Thursday, March 7, 2024 / Can Reddit survive going public?

[HALF SECOND OF SILENCE]

[BILLBOARD]

DAVID PIERCE (fill-in host): Reddit: it’s the nearly 20-year old social media platform that looks… a lot like it did when it launched. Rare in the social-media world.

SCORING <Free Online Games>

DAVID: Now, Reddit is going public and reportedly offering shares to some of its most dedicated users. You know… these users:

*<CLIP> CNBC: Thanks to Reddit, GameStop shares had a gigantic day, at one point rallying as much as 145% <fade down>*

DAVID: They are not taking it well.

REDDIT SFX

*<CLIP> TEX PRODUCER AMANDA LEWELLYN READING COMMENT: Easiest short ever.*

REDDIT SFX OUT

DAVID: It’s the first social media company to go public since Pinterest in 2019. And a lot is riding on it.

*<CLIP> CNN JOURNALIST CLARE DUFFY: So if this does well – if Reddit shares rise after the IPO – I think you probably will see a number of other companies following suit.*

DAVID: Can it survive its IPO? Ahead on *Today, Explained*.

SCORING OUT

[THEME]

DAVID: It’s *Today, Explained*. I’m David Pierce, filling in as host today. My normal job is at The Verge, the tech site in the Vox Media network. Where we have been thinking a lot about Reddit. Our guest today – Clare Duffy – is not a big Redditor.

CLARE DUFFY (CNN Business writer): I'm not a big Redditor, David. I use it in, like, very specific… <fade down>

DAVID: But she DOES know a lot about it. She’s been writing about the company’s planned IPO for CNN Business, where she covers tech. One of the great things about Reddit, she says: even the lurkers can win.

CLARE: Yeah, I found a really great avocado stand in New York City on Reddit. That's my most favorite Reddit find ever. <laughs>

DAVID: I love that! So from avocado stands to IPOs…

CLARE: <laughing> Yes.

DAVID: … this is now the Reddit story. I asked her to take me aaaall the way back to the beginning.

CLARE: Yeah. So I mean, Reddit is sort of like the purview of the chronically online.

DAVID: <snickers>

SCORING <Progress>

CLARE: At its core, Reddit is this platform made up of a bunch of different message boards or forums, these communities called subreddits. And there's a subreddit for nearly every topic, everything from news and sports to memes, cat pictures, travel, video games. There’s sort of something for everyone there. Reddit said in its IPO filing that it now has more than 100,000 of these subreddit communities. And then the home page of Reddit is sort of this collection of the most popular posts and discussions from across all the various communities. And sort of from the beginning, Reddit was founded in 2005 by college roommates Alexis Ohanian and Steve Huffman the same year they graduated from the University of Virginia, and they talked about wanting to make Reddit sort of the –

*<CLIP> REDDIT COFOUNDER ALEXIS OHANIAN, TED TALK: … democratic front page of the best stuff on the Web. You find some interesting content – say, a Ted Talk – you submit it to Reddit, and a community of your peers will vote it up if they like it, down if they don’t. It’s always rising and falling, always changing…*

CLARE: It was the originator of the Ask Me Anything, the AMA, which is now sort of a model for engagement across the internet.

*<CLIP> WTTG: Meanwhile, President Obama took to the internet yesterday for an “Ask Me Anything” chat on popular site Reddit.*

CLARE: Perennial favorite, “Am I the Asshole”/ “Am I the A-hole” now becomes sort of a form of internet storytelling that's taken on a life well beyond Reddit. I think one of the most well-known Reddit communities, especially over the past couple of years, has been Wall Street Bets…

*<CLIP> MSNBC’S CHRIS HAYES: There’s a video game retailer that is not doing a lot of business right now that just octupled in value.*

CLARE: This community of retail investors on the platform who really caused market upheaval by buying up shares of GameStop….

*<CLIP> HAYES: On Friday, GameStop was worth $43 a share. Now, a share of GameStop is worth $347.*

CLARE: …running up the stock price to hurt hedge funds would bet against the stock and in the process, sort of popularizing this idea of meme stocks, which I think now, again, has taken on a life beyond Reddit. And in that process, many people lost money, but it did help draw attention, I think, to the huge power that Reddit communities can have.

SCORING OUT

CLARE: 2005, the year Reddit was founded, was the same year that “The Facebook” was renamed “Facebook”...

*<CLIP> “THE SOCIAL NETWORK”, JUSTIN TIMBERLAKE: Drop the “the.” Just Facebook. It’s cleaner.*

DAVID: <laughs> Nice.

CLARE: …and that it was the first year that the first YouTube video was uploaded and it was before Twitter, now called X, even existed. So Reddit really is one of the sort of original social networks.

DAVID: What is it about Reddit that has kept it different and its community different from some of these other platforms that we've seen explode over time?

CLARE: Yeah. I mean, I think one of the really sort of unique things about Reddit is that, you know, it has some overarching content moderation rules, but each of these smaller subreddit communities has their own sort of rules of engagement and user moderators who enforce those rules. And so it has this really engaged core user base, people who are spending a lot of time not just posting there and consuming content, but actively sort of engaged in community there. And I think that that has made for a really loyal user base, although it's much smaller than some of its other competitors.

DAVID: So all of that is happening over, what, 15, 16 years…

CLARE: Mhmm.

CLARE: … before Reddit even starts to make noise about going public. What do we know about Reddit's business? Both kind of then and now? How does this company actually make money?

CLARE: Right. So Reddit primarily is an advertising-based business, like most of the other major social platforms. It's still much smaller than most of its competitors, although according to this prospectus, it's growing pretty quickly. The company said that its sales reached $804 million in 2023, up 21% from the prior year. So pretty solid growth numbers –

DAVID: But that’s like – that’s big, but not nearly in the, like, Facebook range of things, right?

CLARE: Yes.

DAVID: Okay.

CLARE: Yeah. Well below Facebook. In fact, even below Snapchat, Pinterest, like these other sort of smaller players in this space. Though on the flip side, Reddit has yet to actually turn a profit in its nearly 19 years of existence. The company lost more than $90 million last year, and it did point to this in the prospectus as a risk factor. It said that it “has a history of losses, and we may not be able to achieve or maintain profitability in the future”. Um –

DAVID: If there is THE ‘risk factor,’ that seems like probably something to start – <laughs>

CLARE: <laughs> And, you know, it's interesting timing, too, because we're in this moment where I think investors have become sort of less interested in buying companies that are these flashy big names with high profiles, but aren't actually making any money. I mean, I think, WeWork really sort of changed the interest in those high-flying companies with its failed IPO in 2019.

*<CLIP> CNBC: WeWork was one of the world’s most highly-valued private companies, but after its failed IPO, it’s running low on cash – and it may not have enough money to last the year.*

CLARE: It will be interesting to see what the response to this looks like. I have talked to analysts who said that it's not a deal breaker that Reddit's not making money. They just have to convince investors that they have a way of monetizing all of these users.

DAVID: Okay, so let me just make sure I have all this straight: Reddit, doesn't make any money…

CLARE: <laughs>

DAVID: … is much smaller than most of its competitors, has been around a long time, and doesn't necessarily seem to be trending towards changing any of those things, and is now going public. Do I have that – is that basically right?

CLARE: That's about right. Yeah. I mean, I think Reddit might say that it is trending towards making money. It lost less money last year than it did in the year prior, but it's still not making money.

DAVID: Ok, so what is Reddit doing here to make up for that? How, how Reddit-y can a Reddit IPO get, do you think?

CLARE: So, the company has a few other revenue streams that it's trying to grow. It talked about in the prospectus trying to make it easier for users to make money on the platform from other users through things like tips, which the company could take a portion of. It's also indicated that it plans to grow its revenue by selling data to AI firms to train their large language models. Reddit announced a deal with Google to train AI models using its data. It's reportedly a deal worth $60 million. And one of the other interesting things we learned from this prospectus is that OpenAI CEO Sam Altman is a major investor in Reddit, and so I think that might point to the fact that there may be potential for this company here to do more of this AI data licensing. I don't know how popular that's going to be with users to have their data used to train AI models, but, I mean, you certainly can see why the front page of the internet would be a useful thing to use to train AI models.

DAVID: Totally. Yeah, talk to me about the user base here, because in – in all of these communities, I suspect that there are a lot of people who are going to feel a lot of feelings about Reddit going public and trying to make a lot of money on the back of, essentially, them having fun with their friends online. What do Reddit users think of the IPO?

CLARE: Reddit users certainly are not afraid of letting the company know how they're feeling.

DAVID: That’s an understatement sometimes, I think. <laughs>

CLARE: <Laughs> Based – based on what I've seen. I mean, some people seem to be excited about the possibility. Some people seem to be nervous about some of these potential lines of business that the company is talking about. But one of the unique things that Reddit is doing here is making it possible for a selection of its users – most loyal users – to buy shares in this IPO.

*<CLIP> FOX BUSINESS: Reddit – which was valued at $10B in a fundraising round in 2021 despite being unprofitable – says it will reserve an undetermined amount of shares for 75k users who will get the opportunity to buy them before the stock starts trading… an advantaged usually reserved for high net worth investors and clients of the underwriting banks.*

CLARE: Reddit has sort of said here, ‘We have these really loyal users. We've built this business on the backs of their engagement, and we want to give them an opportunity to participate and to make money here.’

DAVID: Does that feel like the right move from Reddit? Reddit obviously has this incredibly unusual experience of dealing with its community. And its community, like you said, has been very mad at Reddit many times over. Do you have a sense of this, whether it's going to work or not for Reddit as it goes through this?

CLARE: It's an interesting, sort of risky bet. I think on one hand, you have this community that has indicated, I mean, you look at Wall Street Bets, this is clearly a community that's interested in investing. It's interested in participating in these kinds of deals. However, I think you have some users already questioning the business model, in particular, this move to license data to AI companies.

REDDIT SFX

*<CLIP> TEX PRODUCER HADY MAWAJDEH: Its content? What content did Reddit the company create? These are our shitposts!*

*<CLIP> TEX SR FACT-CHECKER LAURA BULLARD: Don't get me wrong, I am happy Reddit is getting paid, but are people actually aware that THEIR content and thoughts are being monetized in this way?*

*<CLIP> TEX DIRECTOR OF AUDIO ENGINEERING ROB BYERS: Where can I put a claim in for my share of the payday?*

REDDIT SFX OUT

CLARE: And so you can see how this could be risky. I mean, again, companies usually want to sell their IPO shares to institutional investors. They don't want their stock going up and down dramatically right after the IPO. But retail investors in general are more prone to selling. And then for Reddit users especially, I think there's this question of whether they'll have sort of a conflict of interest if they've also bought shares. Will they push the company to make moves that are in the best interest of users, but not necessarily in the best interest of the business?

SCORING <Galactic>

CLARE: I think that's the thing that Reddit is going to have to grapple with, but I think they've made it very clear that they're willing to do that, even for users who don't end up buying shares in the IPO. The company has said that now, once it's public every quarter going forward, it will give users the opportunity to submit questions for consideration to be answered during the quarterly earnings call, which again is usually only open to retail investor analysts. So I think the company has – seems to be willing to live with its users and die with its users. If this doesn't go well, I think that, you know, it's accepting that risk here.

DAVID: That was Clare Duffy at CNN. Up next: the risk for Reddit.

[BREAK]

[BUMPER]

*<CLIP> “BROOKLYN 99”, CALEB THE CANNIBAL: You know what, there was some weird guy on a forum lately…   
OFFICER BOYLE: A forum?   
CALEB: Yeah, it’s a chat room for people who like to talk about eating human beings but definitely won’t act on it. Wink. Yeah, it’s hosted on –   
OFFICERS BOYLE AND PERALTA: –Reddit.   
CALEB: Obviously.*

DAVID: *Today, Explained*. I’m David Pierce, filling in as host today. We’re back, this time with John Herrman, tech columnist at *New York* Magazine. He wrote a piece called “Can Reddit Survive Its IPO?” I asked him what he meant by that.

JOHN HERRMAN (*New York* magazine columnist): Well, I've been following Reddit for a really long time, and I've been using Reddit for longer than I've been reporting on it. And it is an unruly, often disagreeable platform. There is no change there that doesn't get some sort of backlash or some sort of response. And here we have a situation where Reddit is first offering some users a chance to buy into its IPO, and then over the long term, as a public company, giving a much broader set of users a chance to buy into the company. And I think what this does is it potentially escalates the kinds of conflicts that they could end up having with their users, who, you know, in many cases won't just be users, they'll be part-owners. So I don't know. It's never been an easy place to run. It has thwarted numerous leaders over the years. User uprisings have occasionally resulted in executives stepping down. It doesn't seem like this will lower the temperature in the types of conflicts that, that Reddit inevitably ends up having.

DAVID: Well, yeah, that's kind of the, the central tension of all of this, right? That Reddit is this –  to some extent – beautiful, unruly place on the internet that has lots of downsides, but also lots of very real upsides. But then on the other side, any attempt to turn that into any kind of stable thing, including stable business, runs the risk of breaking the other side of it. And I think I'm just thinking about the, the protests from last summer, which were very much kind of a precursor to what all is happening with the IPO. Can you explain kind of what happened with the protests last year in 2023 and what it might say for what we're about to go through again?

JOHN: Yeah. What's funny about what happened last year is that it was – it was a really big deal on Reddit. But when you try to describe what happened, it doesn't sound like that big of a deal.

SCORING <A Doy>

*<CLIP> PBS: More than 6,000 communities on the popular social networking forum Reddit have gone dark, as moderators protest the company’s decision to charge some third-party apps for the use of Reddit data.*

JOHN: Reddit was – to use their jargon – deprecating some APIs. They were cutting off access to the site on the backend in some ways that, that interfered with tools that moderators use.

*<CLIP> CNBC: There are a lot of third-party Reddit apps out there – very popular ones, in fact, that just kind of suck up the data from Reddit and put it out on their own app. There used to be Twitter apps like this, too. – Exactly – And because of this change, those apps are gonna have to start PAYING for access to that data <fade down>*

JOHN: These are, again, volunteer moderators who are, in some cases, working basically full-time jobs to try to keep big subreddits from filling up with spam or from, you know, having problems with harassment or hate speech, things like that. So they build custom tools to make those jobs easier. And they have come to depend on those. And Reddit was saying, ‘No, we don't want to leave our site open in those ways. We need to streamline.’ That sounds like a pain, you know, If you're not a big Reddit user. That sounds, like, kind of annoying and you can imagine people being a little upset with it. But this was – this was a big deal. Like, this turned into a huge crisis. This felt like a betrayal to a lot of Reddit users.

*<CLIP> REDDITOR: Today, I’d like to discuss how Reddit – a website that was critical to me discovering awareness of right to repair, my YouTube channel, and above all the idea that you can fix motherboards, it is not impossible – seems to be shooting itself in the foot in one of the worst ways possible.*

JOHN: So this resulted in what on-platform they referred to as kind of an uprising. A bunch of moderators got together and said, ‘We are protesting this by effectively shutting down our communities until our concerns are addressed.’ And again, this is – this is over something that from the outside sounds kind of small. And it was a campaign organized by users who don't have, like, material leverage. This is a bunch of users and volunteers, really kind of grinding things to a halt for a while.

*<CLIP> REDDITOR: Reddit is currently down. The narwhal is not baconing today, my friends. This is not a wholesome chungus moment.*

SCORING OUT

JOHN: So that's like – that's normal Reddit.

DAVID: <laughs>

JOHN: That's like Reddit now. That's Reddit before it's a public company.

DAVID: Yeah. And I wonder how you think that dynamic changes now that Reddit is going to become a public company. On the one hand, you have this core group of Redditors who are being offered the chance, at least, to be literal financial investors in the company. But then you have just the broader public of Reddit users who are going to be able to buy and sell shares of Reddit like any other stock. Suddenly, it seems to me at least, that you have money involved in a different way. That's not just you're making money off of my content, but you're making money off of my content in a way that also affects my own money. And it just feels like this messy thing between these two groups stands to potentially get much messier.

JOHN: Yeah. I mean, there's a nice story you could tell about this, about how allowing Redditors to buy into the platform financially might help align some users with the priorities of leadership. Everyone's trying to make Reddit work. Everyone's trying to make money. Everything works out fine. That seems fairly naive for a few reasons: One is that, you know, Redditors are already sensitive about Reddit making money. They are there. They are not paying to be there. They are not being paid to contribute. A lot of people spend a lot of time making Reddit a better place. And when they feel like that labor is being turned into profit for someone else, they're already a little – a little unhappy. If you try to think about what this, like, new class of user might look like, the sort of user-investor, it's not really clear how they’d behave. Maybe they advocate for users in general and say, ‘Hey, Reddit, you don't understand how this platform really works, your leadership is out of touch with the users.’ That's possible. But also, if you look back to Wall Street Bets and the peak of the meme stock craze, like Reddit, investors were a peculiar bunch. These weren't straightforward investments in companies that Redditors thought, you know, had a chance at success. They were these sort of abstract, often kind of trollish and sometimes disingenuous campaigns to maybe drive a short seller out of business and make an opportunity out of that. So I don't know that this necessarily brings anyone in alignment with anyone.

DAVID: <laughs>

JOHN: If anything, it just introduces new types of users and new types of investors that add chaos to an already sort of unwieldy situation.

DAVID: And one thing we've seen with a bunch of these IPOs is that when a company like this goes public, it changes. Like the company itself changes, but also the product really starts to change. I think about, you know, the way Instagram has sort of slowly become a shopping mall and the way that Facebook pivoted toward Marketplace, and Groups, and away from the news business. Do you think Reddit can stay Reddit as a public company? Like, these tensions will exist forever. I don't think they're solvable at all. But do you think Reddit kind of at its core can still be Reddit? In that future where it is worried about quarterly earnings and analyst reports.

JOHN: I think going public is a way, to force change. I think users are used to social media platforms and in particular, you know, post-IPO social media platforms, changing under their feet, gradually morphing into entirely new things.

*<CLIP> META CEO MARK ZUCKERBERG: I am proud to announce that starting today, our company is now: Meta.*

JOHN: You don't really feel it as, like, a sudden betrayal or, like, a major loss. You don't even necessarily use them less, but you do sort of find yourself eventually looking at your phone and being like, ‘Oh, man. Like – what? Like, what am I doing here? What is this? Who are these people? Like, what happened?’

DAVID: <laughs>

JOHN: I do understand why Reddit's leadership and Reddit's investors and current owners would like to sort of force some change. They do feel that they need to make money. That this is a huge untapped resource. It's a website with a ton of traffic in, you know, the simplest articulation. Like, it should – it should, in their view, be printing money. But I think there's a lot of, there's a lot of risk beyond just, you know, user revolts and things like that in, in forcing change to a platform that has been so resistant to change for so long. And I think there is also a compelling argument that Reddit's relatively conservative leadership and that its very touchy users have kept it intact. It has become, you know, a hugely important piece of the infrastructure of the web. It's funny to think about that, you know, with a little bit of hindsight, 10 or 15 years ago, you might not think that Reddit would be important to anyone but Redditors.

DAVID: <laughs>

JOHN: But now it's one of the only reasons Google still works, you know? And that's, that's honestly a credit to the stubbornness of Reddit users. And that's just like, you know, a strange outcome. But also, I think going forward, something that Reddit's leadership should be very, very careful with.

DAVID: Yeah, I think going into this, I've been thinking kind of along the lines of: Reddit can't win either way here, that it can't survive the way that it was because it's this special weird thing on the internet that is very successful as a community and a – just – terrible business so far. So in a sense, going public makes sense to try and solve that. But if you go public, you risk changing the thing that makes Reddit lowercase valuable, right? Do you think it can have it both ways over time? Like, if you're Reddit, is going public a totally crazy, impossible, bad idea?

JOHN: <sighs> I mean, it sort of depends on who you know, whose perspective you're adopting here.

SCORING <Galactic>

JOHN: I don't think – let's say Facebook. I don't think that that, you know, Mark Zuckerberg – although I'm sure he's annoyed with some of the aspects of being, running a public company – I don't think that they regret what happened. Things went pretty well. It was like part of their story of huge growth and making money.

DAVID: Mhmm.

JOHN: That would be a great outcome for Reddit from the perspective of Reddit's current investors, executives, owners. But I don't know. It’s, it's hard to imagine a scenario where it's current users – Which, this isn't, like, a niche community. We're talking about hundreds of millions of people where its core users, which are themselves at least tens of millions of people – where they aren't upset by the pace of change that could come from a public Reddit.

DAVID: John Herrman. *New York* Magazine.

Today’s show was produced by Amanda Lewellyn and edited by Amina Al-Sadi. Laura Bullard fact-checked. David Herman engineered.

I’m David Pierce. This is Today, Explained.

SCORING OUT

[10 SECONDS OF SILENCE]