

Is Reddit's IPO worth it? Social media site aims to go public 'out of necessity,' says finance expert

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John Bai, associate professor of finance, says Reddit's real value lies in its user data. Credit: Matthew MODOONO/Northeastern University

Despite never having made a profit in its nearly 20-year history, Reddit,

the site that bills itself as "the front page of the internet," is gearing up to go public, targeting a valuation of about \$6.5 billion.

John Bai, Northeastern professor of finance, says Reddit is attempting this IPO likely "out of necessity."

After cashing out on multiple rounds of venture capital funding, a company may go public to continue to bring in new capital. Additionally, going public allows investors in the company to begin to sell their shares on a publicly traded marketplace and use that cash to diversify into other areas, he says.

"Diversification is a big thing because otherwise your entire wealth will be tied within this one single firm, which is inherently subject to various types of risks, regulatory risks, industry downturns, economic swings, etc.," he says.

The company filed for an [initial public offering](#), or IPO, in February, a process in which a private company transitions and begins offering shares of its stock to the public for the first time.

This is the second time the company has filed for an IPO, after failing to make it work in 2021 due to the tough financial market.

The company announced this week that it would offer 22 million shares of its Class A stock and expects to price shares between \$31 and \$34. It aims to raise as much as \$748 million in the IPO. [Some select Reddit users will be able to buy into the IPO.](#)

The company itself plans to earn around \$450 million as part of the IPO, [according to CNN.](#)

While Reddit doesn't make money, it has touted it is growing. The site

has around 72 million active users a day, a jump from 52 million active users in 2023. The company also recently signed a deal with Google to allow the search giant [to use its content to train its AI models](#), a lucrative source of profit, Bai says.

But Reddit has been in hot water with its users since last year, when it announced that it would begin to charge for access to its application programming interfaces (APIs). APIs are pieces of software that allow a company to share its software stack and data to other companies so they can make third-party apps and other tools.

In response to Reddit's move, many third-party Reddit clients ceased to function when developers declined to pay Reddit's fees. Many subreddits [went dark in protest](#), and the company's reputation among many users continues to suffer today as a result.

Northeastern Global News caught up with Bai to get his thoughts on the IPO and Reddit's future. This interview has been edited for clarity.

What's the value for a social media site like Reddit to go public?

Let me break my answers down into two parts.

The first one is more out of necessity. It's not much of a voluntary choice.

If you look at high-tech firms today in the U.S., from the small startup in the garage all the way to IPO status, in that five- to 10-year horizon, there are multiple rounds of funding that have to happen. For entrepreneurs, the first round is probably from your relatives and friends who we often refer to as angel investors. Then you start a whole journey

on multiple rounds of venture capital financing.

What about people who are in the last round? They are looking for some kind of exit strategy, either in the form of another gigantic company purchasing this startup, so they can cash out. Or in a more traditional way, it's going to be through an IPO. So this part is more of the necessity part, where an entrepreneur may or may not want to take a firm public, but at the same time there's other forces that are pushing them to do so.

The second part would have to do with the entrepreneur's own incentives.

The only way to diversify your wealth is to take your firm public so you can get rid of your shares in a publicly traded marketplace where you can get a good price on each share you own. With that cash, you can start to diversify into other things.

Reddit put its valuation at about \$6.5 billion, but it hasn't turned a profit since its founding. Does that valuation make sense, and how did it come up with that number?

The exact calculation I wouldn't know the model behind it at this point. One piece of news, however, that will help us get an inside look of what the company is planning for itself is this repeatedly mentioned sale of data access to Google. I think Reddit is trying to find a way to leverage its real-time bulletin boards where people exchange ideas in partial anonymity. They call it the authenticity of the entire internet.

Basically, companies like Google will have an interest in having access to this [real-time data](#), which reflects underlying population sentiments to any topic you can possibly think of. That by itself I think will change the

future and landscape of online advertising.

Is Reddit's deal with Google a big new revenue stream?

I think from Reddit's perspective, it still very much views itself as a big reservoir of just data at high frequency that is as authentic as possible in the sense that it reflects underlying populations or real mentalities and sentiments toward certain topics.

Google is going to use that data to train its internal AI models so it can compete with Open AI's ChatGPT and other large language models that Google is fighting in competition with.

The other thing is it's able to tailor its online advertising model in such a significant way.

Think about it. Right now, if you try to advertise with Google, you probably pay them at a monthly frequency or you can probably ask Google to change the priority of your link appearing on their website. I don't know. I haven't done it before.

But with this partnership, I would think the frequency and pace at which things are changing and adapting to underlying mentalities is going to be much faster.

With that [artificial intelligence](#) and real data processing, I think what's going to happen is that you and I may even go to the same Reddit website and we might see differential ads being presented to us based on our past conversations, our posts, our interests being revealed real time to these online advertisers.

Last year Reddit faced backlash for starting to charge for access to its APIs. In response, a number of subreddits went dark and there has been some bad blood toward the company. There's also some animosity from some Reddit users that their chat logs are going to be trained on AI. Could this controversy and the negative press around Reddit have an impact on the IPO?

I think the very moment they started charging for API access was indicative that they were planning for the IPO. Look at the Google deal. Reddit's commercial value really lies in the real-time access to its data, which has a lot of value if you use it right. But if you just let everybody use it for free, how do you start charging one party a given price and not charge the other?

I think there's going to be backlash, and there has already been, but in the long run, the true people who just love to contribute to this community will continue to use it.

Reddit is giving some Reddit users the opportunity to buy shares into the IPO. I read that was an unusual move. The company said it did it to give users some ownership of the IPO. Can you speak on the significance of that?

It's not an unusual move. Interactive Brokers, for example, when it first started doing IPOs, it essentially reserved a certain percentage of the company or a certain number of shares for the early customers that were utilizing their platform to trade stocks. This is usually a way for them to

reward long-term loyalty.

When it comes to a place like Reddit, the incentive and motivation to keep the really valuable long-term users who repeatedly post with really knowledgeable information and contribute to the community overall becomes even more important so they can keep people like this on their platform.

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