

Duolingo

Family plan adoption and English learner TAM key focus for 2024

Maintain Rating: NEUTRAL | PO: 260.00 USD | Price: 222.64 USD

Duolingo investor meeting Key-takeaways

We hosted virtual investor meetings with Duolingo (DUOL) management including CFO Matt Skaruppa, Sebastian Somen, VP of Finance and Debbie Belevan, VP of Investor Relations. Key topics from the meetings included: 1) efforts to sustain high total user growth, 2) paid sub conversion drivers; and 3) new initiatives to drive pricing.

Growth comps tough in '24 but multiple levers left to pull

Daily average user (DAU) trends are expected to moderate in 2024 as the company is lapping two exceptional years (+63/48% YoY in '23/22 vs. mid-50'sE in 1Q24). However, DUOL is highly focused on continuing to convert monthly users to weekly users and then to daily users and multiple initiatives in the works to increase engagement for 2024. This includes increased socialization on the app, such as moving beyond "nudge" based messaging to celebrating achievements for example. While the Math and Music products are not yet material DAU/MAU drivers (only launched in Nov.), at a minimum they could be important tool for user retention and daily engagement. The bulk of DUOL's growth is word of mouth and organically driven. However, 2023 was a particularly strong year for harnessing viral events including Barbie and House of Dragons. Predicting the next viral moment is difficult but DUOL has gotten better at identifying trends early through algorithms and attaching content.

Duolingo still early in paid user conversion & retention

Duolingo has steadily grown paid subscribers, now totaling 8.3% of DAU's at the end of 2023 and compared to 7.8/6.2% in 22/21. Over the long-term, management believes over 15% is achievable target and in line with more mature consumer subscription businesses. Duolingo mgmt. highlighted their continued focus on advanced English learning opportunity for higher conversion. English learners make up the largest part of DUOL's addressable market, the company is rolling out improved content this year and pricing is very favorable versus competitors. Importantly, user growth continues to be broad-based and global which is a positive for total conversion opportunity. Shifting users to the annual family plan could also be a powerful tool for higher user LTV given strong retention trends, as well as pricing (see below).

Family plan & new tiers could be important pricing drivers

DUOL has increased subscriptions from nearly all monthly in 2019 to over 90% annual in 2023 which has driven significantly higher revenue, retention (annual is 4x monthly) and LTV. For 2024, growing family plan subscriptions (~18% of subs in '23, almost 2x '22) is a priority for monetization. While it will take time to design new tools/features to drive higher conversion, management believes upside could be greater than the shift to annual given: 1) a higher user base; 2) higher retention vs. annual and; 3) a 42% premium to the annual subscription. Duolingo is also positive on the potential lift from new pricing tiers (free, Super and Max) which are currently being tested. While pricing, features and tier name have not yet been set, mgmt. is encouraged by the level of demand for the current Max offering which incorporates more AI-based tools and is double the price of Super.

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Stock Data

Price	222.64 USD
Price Objective	260.00 USD
Date Established	29-Feb-2024
Investment Opinion	C-2-9
52-Week Range	114.11 USD - 245.87 USD
Mrkt Val (mn) / Shares Out (mn)	10,420 USD / 46.8
Free Float	96.8%
Average Daily Value (mn)	170.02 USD
BofA Ticker / Exchange	DUOL / NAS
Bloomberg / Reuters	DUOL US / DUOLOQ
ROE (2024E)	8.8%
Net Dbt to Eqty (Dec-2023A)	-110.8%
ESGMeter™	NLA

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DAU – daily average user

MAU – Monthly average user

LTV – lifetime value

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Timestamp: 12 March 2024 05:00AM EDT

Price objective basis & risk

Duolingo (DUOL)

Our PO of \$260 is based on 13x 2025E EV/Sales, a premium to subscription service comps which trade at 3x. We believe this premium is justified given significantly higher projected revenue growth as well as higher gross and EBITDA margins.

Upside risk to our PO are 1) better-than-expected user and payer growth as DUOL is still in early stages for monetization, 2) higher conversion from new AI features as well as new higher priced tier Duolingo Max, and 3) the potential for 30-35% LT EBITDA margins vs. 17% in 2023.

Downside risks to our PO are 1) a pullback in consumer discretionary spend as well as a slowdown in travel next year, 2) low barriers to entry for language learning, 3) competition from other-AI-based language learning platforms, and 4) our view that DUOL will have to continue its stellar beat and raise track record (every quarter since IPO) in order to maintain current valuation

Analyst Certification

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Duolingo (DUOL) Price Chart



DUOL — No Coverage — Review — PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	8	53.33%	Buy	2	25.00%
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Sell	3	20.00%	Sell	0	0.00%

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