

I am recommending a Buy of Reddit, Inc. (RDDT) with a scenario-based weighted average price target of \$191 implying a 34% upside from their current price of \$141. Given the stocks' current momentum, I do think we may go down before we go up so I am also recommending averaging into the position over time. RDDT has exhibited strong top line growth, expanded operating margins, has capitalized on the social media advertising TAM of \$300bn+ globally, and has a solid management team. My expansion on these key points and more is as follows:

- 1. Strong Growth:** Reddit has seen growth across almost all of its metrics in recent years. Global Daily Active Uniques (DAUq) has maintained a YoY growth rate of high teens over recent quarters. Average Revenue per Unique (ARPU) has grown between 40-50% over the past year. ARPU is growing as a result of improved efficiency in their ad platform business. Through a mix of AI/ML targeting features, easy access to implementation of new features such as auto-bidding (through Reddit Max), and strength in lower funnel performance (up triple digits YoY in 1Q26) to match their historical top of funnel strength, they have achieved better outcomes such as 17% reduction in CPA and 25% higher conversion outcomes driving ROAS higher allowing them to command higher ad prices. In addition to revenue-drivers growing, they have also contained costs leading to 90%+ gross profit margins and 40%+ operating margins.
- 2. Sizeable Market with Additional AI Opportunity:** The social media advertising (SMA) TAM is estimated at over \$300bn globally with a CAGR of 12% through 2030. Reddit is currently a small portion of this but is steadily outgrowing the market as it continues to take share. I see plenty of upside for them in the SMA space, especially as they continue to expand both their usage by and monetization of RoW DAUq with a management target of 900mm RoW DAUq long term from just 70mm today. Along with the core SMA opportunity, Reddit also has unique access to human text data that is very useful to LLMs. They currently have small partnerships with Google and OpenAI (and outstanding lawsuits against Anthropic and Perplexity) for data usage. If they are able to grow this opportunity, they could add another strong revenue source to pair with their current ad platform base.
- 3. Strong Management and Decision Making:** The company is founder-led by Steve Huffman, and I have also been impressed by their COO Jen Wong's direction on their product decisions. Management is focused on growing DAUq, which I also see as the most important factor of their long-term success. They are watching AI and LLMs closely and are implementing native LLM features slowly into their platform via search, which I think is good pacing (fast implementation may undermine how their platform is traditionally used). The Reddit Max campaign has been working well so far since its 1Q roll out, and their move into shopping has also had good growth (40%).

**Catalysts:** The stock is currently fighting downward momentum due to a mix of slowing DAUq growth and LLM/AI fears. I think the main catalyst will be earnings showing strong

DAUq and Revenue growth along with continued impressive margins. I see LLMs and AI as an opportunity for them as discussed earlier, but any positive developments they share on that (data sales/agreements with AI companies, success in data protection lawsuits, Reddit Answers improvement/growth, etc.) can also act as a catalyst for the stock to increase.

**Bear Case:** In very recent news, Meta has launched Forum, which is seen as a potential threat to Reddit’s niche. Bears will point to this as a material competitor that could dampen growth. It is hard to analyze it this early (it was released today), but certainly something to keep an eye on. Bears are concerned LLMs may replace Reddit as a source of information. That being said, Reddit is the #1 cited website by LLMs and has Bull cases with AI as well. There has been some slowing in DAUq growth, specifically in the U.S. Worth noting, they are still growing high single digits in the U.S. and have 50mm U.S. DAUq. Lastly, their competitors are mostly larger companies such as Google, Meta, X, Open AI, Etc. They will need to continue to make strong decisions in order to keep competing.

**Conclusion:** Reddit is primed for success with strong growth, large opportunity, and competent leadership. I believe the market is overly concerned about AI and slowing U.S. growth, while ignoring opportunities directly in AI along with RoW growth potential. Their ARPU already sits above other 2<sup>nd</sup> tier ad platforms like PINS and SNAP and continues to grow. I see Reddit continuing their successful growth story and reaching my price target of \$191 over the coming quarters with upside to the low \$200s if numbers come in strong.

**Base Case Revenue Multiple Sensitivity Analysis**

		Revenue by Year				
Base Case		2026	2027	2028	2029	2030
Revenue Multiple		\$3,696,669	\$5,153,301	\$6,438,788	\$7,277,702	\$8,187,652
	3	\$67.13	\$88.75	\$107.83	\$120.28	\$133.79
	5	\$103.71	\$139.74	\$171.55	\$192.30	\$214.81
	7	\$140.29	\$190.74	\$235.26	\$264.32	\$295.83
	9	\$176.87	\$241.73	\$298.98	\$336.34	\$376.86
	11	\$213.45	\$292.73	\$362.69	\$408.35	\$457.88
	13	\$250.03	\$343.73	\$426.41	\$480.37	\$538.90
	15	\$286.61	\$394.72	\$490.13	\$552.39	\$619.92

**Downside/Base/Upside Case Analysis at 7x Multiple of 2027 Revenue**

		Case Analysis		
2027 Revenue Multiple		Price	Odds	Diff
Downside 7x		\$181.08	33.3%	39.41
Base 7x		\$190.74	33.3%	49.07
Upside 7x		\$200.41	33.3%	58.74

  

<b>WA Target</b>	<b>WA % Increase</b>
190.74	34.6%