

Reddit IPO leaps on AI pitch, but not everyone believes the hype

[Nick Bonyhady](#) and [Joanne Tran](#)

Updated Mar 22, 2024 - 10.13am,
first published at 5.25am



Listen to this article

6 min

Social media site Reddit ended its first day of trading up 48 per cent, after its pitch to investors as a novel way to cash-in on the AI boom succeeded, stoking optimism that the market is once again receptive to buying into loss-making technology floats.

But doubts persist about its prospects because other social networks such as Twitter, Snap and Pinterest have underperformed as listed businesses, and investors are sceptical about how large Reddit's AI data business can get.



Reddit co-founder Steve Huffman on the New York Stock Exchange floor during the company's IPO. **Bloomberg**

The site, which hosts thousands of user-run discussion pages across a variety of topics, listed on the NYSE overnight priced at the top of its range. Its fate was cast as a bellwether for float hopefuls, which have been largely absent from Wall Street for two years.

Former Google Australia managing director Jason Pellegrino said Reddit was the most successful digital interpretation of a bulletin board.

“How that turns into a business ... That’s a question that I have, full stop,” said Mr Pellegrino, now chief executive of property site Domain, whose major shareholder is Nine, publisher of *AFR Weekend*.

Reddit sells advertising and users can buy customisation for their profiles, but its fortunes were heavily promoted around a \$US60 million deal with Google to let it use Reddit content to train AI tools. With large amounts of user-generated material, Reddit could be a formidable teacher, but AI companies are increasingly using pre-trained models or more specialised data sets.

Profeta Investments chief investment officer Garry Laurence said Reddit’s owners, some of whom had invested at a \$US10 billion valuation in 2021, were taking advantage of the records tumbling in the sharemarket.

“While its daily active user base has grown 27 per cent to 73 million globally in the past year, its revenue growth is decelerating,” Mr Laurence said. “It grew 21 per cent in 2023, but this is a deceleration from the 46 per cent growth in 2022. The vast majority of their revenue is from advertising and the average revenue per user is dropping.”

‘Scratched the surface’

Display advertising is an increasingly saturated market, Mr Pellegrino said, though Reddit has projected its ad business is in growth. Last year, users on the site made large portions of it “go dark” in protest at Reddit cutting off third-party apps used to access the site, which gave it more control over ads.

Its user base has rebounded but the episode highlighted the level of control so-called Redditors feel over the home to the [r/WallStreetBets](https://www.reddit.com/r/WallStreetBets) forum

[\[https://www.afr.com/markets/equity-markets/reddit-sued-by-founder-of-viral-memestock-forum-wallstreetbets-20230216-p5cl6i\]](https://www.afr.com/markets/equity-markets/reddit-sued-by-founder-of-viral-memestock-forum-wallstreetbets-20230216-p5cl6i) that inflicted wild stock swings at the height of the market’s pandemic delirium.

Forager Funds Management chief investment officer Steve Johnson is more positive on Reddit's potential to earn advertising revenue.

"[Reddit] has only scratched the surface in terms of generating revenue ... people that are criticising it for not being profitable, I think it's going to take five to ten years from here to see how they monetise what is clearly a very [good] asset," Mr Johnson said.

Reddit's user base were people who often had "transactional intent" when putting questions into the platform's search bar, he said.

"Compared to Snapchat where people are more in a social frame of mind than a transactional frame of mind, the value of the advertising dollars there is dramatically different," he said. "I think Reddit has a very monetisable asset."

Reddit's shares priced at \$US34, opened at \$US47 and closed trading at \$US50.44, valuing it at \$US6.4 billion.

But Profeta's Mr Laurence, speaking before its debut, doubted AI deals will "become a substantial portion of their revenue in the near future" in part because Reddit's content could be misleading or false.

In the days leading up to the IPO, Reddit revealed it was facing an inquiry from the US Federal Trade Commission into its AI training deals, but did not make clear which aspect of those deals the regulator was interested in.

"We do not believe that we have engaged in any unfair or deceptive trade practice," Reddit said in a regulatory filing.

Swell Asset Management founder Lachlan Hughes said the stock was not in the same rarefied air as Wall Street's magnificent seven.

"While we see opportunity for investors in Reddit, we are also cognisant of the challenges the company faces," Mr Hughes said. "There are essentially two types of digital advertising businesses, those with scale advantages, think Meta, Amazon and Alphabet, and the rest."

NYT test

Snap, which makes the self-deleting photo app Snapchat, trades below where it went public. Twitter also traded below its debut price for most of its time as a

public company before [Elon Musk bought it](https://www.afr.com/markets/equity-markets/elon-musk-lands-deal-to-take-twitter-private-20220426-p5aglm) [https://www.afr.com/markets/equity-markets/elon-musk-lands-deal-to-take-twitter-private-20220426-p5aglm].

But Mr Hughes thought Reddit's AI play was "unique and interesting".

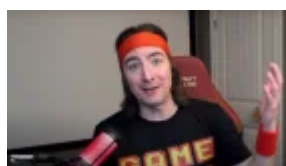
AI tools, especially those designed to challenge search engines, rely on having up-to-date information about the real world. [The New York Times is suing OpenAI](https://www.afr.com/technology/ai-companies-face-model-collapse-they-should-pay-to-fix-it-20231228-p5eu0r) [https://www.afr.com/technology/ai-companies-face-model-collapse-they-should-pay-to-fix-it-20231228-p5eu0r] over the use of its articles, and if it wins, companies used as a source of data could tap an enduring new source of revenue.

Among the immediate winners from the Reddit IPO are its forum moderators who took up the company's offer to buy-in at a discount, billed as a reward for their volunteering.

They accounted for up to 8 per cent of the stock, alongside staff and affiliates of the business. OpenAI boss Sam Altman also has a significant stake, as does the media conglomerate and Conde Nast owner Advance Publications.

The IPO's success is a win too for venture capitalists, who are sitting on successful bets such as Rokt, Airwallex and Canva but eyeing an IPO windfall.

"There is clearly a queue of really quality companies globally, ready to IPO," said Square Peg Capital founder Paul Bassat. "One of the challenges when markets are shut is that most companies don't want to be at the front of the queue, and Reddit has obviously been prepared to have a crack."



RELATED

'Yeah nah': Australian Reddit users miss out on discounted IPO shares

<https://www.afr.com/technology/yeah-nah-australian-reddit-users-miss-out-on-discounted-ipo-shares-20240310-p5fb8a>



RELATED

ASX tech dream stalls as de-listings stack up

<https://www.afr.com/technology/asx-tech-dream-stalls-as-de-listings-stack-up-20240222-p5f70g>

Nick Bonyhady is a technology writer for the Australian Financial Review, based in Sydney. He is a former technology editor, industrial relations and politics reporter at the Sydney Morning Herald and Age. *Connect with Nick on [Twitter](#). Email Nick at nick.bonyhady@afrc.com*

Joanne Tran is a markets reporter for The Australian Financial Review in the Sydney newsroom. *Connect with Joanne on [Twitter](#). Email Joanne at jo.tran@afrc.com*