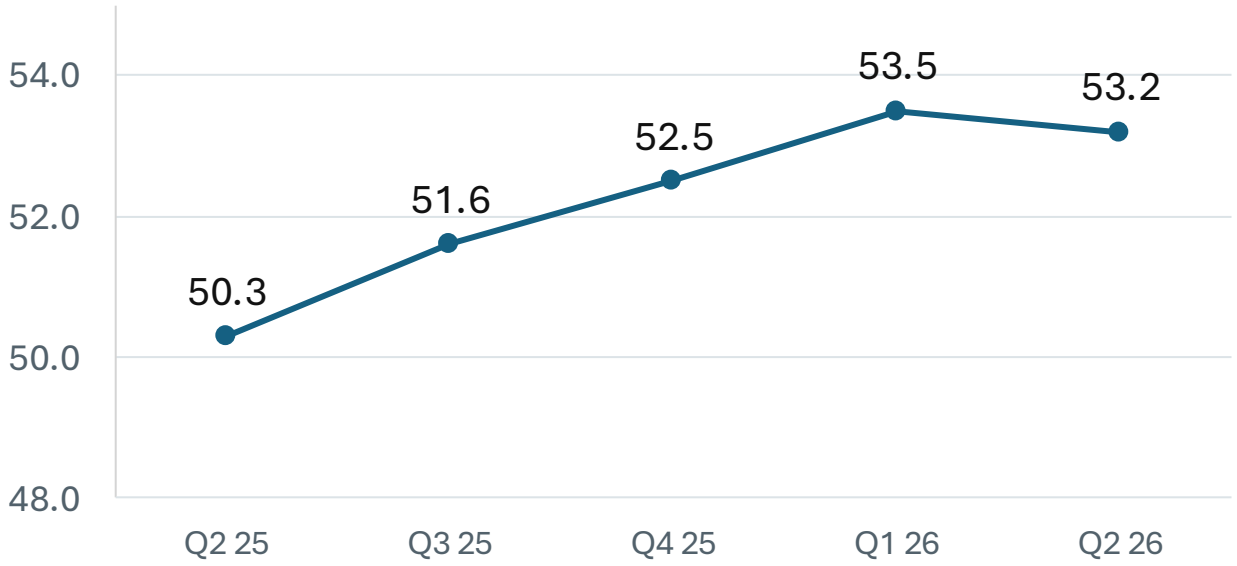
TTM FCF was $1.02B. High margins and low capex help. Audience erosion can still compress the valuation.

Estimated TTM ROIC: 142%* *25% normalized tax and cash-net book capital. Small denominator limits comparability.

Sources: Reddit [1], 2026-07-30, [10], 2026-02-05, [11], 2025-07-31.

Google dependence puts U.S. users at risk

U.S. daily active uniques, quarterly average (millions)



Short forecast: U.S. DAUq falls again in Q3 if weaker search referrals persist

Management warning

Search referrals became more volatile late in Q2. Visibility into referral traffic remained low.

Wells Fargo warning

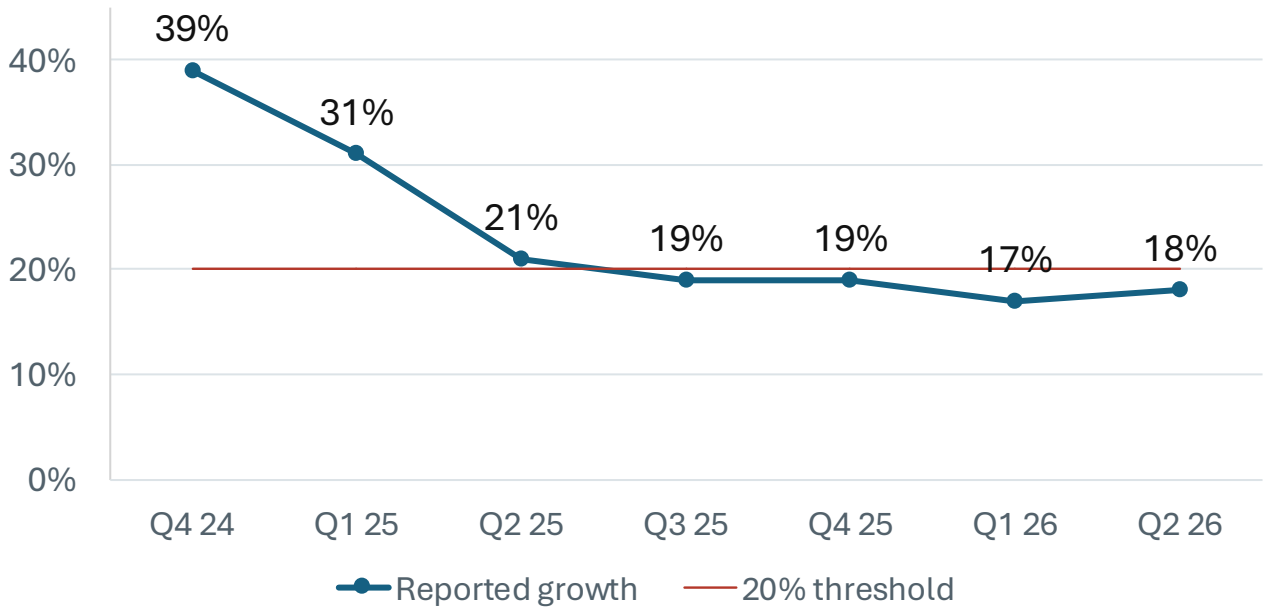
Weak U.S. users and soft search trends outweighed the earnings beat. Target cut from $187 to $142.

Quarter-average effect

A late-Q2 decline affects only part of Q2. If it persists, Q3 includes a full quarter at the lower level.

Daily-user growth has already normalized

Global DAUq growth, year on year



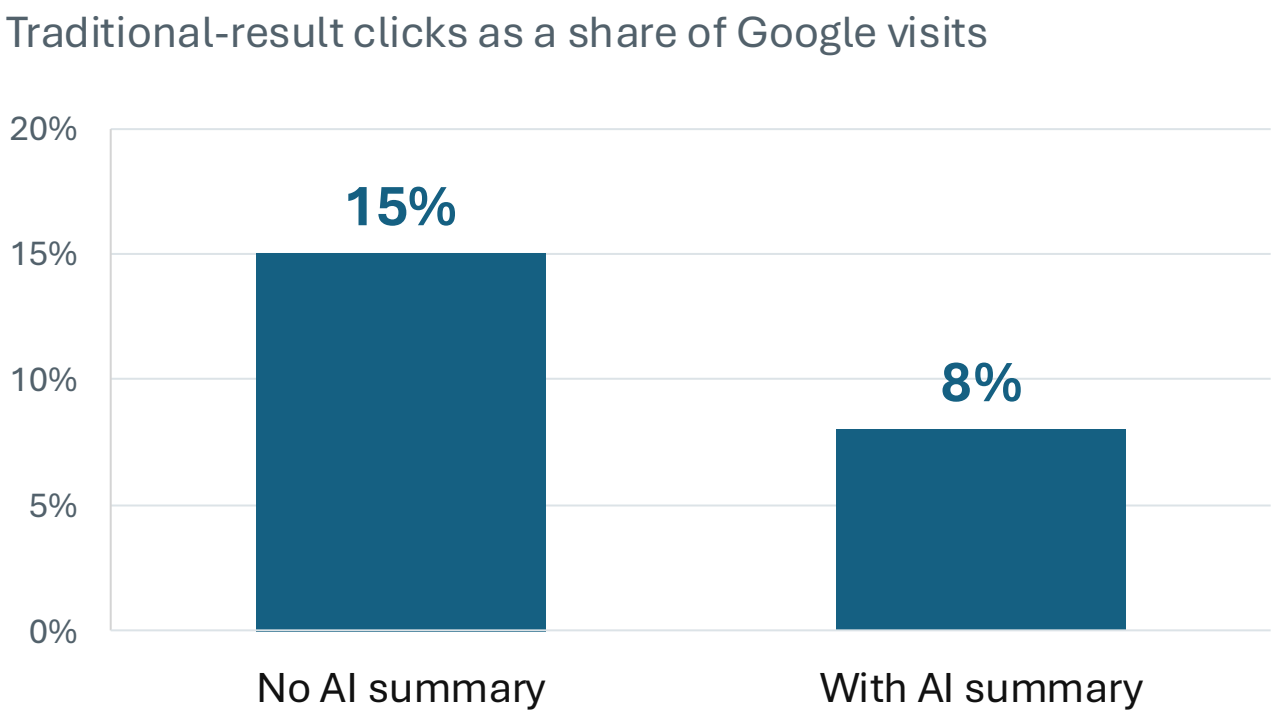
Q2 2026	U.S.	International
DAUq (m)	53.2	77.1
DAUq growth	6%	28%
Quarterly ARPU	$11.85	$2.26

41% of daily users
79% of revenue

Our view: U.S. user risk remains underpriced at 11.3× trailing sales.

International growth helps, but each U.S. daily user currently monetizes at 5.2× the international level.

AI citations do not guarantee visits



1%

of visits to pages with an AI summary led to a click on a cited source

Reddit can remain useful to Google while fewer people return to Reddit.

Licensing is too small to assume a near-term rescue

Q2 2026 actual revenue

Segment	Revenue	YoY growth
Advertising	$762M	64%
Other*	$43M	24%

Doubling all Other revenue adds about $43M per quarter

Q2 advertising growth added about $297M.

*Other includes licensing and user products.

Near-term growth engine

Licensing could outgrow ads. Other is only 5.3% of sales, limiting its near-term weight.

Renewal and bargaining risk

Two partners account for substantially all licensing contract value. Better terms are possible, not assured.

Risk to the short

Large new deals could change the scale quickly. The thesis fails if licensing reprices materially and users stabilize.

Management

Do they act like owners?

Q2 buybacks of $235M helped hold fully diluted shares nearly flat year on year. Stock compensation still cost $101M.

Economic ownership and control differ

Huffman held 5.66M beneficial shares, including awards and options. He controlled 76.1% of votes with proxies over others' shares.

Do they understand business value?

Ad outcomes, app conversion, operating leverage and per-share dilution receive clear attention. Direct user acquisition remains the key test.

Did they deliver what they said?

Yes on Q2 financial guidance: $805M revenue vs. $715–725M guided, and $343M adjusted EBITDA vs. $285–295M. Daily-user goals remain unproven.

Valuation – 80% confidence range

FY2026 assumptions	Bear	Base	Bull
Revenue	$3,300	$3,400	$3,500
Adjusted EBITDA Margin	43%	45%	46%
Adjusted EBITDA	$1,419	$1,530	$1,610
EV / adjusted EBITDA	13x	15x	16x
Net cash	$3,300	$3,300	$3,300
Fully diluted shares (M)	207	207	207
Implied share price	$105	$127	$140
Change from $164.50	-36%	-23%	-15%

Catalysts and conditions that would break the short

- Evidence to watch
  - Q3 U.S. daily users and app engagement
  - Ad growth, ARPU, and spending need to retain users
  - Licensing renewals and new agreements
- Near-term risk
  - S&P 500 inclusion is scheduled for August 18. Index demand and rapid earnings upgrades can lift the shares.
- What would change the view
  - Two quarters of renewed U.S> daily-user growth
  - Durable gains in direct and app engagement
  - Material licensing uplift with stable usage
- Monetization can outrun weak user growth for longer. Strong cash flow, buybacks, and favorable data deals could sustain a premium

The short depends on U.S. audience erosion outlasting monetization gains.