

Reddit (RDDT) Six-Dimension Analysis

1. Advertising Business

- **Ad Revenue Growth:** Reddit's advertising revenue is growing at a rapid clip. In Q2 2025, ad revenue reached **\$465 million** (93% of total revenue), up **84% year-over-year** ¹. Sell-side analysts anticipated ~60% YoY ad growth in Q3 2025, reflecting continued momentum above guidance ². Looking ahead, Q4 is expected around +50% YoY ³. This acceleration has prompted upward revisions to estimates and price targets on Reddit's strong ad sales trajectory. Jefferies even projects a ~20% **3-year advertising ARPU CAGR** as new formats and advertisers fuel revenue per user growth. Reddit's **monetization gap** remains large – U.S. ad ARPU is ~70% lower than Pinterest's, highlighting significant headroom as Reddit catches up to peer monetization levels ⁴ ⁵.
- **Ad Load Trends:** Reddit has been carefully increasing its ad load across the platform. Recent channel checks show a notable uptick in ad density: **home feed ad load ~15.6%** (up from ~14% prior), top 10 subreddit feeds also ~15.6% (vs ~13–14% before), and key topic verticals reaching **16.5%** (from ~14–15%) ⁶ ⁷. Desktop saw similar jumps to ~15% ad load (from ~12–14% before) ⁸. In total, Reddit's overall ad load in September rose about **170 bps month-on-month to ~15.7%** of content, a new peak ⁹ ¹⁰. This remains moderate relative to some peers and **"room to push higher over time"** per RBC, suggesting further revenue upside without immediately saturating users' feeds ¹¹ ¹².
- **CPM Dynamics & Formats:** According to agency experts, Reddit's ad pricing is competitive with other social platforms. **CPMs and CPCs are on par with peers**, while conversion rates (CVR) for direct response **trail Meta's by a small margin** ¹³. In practice, Reddit performs best as an **upper-/mid-funnel "assist"** channel – delivering high-quality attention and product discovery that later translates into conversions ¹⁴ ¹³. Advertisers note that if an ad's creative voice **"sounds like the subreddit"** (blending in with community content), it drives strong engagement; overtly salesy ads underperform on Reddit's authenticity-driven platform ¹⁴. Newer formats are expanding inventory and performance: **Dynamic Product Ads (DPA)** (generally available since early 2025) are delivering solid returns, automatically showing users products they've researched ¹⁵. Reddit has also introduced video **"highlight" sponsorships** (similar to Twitter's Amplify) and **promoted AMAs**, which were reported to excite brands as unique offerings not possible on other platforms ¹⁶ ¹⁷. These innovations, along with targeting improvements and automation, are expected to drive greater advertiser adoption and spend ⁵ ¹⁸.
- **Brand Safety Improvements:** Both institutional research and experts highlight a significant push by Reddit to shake off its earlier "wild west" reputation. A former Reddit ad executive noted the company released a **first-party brand safety tool** that lets brands avoid certain keywords and sensitive adjacencies ¹⁹. Reddit also deepened integrations with third-party verification firms **IAS and DoubleVerify**, which **"unlocked internal approvals"** for cautious advertisers by providing independent brand safety metrics ²⁰ ²¹. The platform introduced **tiered content suitability settings** and subreddit-level exclusion controls, so advertisers can confidently target contextually relevant communities while steering clear of risque content ²². These steps, combined with Reddit's own brand marketing (including its first consumer-facing ad campaigns), have started to **shift**

advertiser sentiment. An expert said that having reputable safety partners and tools in place has given stakeholders “greater validation” to include Reddit in big-brand media plans ²¹ ²³ .

- **Advertiser Sentiment:** Historically, many large brands were hesitant about Reddit due to brand safety and a lingering misconception about its user base. One expert described **brand safety as “the largest barrier”** to enterprise ad deals for years ²⁴ . Early on, some clients viewed Reddit as akin to an unfiltered forum (or even confused it with 4chan), imagining the audience as only young, male gamers in basements ²⁵ . This reputational hurdle meant Reddit often needed an internal “champion” at an ad agency or brand—someone who personally used Reddit—to advocate for trying it ²⁶ . Today, sentiment is improving as Reddit demonstrates success. Agency partners report **Reddit is moving “from experimental to a situational staple”** in the social ad mix ²⁷ . In Q3 2025, some saw their Reddit spend **double quarter-over-quarter** after successful tests ²⁸ ²⁹ . Advertisers are diversifying budgets away from the Meta/Google duopoly, and Reddit has benefited as a unique **niche at scale** – offering passionate communities that drive **“social proof and long-form consideration”** for products ³⁰ ²⁷ . The result is rising support: a boutique agency head noted a *“significant increase in Reddit spending vs. last year”* thanks to new client adoption and proactive support from Reddit’s ad team ³¹ . Going forward, brands are expecting Reddit to continue improving its ad tech (better conversion optimization, measurement, and educational outreach) to win even more ad dollars ³² ³³ .

2. User Growth

- **DAU Trends:** Reddit’s user base has been expanding healthily, albeit with some recent mixed signals. The company disclosed **110 million Daily Active Users (DAUs) in Q2 2025, up 21% year-over-year** ³⁴ . This growth came despite a *“slow start in April”* 2025; Reddit saw momentum rebound by quarter-end as new product features and post-pandemic seasonality kicked in ³⁵ ³⁶ . Sell-side analysts note that user metrics have **stabilized** after the surge in engagement during 2023–24. Jefferies, for instance, cites a *“recent stabilization in DAU trends”* following multi-year highs in engagement ³⁷ . Their base case forecasts a **~15% DAU CAGR** over 2025–2028, underpinned by product improvements and an underpenetrated global audience. Reddit’s user growth outlook is buoyed by international expansion (non-US users are a growing portion of DAUs). In fact, a bull-case scenario envisions >20% DAU CAGR if overseas markets ramp up faster. However, third-party data in late 2025 did show *“marginal DAU softness”* in certain periods ³⁸ . Some of Reddit’s record-high traffic from mid-2023 (when it was heavily cited by AI search tools) pulled back by that fall, leading to **slight sequential dips in logged-out usage** according to 3P web data ³⁸ ³⁹ . Overall, the **bigger picture** is that DAUs remain on a solid uptrend (millions of new daily users year-over-year), but growth rates may moderate as the base gets larger. Investors are watching for sustained engagement growth to justify Reddit’s premium valuation, and any meaningful deceleration of DAUs or time-spent is seen as a key risk by the more cautious analysts ⁴⁰ ⁴¹ .
- **Engagement Depth & Quality:** Reddit’s engagement tends to be deep and community-specific. Users often spend significant time in niche subreddits consuming and contributing content, rather than just scrolling past memes. One agency test found that **“engaged session depth” on Reddit was ~20% higher** than their baseline for paid social platforms ⁴² – indicating users often delve further into content. Advertisers also observe that Reddit delivers *“quality of attention”* ¹⁴ : people come to read long-form discussions and reviews, which signals high intent and focus compared to quick swipe-based platforms. This behavior is reflected in Reddit’s pitch that it reaches consumers *“in a space where they’re making up their mind about a product”*, often after discovery on other platforms. For example, a common trend is *“TikTok discovered, Reddit approved”* – users might find a product on

TikTok, then check Reddit communities for authentic, in-depth opinions before purchasing. That said, not all engagement is positive: experts warn that some subreddits can become **echo chambers** of repetitive or extreme viewpoints as they grow ⁴³ ⁴⁴. Maintaining healthy, *useful* discussions is a constant moderation challenge as communities scale. Reddit's community team has begun segmenting user behavior into cohorts like **"scrollers" vs. "seekers"** ⁴⁵. *Scrollers* are those who browse Reddit more passively (like a social feed), whereas *seekers* actively search for specific information or discussions. Both contribute to DAU counts, but understanding this mix helps Reddit personalize product features to boost retention.

- **Recent Data Points & Platform Health:** In late 2025, user growth became a renewed focus after a period where the narrative was dominated by AI and licensing. Piper Sandler noted that *"users have been less debated"* lately because attention was on Reddit's role in AI, but the fundamentals remain solid ⁴⁶. Indeed, Reddit's internal data (as of mid-2025) showed **daily active usage rebounding** from a temporary June dip that coincided with contentious API policy changes (which had sparked some short-lived user protests). By Q3 2025, management indicated engagement had returned to normal patterns, and they highlighted new content experiences aimed at increasing time spent (e.g. more personalized feeds and algorithmic recommendations for discovery) ⁴⁷ ⁴⁸. Sell-side reports from Wells Fargo and others convey a note of caution: **Google's AI search changes could pressure logged-out traffic**, potentially impacting the top of Reddit's user funnel. Specifically, a decline in Google-referred visitors (who often browse Reddit without an account) might slow the conversion of those casual visitors into new logged-in DAUs over time ⁴⁹. For now, though, Reddit's **logged-in DAU base is still expanding** double-digits year-on-year ³⁴. The platform's "core" communities remain very active, and many users are highly engaged (commenting, voting, and creating content). As one bullish analyst summed up, **Reddit's large, under-monetized user TAM** and growing content base support its long-term growth story – as long as the company navigates near-term engagement headwinds carefully.

3. AI Citations and Search

- **Decline in ChatGPT Citations:** Reddit was long touted as one of the most-cited domains in OpenAI's ChatGPT outputs (given the wealth of human conversations on Reddit). However, around September 2025, reports emerged that **ChatGPT's references to Reddit had dropped sharply** ⁵⁰ ⁵¹. This *"troubling drop"* in citations – essentially Reddit URLs appearing less frequently in ChatGPT answers – coincided with a change in how ChatGPT displays sources. Piper Sandler noted the citation format changed (footnotes now roll up multiple sources under "+1/ +2" notations), which likely **disrupted the trackers** that measure domain share ⁵² ⁵³. Reddit's IR team indicated they **"do not see a change in how OpenAI is using [Reddit] data"**, believing the shift is more about UI presentation than a reduction in Reddit's importance in the model ⁵². In other words, ChatGPT might still be *drawing* from Reddit's data, but not always explicitly listing Reddit in footnotes. Nonetheless, the perception of a citation decline spooked investors – Reddit's stock fell ~18% on that news ⁵⁴. Baptista Research framed it as **"Reddit's ChatGPT Collapse"**, warning it raises *"red flags about the longevity of this monetization route"* (AI licensing) if LLMs are citing Reddit less ⁵⁵ ⁵⁶. This bearish view posits that if ChatGPT isn't prominently referencing Reddit, OpenAI might value Reddit's data less over time, potentially undermining renewal of the licensing deal. In contrast, Piper Sandler and Reddit management are **more sanguine**: they argue *"nothing has changed – Reddit content remains a potent asset for LLMs"* ⁵⁷. Indeed, even Baptista agrees Reddit's data has *"outsized symbolic importance"* as a unique corpus of human discourse ⁵⁸. The discrepancy in views boils down to whether the citation drop is a temporary artifact or a sign of LLMs shifting away from Reddit.

- Google's SEO Algorithm Changes:** Around the same time, Google made an update (reportedly **retiring the "num=100" search parameter**) that may have indirectly impacted LLM training data or how sources are credited ⁵⁹. Both Piper and RBC speculate that Google's algorithm tweak in mid-September could have caused downstream changes in OpenAI's citation behavior ⁵⁹ ⁶⁰. Essentially, if ChatGPT was leveraging Google Search results to find answers, a change in Google's results pagination might reduce Reddit links being picked up. Notably, conversation forums like Reddit had been **"over-indexing on AI Overview & Gen Search citation share"** when Google's generative search (SGE) launched ³⁹. Through mid-2023, Reddit enjoyed a **content tailwind** from AI-driven search results – Reddit threads were frequently summarized by Google's AI Overviews, indicating high relevance ³⁹ ³⁸. But as Google fine-tunes its AI results (and perhaps throttles how many external links are shown), Reddit's prominence in those results may have normalized. RBC observed **Reddit's AI Overview citations were high in early generative search tests**, but more recently Google's indexing changes appear to have *"lowered [Reddit's] citation share lately in ChatGPT"* and possibly other AI systems ³⁸ ⁶¹. In effect, the SEO landscape for Reddit is in flux: Google's core algorithm updates and the advent of AI summaries can both swing the volume of Google search traffic that Reddit receives. Reddit's leadership has openly described Google's algorithm volatility as a **"headwind"** for the platform in 2025 ³⁶. They know Reddit's trove of niche Q&A content made it a **winner in traditional SEO**, but going forward Google may answer more queries directly (using Reddit data in the background without sending clicks). This dynamic introduces uncertainty for Reddit's organic traffic growth.
- Evolving AI Licensing Narrative:** The question of **data licensing** – getting paid by AI firms for Reddit's content – is now a major narrative for Reddit. The company signed 3-year licensing deals in 2023 with Google and OpenAI worth a reported ~\$60M and ~\$45M per year respectively ⁶² ⁶³. These deals run through early FY2027, after which renewal terms will be renegotiated. Bulls see a huge opportunity: Jefferies believes Reddit is *"well-positioned to negotiate higher fees"* and could potentially raise each deal to **\$300M per year** at renewal ⁶⁴ ⁶⁵. Even \$300M would be a trivial cost for Google/OpenAI on a per-user basis (pennies per user) while providing Reddit a large profit boost ⁶⁶ ⁶⁷. That upside – in Jefferies' view – isn't priced into consensus, making licensing a valuable call option. Reddit's results do continue to surface prominently in generative AI (Google's SGE has grown to billions of users, and *"RDDT appears to be among the most-cited domains"* in those AI summaries) ⁶⁸. Moreover, new use cases for Reddit data are emerging: beyond search engines, potential customers include **enterprise AI model trainers, social listening tools, and financial intelligence platforms** – all coveting Reddit's unique data ⁶⁹. However, there is a **bearish counterpoint**: the recent citation scare underscores how *fragile* this revenue stream could be. Baptista Research emphasizes that Reddit's licensing deals are non-exclusive and that **"real usage patterns of its data by LLM providers remain opaque"** ⁷⁰ ⁷¹. Reddit itself admitted it is still *"learning"* how much LLMs truly rely on its content ⁷². If AI companies find other data sources or generate synthetic data, Reddit's ability to keep charging a premium might wane. In a worst-case scenario, after the initial contract period, **demand could plateau or shift elsewhere**, leaving Reddit with a high-margin revenue stream that suddenly dries up ⁷³ ⁷⁴. This is why the **OpenAI citation drop rattled investors** – it *"refutes the idea that data licensing agreements will be re-upped at a higher rate,"* as Piper put it, if it indicated ChatGPT becoming less reliant on Reddit ⁴⁶ ⁵⁷. Reddit management, though, remains optimistic: they continue to *"believe Reddit's content is unique and valuable to LLMs"* and saw no change in OpenAI's actual data pulls ⁵³. They also take comfort that *"the relationship (and traffic funnel) with Google seems intact"* despite Google's generative forays ⁷⁵. Ultimately, institutional views diverge: **Piper Sandler and Jefferies** are confident that licensing will be a long-term boon (with Piper outright calling the stock's pullback an overreaction and reiterating **Overweight, \$290 PT** ⁷⁶ ⁴⁶), whereas **Baptista and Wells Fargo** urge caution, pointing out that without a "scaled bidder"

besides Google, Reddit has less leverage in negotiations ⁷⁷. This push-and-pull will likely continue until concrete data on renewal pricing (or new licensing customers) emerges closer to 2027.

4. Competitive Landscape

- **Positioning vs. Major Platforms:** Reddit occupies a unique niche in the social media and search ecosystem, which both helps and hinders it competitively. Unlike **Meta** (Facebook/Instagram) or **TikTok**, which rely on algorithmically curated feeds and a friend/follower model, Reddit is organized into **interest-based communities (subreddits)**. This makes Reddit a **contextual, high-intent environment** – users self-select into forums about specific topics, yielding targeting precision that competitors can't exactly mimic. RBC Capital Markets highlights Reddit's *"unique position as an undermonetized, high-intent social platform and a strategic data asset"* in the industry ⁷⁸. Advertisers can reach niche enthusiast groups on Reddit (for example, camera brands can target r/photography, auto insurers can target r/cars) with messaging relevant to that context. In contrast, on broad platforms like Meta or TikTok, targeting is more about personal demographics or inferred interests and may lack the **immediate contextual relevance** of a community devoted to the topic. Reddit's differentiated content – largely **user-generated discussions and Q&A** – also serves as valuable training data (a "strategic asset") for AI in a way that, say, Instagram's curated photos do not ⁷⁸ ⁷⁹. That said, Reddit's scale is smaller: ~100+ million DAUs vs. billions on Meta. It can't offer the sheer reach that Meta, YouTube (Google), or even TikTok can, which is why Reddit often isn't a primary channel for mass-market campaigns. But as one expert put it, *"I judge Reddit on the quality of attention first and then how reliably that attention translates down-funnel."* By that measure, **Reddit holds its own** – *"CPMs and CPCs are competitive"* with other platforms, and when brands get the creative and targeting right, Reddit delivers sufficient ROI as a **consideration and research touchpoint** ¹⁴ ¹³. The same expert noted Reddit's conversion rates tend to come in just a bit lower than Meta's in final-click attribution, but the **community engagement and assist** it provides often make it worth the investment ¹³ ⁸⁰.
- **Targeting Precision & Context:** Reddit's advantage lies in **contextual targeting** and **community-driven content**. Advertisers can target users based on the subreddit they're viewing (interest context) or even keywords within discussions, rather than solely on user profiles. For example, a travel agency can reach people actively reading a thread about "Japan travel tips" on r/JapanTravel – catching them at the moment of intent. A marketing consultant noted that on Reddit, *"context is the targeting and the comments are the conversation assist."* If an ad aligns with the subreddit conversation, users receive it well ¹⁴. This context-driven approach yields high engagement: internal tests saw Reddit ads achieve **>90% viewability rates** and significantly higher session lengths when using contextual targeting versus generic interest targeting ⁴². In fact, a campaign experiment comparing **contextual vs. interest vs. DPA targeting** found the contextual ads led to a **20% lift in engaged session depth** and came within ~10–20% of Meta's cost-per-action (CPA) on a last-click basis ⁴² ⁸¹. These results gave the advertiser confidence to **double their Reddit spend** quarter-over-quarter ²⁸ ²⁹. Such success stories underscore that Reddit can be **efficient on a price-per-performance basis**, provided advertisers leverage its strengths (community context and authentic creative). By comparison, **Snap** and **Pinterest** also offer interest-based adjacencies (Snap has Discover channels, Pinterest has topic boards), but their ad stacks were built earlier and are more mature. Jefferies analogized Reddit's stage to **Snap/Pins circa 2016–17** – nascent but rapidly improving – and suggested if Reddit's monetization (ad market share) grows on the trajectory those peers saw, it could exceed current revenue estimates by 35%+ in a few years ⁸² ⁸³. In other words, Reddit's *"large monetization gap"* can close as it rolls out the kind of targeting, automation, and ad

formats that peers already have ⁵ ¹⁸. The company's push into **performance ads** (e.g. shopping ads, conversion optimization tools) is aimed at catching up with the sophisticated targeting algorithms of Meta/Google, while leaning on Reddit's **differentiated context** as a selling point.

- **Data Scale & Pricing Efficiency:** In terms of user data, Reddit's dataset is different from that of Facebook or Google. Reddit doesn't have extensive personal profiles on each user (real identity is often unknown), but it has a rich **behavioral dataset of discussions, upvotes, and community memberships**. This first-party data can be very predictive of intent (someone active in r/PCGaming likely plans to buy hardware, etc.). The **scale** of data is smaller – Reddit's ad reach is a fraction of Meta's – yet advertisers are finding that **Reddit's impressions punch above their weight**. One reason is relatively **low clutter and high attention**: Reddit's feed shows fewer, more relevant ads (with ad load ~15%, as noted) ⁶, whereas on some other platforms ads are more frequent but maybe scrolled past quickly. Additionally, Reddit's **ad auction** hasn't been bid up to the level of Facebook's ultra-competitive auction yet. Experts confirm that *"the CPMs and CPCs are [very] competitive"* on Reddit ¹³, meaning advertisers often get cheaper clicks/views for the level of user attention compared to elsewhere. Of course, Meta still typically delivers better pure conversion at scale – as one agency head said, they'd love to see **"conversion optimization parity with Meta"** from Reddit's ad tools (e.g. better lookalike modeling, signal density) ⁸⁴. That's a known development area: improving Reddit's machine-learning optimization so that performance advertisers can more reliably hit ROAS goals. But for **contextual and brand advertising**, Reddit provides a distinct **value proposition**. Campaigns on Reddit have driven measurable **brand lift** and favorability gains. For instance, an apparel retailer's expert noted Reddit conversations around their clothing line led to a **10–20% improvement in brand favorability** compared to other channels ⁸⁵. The **organic buzz** in Reddit threads effectively gave them incremental brand equity that a standard ad impression on another platform might not generate. This highlights how Reddit can deliver not just clicks, but **community validation** for products – a competitive differentiator when vying for marketing budgets.
- **Against Google and Others:** While not a direct social competitor, **Google Search** competes with Reddit as a place to find answers. It's common for users to Google a question and click a Reddit thread for the answer (hence Google's algorithms often rank Reddit highly for long-tail queries). Reddit is trying to ensure it remains that go-to Q&A resource even as Google evolves. Google's own forums (like Discussions in search or platforms like Quora) haven't dethroned Reddit, largely due to Reddit's strong community self-moderation and depth of content. Reddit's recent introduction of **"Reddit Answers" (an AI-powered search tool on Reddit)** is partly to preempt users from relying on Google/ChatGPT for finding Reddit content ⁸⁶. In the realm of **short-form video** (TikTok, etc.), Reddit isn't directly competing – rather, it complements those platforms by serving users who crave more information after watching a viral clip. **Twitter/X** was once a closer competitor in real-time discussions, but with turmoil at X, some advertisers and users have shifted focus to Reddit for certain communities and interest conversations. Indeed, one expert noted their agency saw **budget diversification away from other platforms toward Reddit** in 2025 ³¹, implying Reddit picked up spend as advertisers reallocated from channels like X or Snap in the wake of brand safety or performance concerns there. Meanwhile, **Pinterest** and **Snapchat** compete for some of the same ad budgets (they're all seen as second-tier behind the giants). Compared to those: Pinterest has higher ARPU and is more commerce-focused (visual discovery), while Snapchat skews younger and is building AR ad tech. Reddit distinguishes itself with **text-heavy, community content** and an older, information-seeking demographic. As JPMorgan's comp analysis (cited by Jefferies) suggests, Reddit's U.S. ad revenue per user is far below Snapchat/Pinterest, but that also means **upside potential** if it can execute comparably ⁴ ⁵. In summary, Reddit's competitive landscape is one where it isn't trying to beat Meta or Google at their own game; instead, it's carving out a **complementary role**:

providing advertisers a **contextual, conversation-driven channel** with a unique dataset, albeit one that needs continued ad-tech enhancements to fully capitalize on its passionate user base.

5. Economic Moat

- **Community and Content Defensibility:** Reddit's strongest moat is its **community-driven content ecosystem**, which is hard for competitors to replicate. The platform consists of millions of volunteer moderators and deeply invested users curating content across endless topics. This structure creates **self-sustaining communities** that produce a constant stream of user-generated content (UGC) without Reddit having to pay for it. A former Reddit ad lead emphasized that the volunteer moderator model is actually *"more of a plus than a con for brand safety"* – these moderators care so much about their subreddit "they dedicate tens of hours a week, unpaid" to enforce rules and maintain quality ⁸⁷ ⁸⁸. In other words, Reddit has an "army" of stewards protecting niche communities' integrity. This yields an environment where discussions, while sometimes unruly, are often authentic and information-rich. **Authenticity** is repeatedly cited as Reddit's superpower: because users are anonymous, they feel free to be honest about products and opinions. According to one expert, **"Reddit's superpower is authenticity and realness and anonymity, which leads to truth – meeting people in a space where they're going to make a purchase decision"**. Users trust the content on Reddit in a way that's difficult to engineer on platforms dominated by polished influencer posts or algorithmic content. The phrase *"Reddit approved"* has become shorthand for vetted, community-endorsed information – a cultural cachet that rivals can't easily acquire. This honest content and strong community moderation form a moat by attracting a loyal user base and valuable UGC that keep the flywheel spinning. If a new platform tried to lure these communities away, it would face an uphill battle, as Reddit's network of users + mods + historical content has high **switching costs** in aggregate.
- **Context-Based Targeting & Data Uniqueness:** Reddit's **contextual ad targeting** is underpinned by a moat-like asset: the **granular interest data** embedded in its communities and conversations. The fact that **~40% of Reddit comments mention a brand or product** ⁸⁹ (as Jefferies noted) means Reddit sits on an **unparalleled corpus of real consumer opinions and Q&A**. This data is immensely valuable – not just to advertisers (who can target by subreddit or keyword to reach specific interests), but also to AI companies, market researchers, and others. Reddit's content is a unique combination of **depth and breadth**: from support communities in health and finance, to enthusiast discussions in tech and gaming, to local city threads – an archive of human knowledge and preferences. This gives Reddit a defensible niche as a **"knowledge layer"** of the internet. It's telling that generative AI models have found Reddit's data so useful that Reddit was, for a time, the #1 cited source for ChatGPT ⁹⁰. Jefferies calls Reddit's ever-growing database of user-generated, contextual content an *"underappreciated opportunity"* – essentially, an asset competitors lack ⁹¹. The **high-margin licensing deals** Reddit secured confirm the uniqueness of its data (e.g. OpenAI and Google aren't paying Twitter or TikTok for conversational data – they're paying Reddit) ⁶² ⁹². Going forward, as long as Reddit maintains active communities and continues generating fresh discussion content, it has a moat in the form of **data moats**: training data that others cannot easily copy due to intellectual property and the challenge of recreating organic discussions at scale.
- **Brand/Advertiser Moat via Context:** Reddit's community-driven context also creates a moat with certain advertisers and users. Brands that have learned to engage Reddit properly (e.g. through **Ask Me Anything (AMA) events** or **by using conversational ad copy**) often see results that are hard to achieve elsewhere. For example, an agency expert recounted how a vintage apparel client sparked great discussions on Reddit, leading to "great organic sentiment growth" and user

interest beyond just making a purchase ⁹³ ⁹⁴ . The brand lift and word-of-mouth credibility that Reddit communities can provide is a competitive advantage over more transactional ad platforms. In essence, Reddit can offer contextual endorsement from fellow users, which acts as a moat in user trust. From a user perspective, the site's breadth of communities means whatever your interest or question, there's likely a subreddit for it – a long-tail content breadth that few others have. This creates high user stickiness^{**}; once someone becomes a Redditor, the range of content (and the personalization via upvotes/downvotes) makes it a one-stop forum for many needs (news, hobby groups, product advice, entertainment). Competing communities (say on Facebook Groups or Discord servers) tend to be more siloed or smaller-scale, whereas Reddit's network effects (with a global user pool discoverable via search) keep its communities thriving.

- **Challenges to Moat:** Despite these strengths, Reddit's moat must be actively maintained. One risk is that **scaling up** can dilute the community feel – as subreddits grow huge or go mainstream, veteran users sometimes lament a loss of intimacy or quality. The former Reddit exec observed *“when something once underground gets commoditized, some core users leave and take the soul with them”* ⁹⁵ ⁹⁶ . This points to a delicate balance: Reddit's team needs to keep onboarding new users (to grow DAUs) without alienating the passionate core that creates content. Ensuring **content quality and civility** at scale is another challenge; anonymity is a double-edged sword that can enable trolling or misinformation. Reddit's ongoing investments in safety tools, moderator support, and possibly user verification for certain forums will be key to preserving its moat of trust and authenticity. Another factor is **dependence on external traffic** (discussed below): if too many users only touch Reddit via Google and never become engaged community members, the moat weakens. However, initiatives like improving Reddit's native search and feed relevance aim to strengthen user retention on-platform. Overall, Reddit's economic moat is anchored by its **unique content and community structure** – assets that competitors find hard to clone – but it will require careful stewardship (supporting moderators, keeping conversations authentic, and leveraging its data advantage) to remain strong in the face of a changing internet landscape.

6. Traffic Sources and Dependencies

- **Reliance on Google Search:** Reddit has long derived a huge portion of its traffic from **Google search referrals**. Users frequently search Google with queries that include “reddit” to find community-sourced answers. This has made Google a critical top-of-funnel channel for Reddit. In fact, Reddit's leadership described Google's organic traffic as a **“headwind”** in Q2 2025 – acknowledging that changes in Google's algorithms directly impact Reddit's user visits ³⁶ . A sizable number of Reddit's visitors are **“logged-out” users** coming from Google results to read a thread (these are potential new users if converted to sign-ups). Wells Fargo warns that as **Google pursues AI-driven search**, these traditional referral flows are at risk. If Google's new AI Search Generative Experience shows answers without clicking out, Reddit could lose casual traffic that often eventually becomes engaged users ⁷⁷ . An expert bluntly stated, *“Reddit can't be beholden to Google for search traffic”*, noting that currently **Reddit is very reliant on Google to drive site traffic** ⁹⁷ ⁹⁸ . The *user behavior confirms this: “No one searches within Reddit. It's so much faster to go to Google or ChatGPT and type in ‘reddit [your query]’.”* ⁹⁹ ¹⁰⁰ . This external dependency is a double-edged sword: Google has effectively been a free acquisition channel for Reddit, but any downturn in Google referrals (due to SEO rank changes or AI answers) could stunt Reddit's growth. Reddit's management and investors are laser-focused on this risk. RBC captured the core debate: Can Reddit's **direct engagement and brand** overcome the *“secular bear case of losing engagement to LLMs”*, given the scenario where AI

search keeps users in Google's ecosystem? ¹⁰¹ ¹⁰² If Google chooses to **keep users on its own AI pages rather than referring out**, Reddit might secure licensing revenue but see fewer incoming clicks – a scenario that *“does little to change the bear case”* on user growth ¹⁰² ¹⁰³ . On the other hand, if Google's approach remains to send users to source websites for detail, Reddit could continue receiving significant traffic (and even benefit from more prominent AI summary attributions in the long run). At a recent industry event, Google's IR team gave a non-committal statement, balancing the need to be the *“internet's pre-eminent traffic referrer”* with users' desire to get answers instantly ¹⁰⁴ ¹⁰⁵ . This indicates Google is aware of the delicate ecosystem. For now, **Reddit's primary traffic channels are still (1) direct and (2) Google, with minimal traffic directly from chatbots or LLMs** ¹⁰⁶ .

- **Direct vs LLM Traffic:** Reddit has a strong base of **direct traffic** – users who navigate the app or site directly (often power users with accounts). These are more insulated from Google's shifts. Reddit's app usage and logged-in visits provide a foundational level of engagement that is more in Reddit's control (driven by notifications, community interactions, etc.). However, the growth of that core user base historically *depends* on the funnel of new users coming via search. At present, **traffic from generative AI chatbots is negligible** ¹⁰⁶ . ChatGPT and others do not yet function as a significant referral source (they tend to give answers without external links, or with only footnotes). Piper Sandler confirmed that Reddit *“doesn't get much traffic from LLMs or chatbots”* – so the near-term concern is not about losing a traffic source, but rather losing exposure if those AI answers replace the need to click Reddit links ¹⁰⁶ . Essentially, **the threat is substitution, not displacement**: users might stop searching for Reddit content if AI provides the answers sourced from Reddit. Reddit's response is twofold: **lobby to be compensated (licensing)**, but also **build its own in-house solutions** to reduce reliance on external search. One major initiative is **Reddit's own search improvements and “Answers” product**. In 2023, Reddit introduced an AI-powered summary feature (“Reddit Answers”) within its platform, which by Q2 2025 was used by **~70 million weekly users** ¹⁰⁷ . This tool leverages Reddit's data to answer questions directly on Reddit, aiming to keep users from bouncing out to Google. An expert applauded this strategy: *“What they've done with Reddit Answers – trying to keep people from going to Google to search – is a really strong strategic move... Reddit cannot be reliant on Google forever.”* ⁸⁶ ⁹⁷ . The expert believed if Reddit can **“figure out its search functionality, they will print money hand over fist”**, given how weak Reddit's native search has been historically ¹⁰⁸ ¹⁰⁹ . There's optimism that better on-site search will increase user retention and pageviews (one even said it could *“increase the velocity of growth”* if solved ⁹⁹). However, it's a non-trivial technical challenge, and ironically, Reddit has grown tremendously despite poor search – users just relied on Google as a crutch ⁹⁹ . The risk if Reddit truly succeeded at internalizing search is that it *could* irritate Google (which currently benefits from Reddit queries). But losing some Google referral traffic may be an acceptable trade-off if more users engage directly on Reddit.
- **SEO Volatility and Other Dependencies:** Reddit's management has openly discussed the impact of **SEO volatility**. In mid-2023, when Google's changes briefly boosted forum content in AI snapshots, Reddit saw a content advantage (a “tailwind” as RBC noted) ³⁹ . By late 2025, some of that had reversed, showing just how quickly things can change in search rankings ¹¹⁰ . Beyond Google, **other traffic sources** include mobile app stores (driving app downloads) and integration into third-party tools. Reddit does not depend on social media for referral in a major way, and indeed it's more often the source of viral content that later spreads elsewhere. One emerging dependency is on **AI partnerships**: for instance, if **Microsoft's Bing or OpenAI's ChatGPT** were to integrate Reddit content deeply (with links), that could become a new traffic stream. Conversely, if those AI simply use Reddit data without attribution, Reddit gets no traffic benefit (only licensing fees if any). **OpenAI's current stance** seems to lean toward not driving traffic out; RBC noted OpenAI has shown a *“relatively lower desire to refer traffic to 3P sites”* compared to Google ¹⁰⁴ . This reinforces why Reddit is

concerned about being cut out of the traffic loop. It's a scenario where Reddit becomes a "data backend" for the internet's Q&A but doesn't see the user. Such an outcome would undermine Reddit's community vibrancy in the long run. To hedge this, Reddit has also been **investing in community features and notifications** that bring users back independently of search (for example, personalized home feeds, trending posts, and better email/mobile re-engagement). The company reported that **direct traffic** and app usage grew in share after it implemented login walls for certain content in mid-2023 – which, while controversial, did convert more casual lurkers into signed-in users. Going forward, the **balance between licensing and referral** will be critical. As Wells Fargo put it, Reddit will need to *"balance licensing with the traffic referrals necessary to keep the community vibrant."* ¹¹¹ ¹¹² This likely means striking deals with AI firms that ensure Reddit content is not just paid for but also linked to or that Reddit is otherwise credited in a way users can follow. In summary, **Google is the main dependency** today – both an ally (for user acquisition) and a potential threat (if AI search reduces clicks). Reddit is actively trying to convert more of that externally-sourced traffic into **loyal, direct users**, thereby fortifying itself against whatever the next evolution in search technology may bring.

Sources: The insights above synthesize information from recent equity research reports (Jefferies, RBC Capital Markets, Wells Fargo, Piper Sandler, Baptista Research) and expert interviews with former Reddit employees and advertising industry professionals. Key figures and qualitative observations are cited in-line from those sources ¹ ⁶ ⁵², providing a multi-faceted view of Reddit's business and outlook in each of the six dimensions.

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