

Reddit's share price has held since it went public, but the firm's unique structure could be its undoing

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Shares priced in US\$. Credit: TradingView

Reddit, the social networking platform that recently floated on the stock market, saw its shares surge 15% on the back of its first-quarter financial results on May 8.

The company had actually reported a loss of US\$575 million (£459 million) for the period, but this is largely attributed to the cost of the flotation and was [lower than expected](#). More important for investor sentiment is revenues, which were up 48% on the first quarter of 2023 to US\$243 million.

In the past couple of days, however, the shares have given back much of their gains, and are now near where they closed on the day of the IPO in March. So what does the future hold for Reddit as it finds its feet in the market?

Reddit share price:

The [vast majority](#) of Reddit's earnings come from advertising, though it has also been [striking deals](#) to license to AI developers the discussions on over 100,000 of its forums or "subreddits." A licensing deal with Google promises to bring in revenues of [US\\$60 million](#) a year, for instance.

One big question, however, is whether these two revenue streams are mutually compatible. Reddit's ad business is still seen as [early stage](#), using a platform that [lacks the capabilities](#) of players like Meta and Google.

This can probably be improved, but advertisers may find large parts of Reddit unattractive. Lack of censorship is part of the platform's user appeal, making the site infamous for its strong language and derogatory terms.

The company could introduce more censorship to make it more advertiser-friendly, but this would slow down content generation and could lose users. This would undermine Reddit's ability to license material to AI companies, as well as raising deeper questions about whether it's a viable business.

The WallStreetBets dimension

A fascinating aspect of Reddit is that its own investor community, WallStreetBets, may play an important part in determining whether the flotation ultimately succeeds. In 2021 the subreddit [famously proved](#) its ability to influence [share](#) prices, particularly of "meme stocks" driven by social-media trends, by causing a surge in gaming retailer GameStop. This lost millions of dollars for hedge funds who had taken short positions in the stock, meaning they were betting that the price would go down.

As far as the Reddit IPO is concerned, there has been no clear consensus among the subreddit's [15 million users](#) (or "Redditors") on whether to buy shares or take a short position. Much of the discussion has revolved around whether the company will ultimately struggle to make money or had sufficient untapped potential. The share price initially surged, then fell back, then rose again ahead of the first-quarter results—perhaps partly reflecting the mixed feelings in the WallStreetBets community.

On the plus side, Reddit has seen a 37% growth in daily active users to 83 million, while CEO Steve Huffman has been making the case for the company's commercial potential. [He argues](#) that it both gives advertisers the chance to reach lots of users who are discussing the latest products in a wide range of subject areas, as well as providing users a place where they can grow as their interests change.

Irrational investors?

The WallStreetBets community is often used as an example of irrational investors who make their decisions based on what they like or dislike rather than sober financial analysis. Yet when you look at the discussions about Reddit, there's plenty on the company's fundamentals and long-

term strategies as well as current trends.

However, that's not to say that it couldn't be susceptible to herd behavior if leading investors in the community convince others to follow their advice. We tend to see this more with meme stocks, but it may well happen with Reddit. Indeed, prior to the Reddit IPO, the [company said](#) that the existence of the community could make the share price more volatile.

Like everyone else, WallStreetBets users will be watching for signs that Reddit's strategy for generating income is not looking as straightforward as the management wants everyone to believe. We already know, for instance, that the US Federal Trade Commission [is investigating](#) the company's AI data-licensing activities, apparently to ensure they meet appropriate ethical standards. We've also seen [users taking steps](#) in the recent past to thwart attempts by Reddit to monetize its content, pointing to the possibility of more trouble in future.

So it's going to be interesting to watch what happens to the "RDDT" stock in the months ahead. There's clearly a promising opportunity to turn Reddit into a successful business, but the risks are probably higher than for comparable companies.

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