

Q3 2021 earnings presentation

duolingo



Safe harbor

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Non-GAAP Financial Measures

This presentation contains non-GAAP financial measures such as Adjusted EBITDA and free cash flow. These measures are not prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and have important limitations as analytical tools. The non-GAAP financial measures set forth in this presentation should be considered in addition to, not as a substitute for or in isolation from, the Company's financial measures prepared in accordance with GAAP. See the appendix herein for reconciliations of the historical non-GAAP financial measures used in this presentation.

Due to the variability and difficulty in calculating Non-GAAP Adjusted EBITDA outlook, we are unable to quantify certain amounts that would be required to be included in the most directly comparable GAAP financial measures without unreasonable effort. Consequently, no disclosure of estimated comparable GAAP measures is included and no reconciliation of the forward-looking non-GAAP financial measures is included.

Table of Contents

- 1 Mission
- 2 Q3 2021 Operational Highlights
- 3 Q3 2021 Financials
- 4 Q4 2021 and Full Year 2021 Guidance

Our mission is to develop the
best education in the world and
make it universally available

duolingo

Q3 2021 operational highlights

Third Quarter Highlights

Monthly Active Users

41.7M

+13% YoY

Daily Active Users

9.8M

+16% YoY
(23.5% of MAU)

Subscribers

2.2M

+49% YoY
(5.5% of MAU)

Bookings

\$73.1M

+57% YoY

Revenue

\$63.6M

+40% YoY

Free Cash Flow

\$5.2M

vs \$0.6M in 3Q20

Strategic Initiatives



Grow users

Reach more learners around
the world



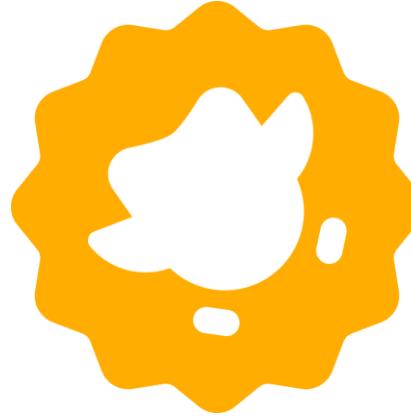
Teach better

Teach more effectively, and to
higher levels of proficiency



Grow subscribers

Make Duolingo Plus valuable
to more learners



Become the proficiency standard

Make the "Duolingo Score" the universal
credential for language proficiency



Expand beyond language learning

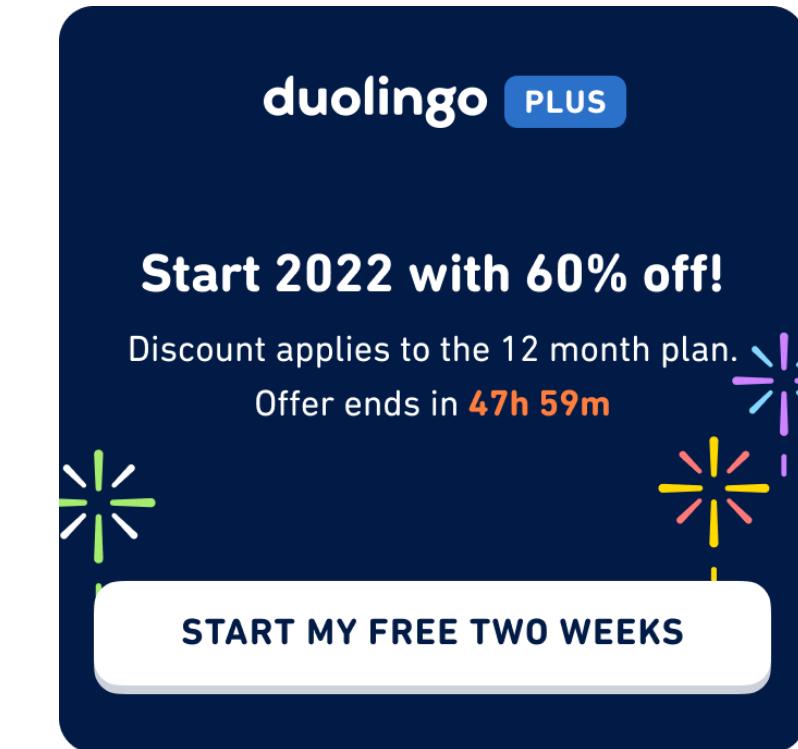
Provide high quality, universally
available education in more subjects

Monthly Active Users (M)



New Year's

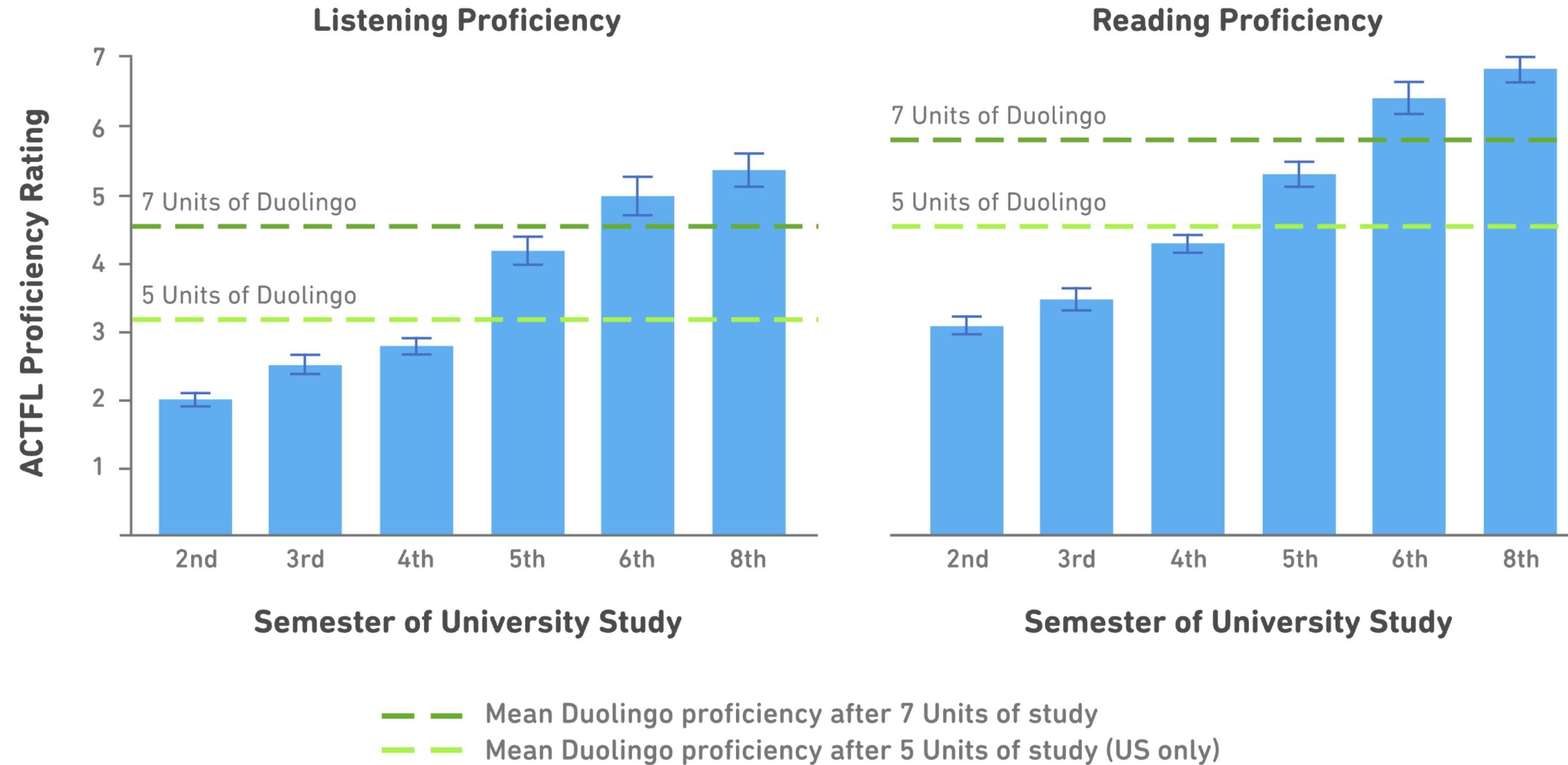
Recent and Upcoming Campaigns



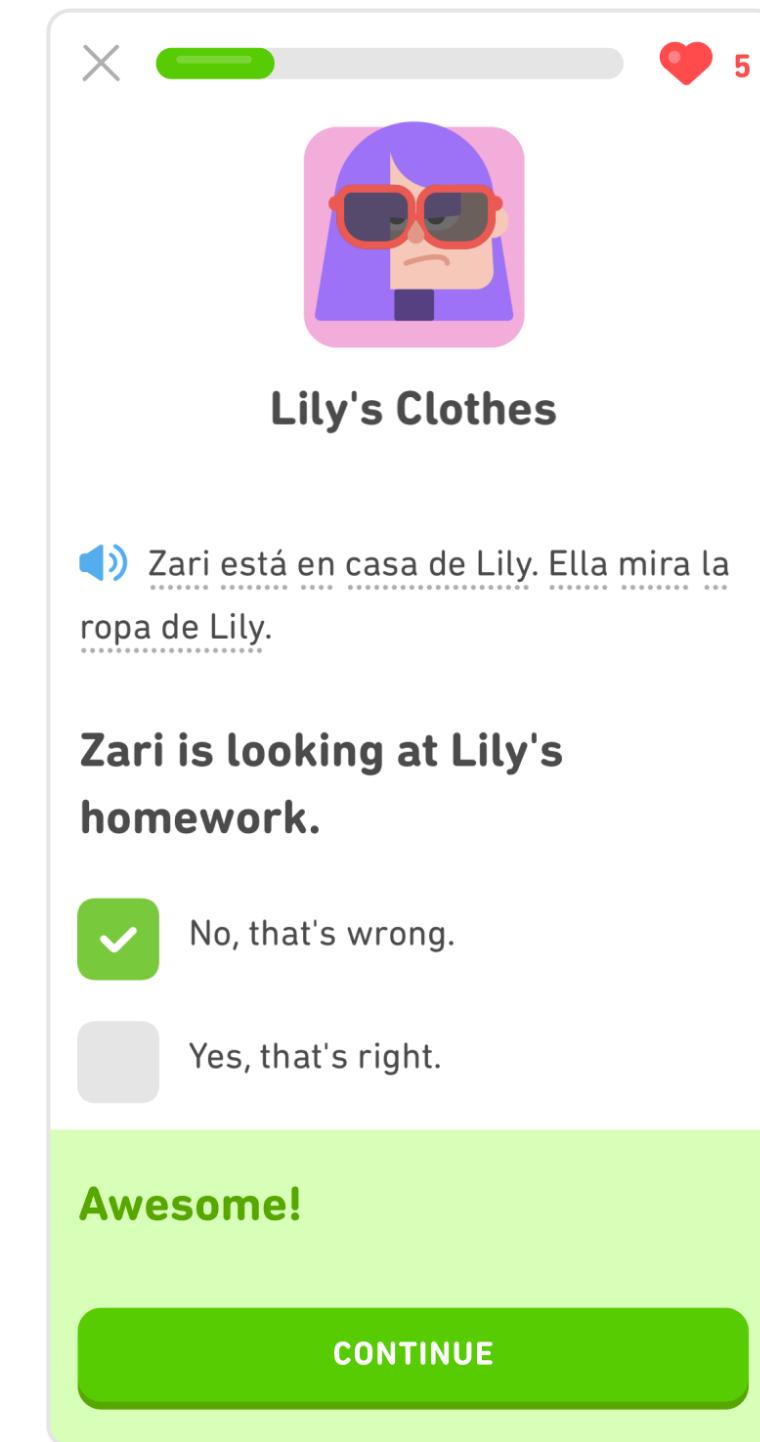
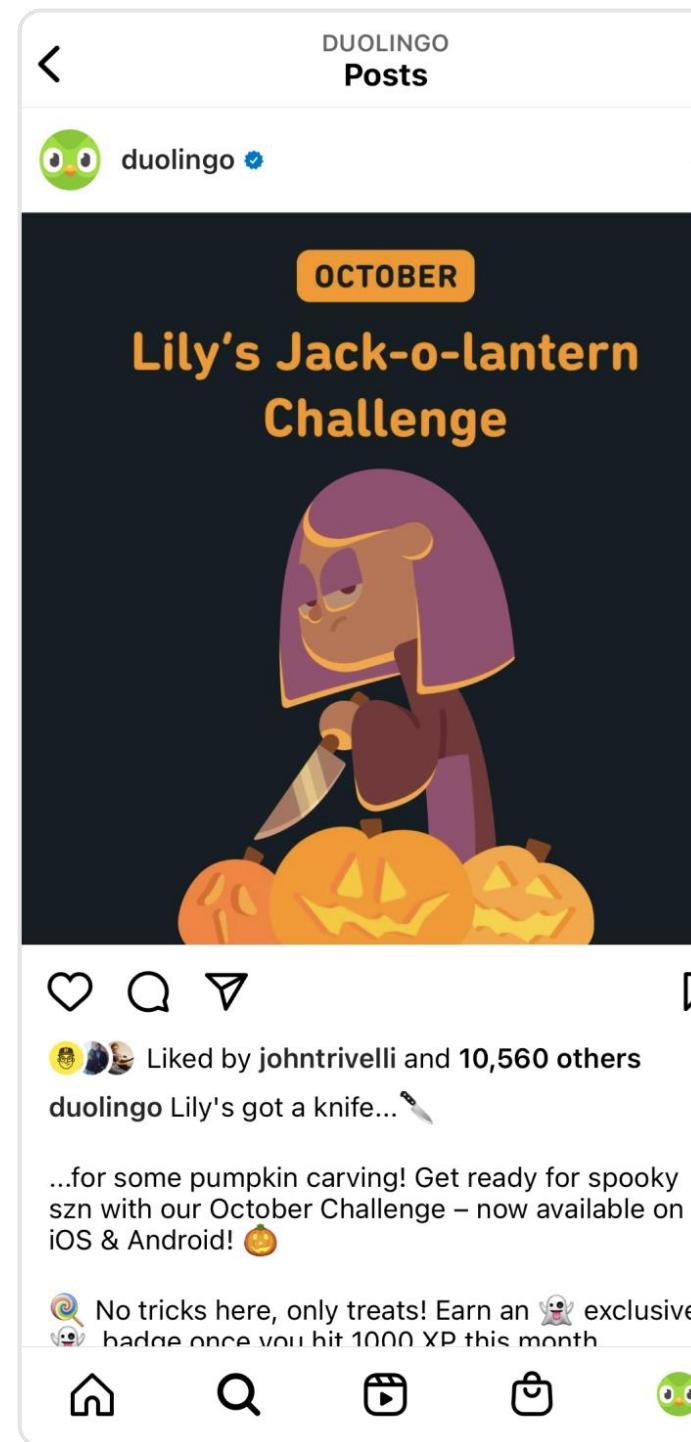
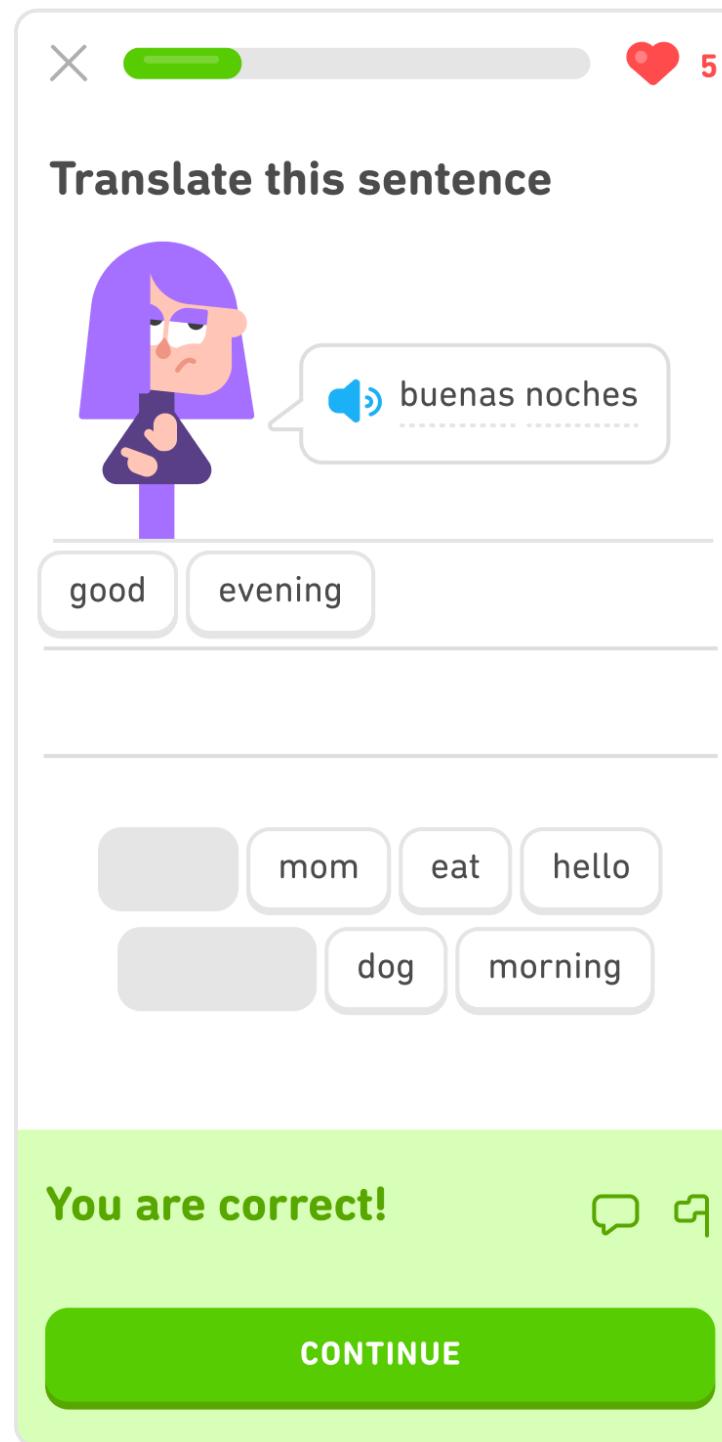
July / August

December / January

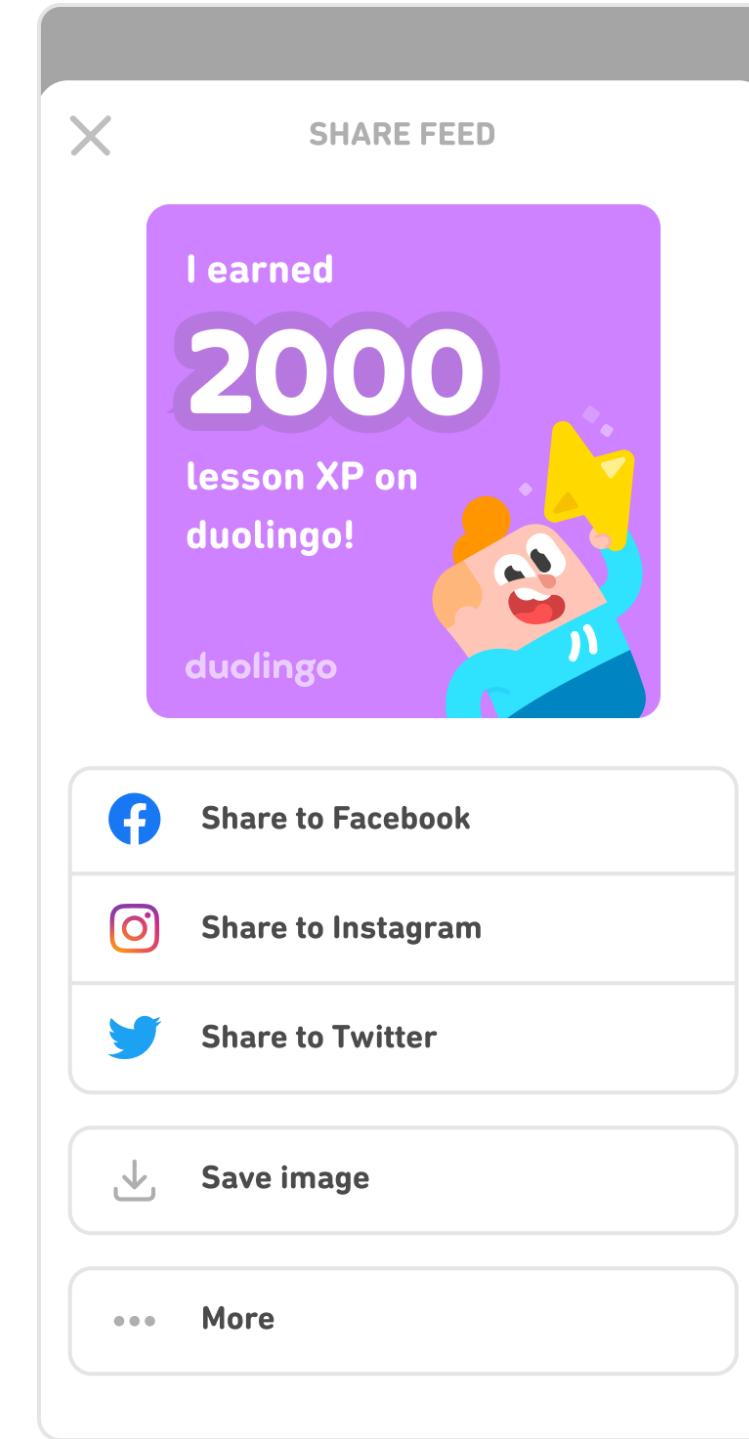
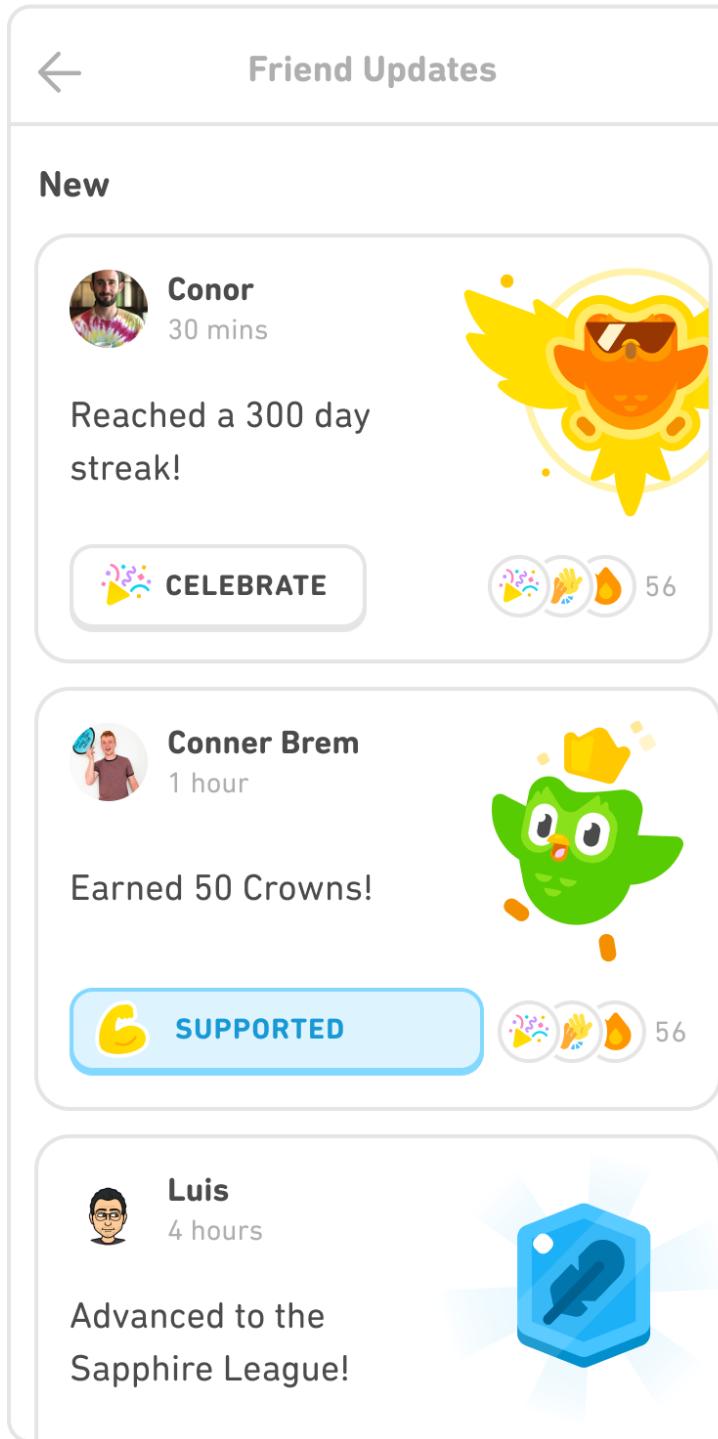
7 Duolingo Units = 5 University Semesters



Duolingo World: Building a Unique Cast that Scales Across our Platform



Driving User Engagement Through Connections



40%

DAU following at least one user

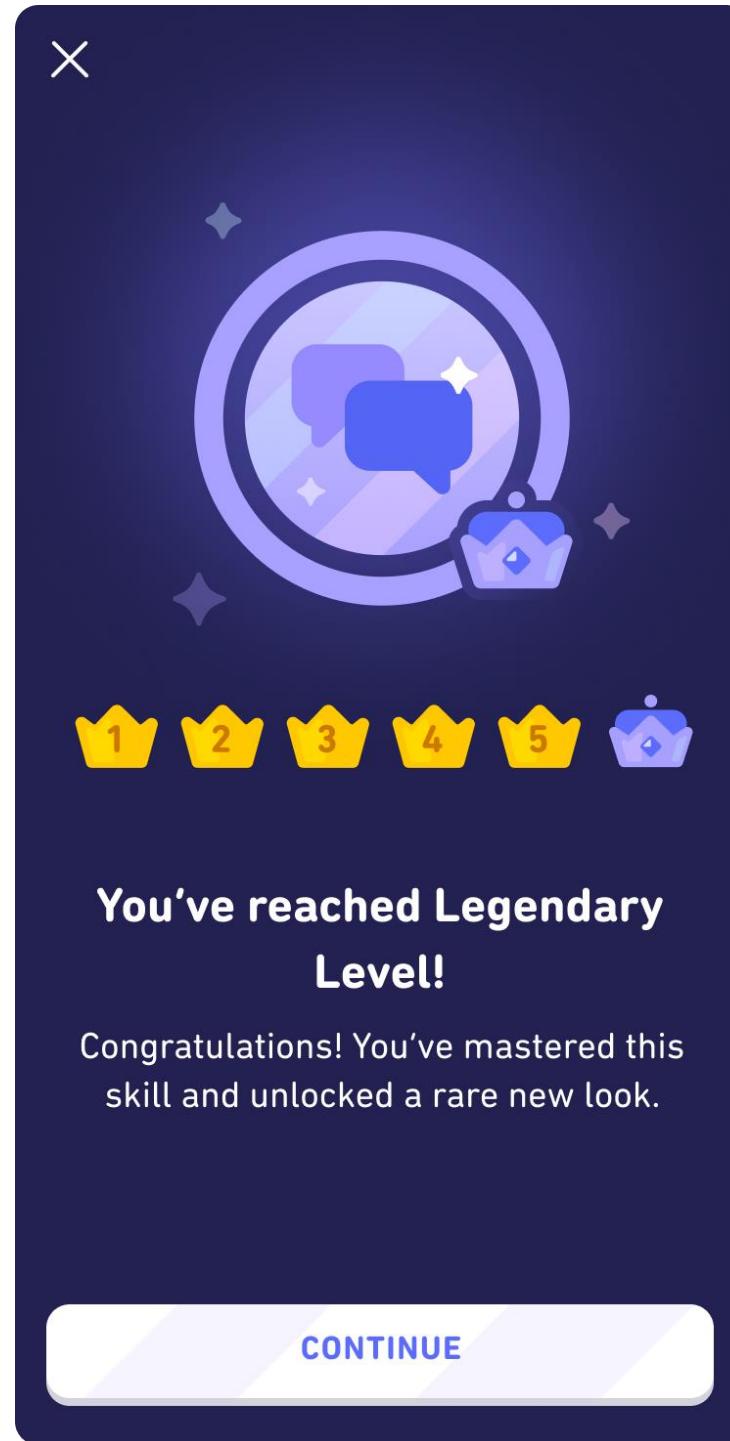
+160%

Q3 increase in DAU sending/receiving Kudos

+500K

Connections after launching contacts sync in Q3

Driving Plus Subscriptions



A dark blue promotional screen for the "PLUS" plan. It features a globe icon with a red heart and the text "23 mistakes to practice". Below it says "Start a personalized lesson to practice your mistakes with Plus". It includes two sections: "Today" (Soy una niña) and "Most recent" (La mesa es roja). At the bottom is a "PRACTICE +10 XP" button.

A dark blue promotional screen for a family plan. It features a globe icon with a magnifying glass and the text "Learn together & save with a family plan!". Below it says "Get 6 Plus accounts in one easy plan". It lists three benefits: "\$119.19 per year, billed annually", "Best value for a group", and "Invite any family or friends to join!". At the bottom are "TRY 2 WEEKS FOR FREE" and "NO THANKS" buttons.

Duolingo English Test Milestones



Q3 2021 financial highlights

We Have 3 Ways to Monetize

Subscription (~73%)

1 MONTH	\$12.99	USD / MO
12 MONTHS	\$6.99	USD / MO
FAMILY	<\$6.99	USD / MO

Duolingo Plus is our premium plan with additional features

- Ad-free
- Unlimited hearts (lives)
- Legendary
- Mistakes Inbox

Ads (~15%) and IAP (~2%)



Duolingo users are shown Programmatic ads

In-app purchases (IAP) enable learners to buy additional features like streak freeze/repair and timer boosts and other enhancements

DET (~9%)

TEST PRICE
\$49
USD / EACH

Duolingo English Test (DET) is an English proficiency assessment

- Fully online
- 2-year eligibility
- Unlimited score shares

Our Growth Framework

Subscriptions

- Grow users
- Driver higher conversion from free to paid
- Increase the lifetime value (LTV) of our subscribers

Ads / IAP

- Grow users
- Optimize ad and IAP revenue per user

DET

- Expand adoption

New products

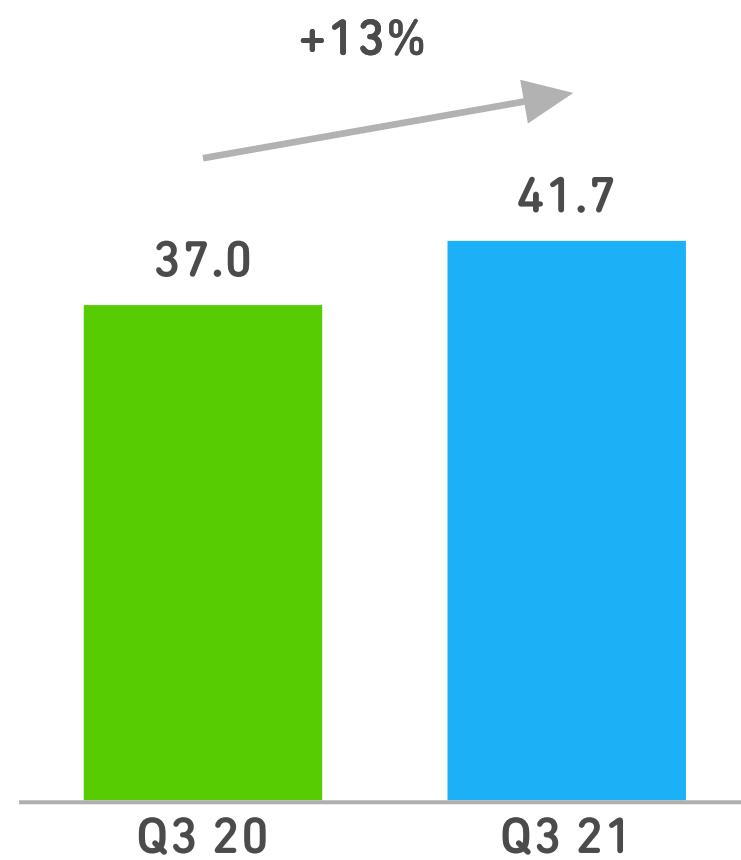
- Extend platform beyond language learning

Strong Q3 2021 Financial Results

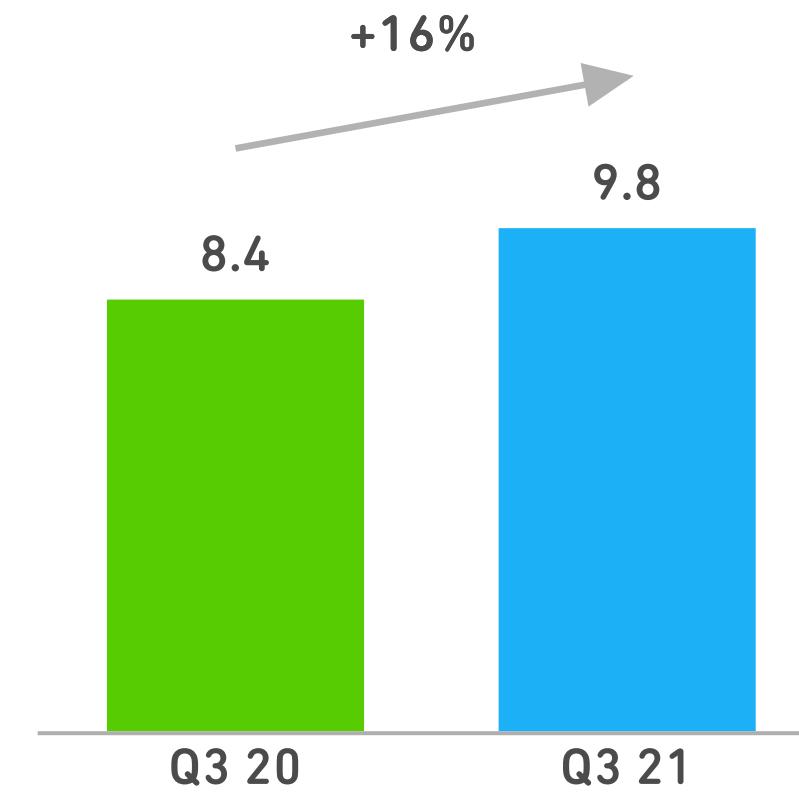
(in millions)	Q3 2020	Q3 2021	YoY Growth
Operating Metrics			
Total Bookings	\$46.7	\$73.1	57%
Subscription Bookings	\$33.8	\$55.4	64%
Monthly active users (MAUs)	37.0	41.7	13%
Daily active users (DAUs)	8.4	9.8	16%
Paid Subscribers	1.5	2.2	49%
GAAP Financial Metrics			
Revenues	\$45.3	\$63.6	40%
Gross Profit	\$32.2	\$45.5	41%
Gross Margin (%)	71.1%	71.6%	49bps
Net Income (Loss)	\$(3.2)	\$(29.0)	—
Net cash from operating activities	\$0.8	\$4.5	—
Non-GAAP Financial Metrics			
Adjusted EBITDA	\$(0.7)	\$(6.0)	—
Free Cash Flow	\$0.6	5.2	—

Active Users and Subscribers

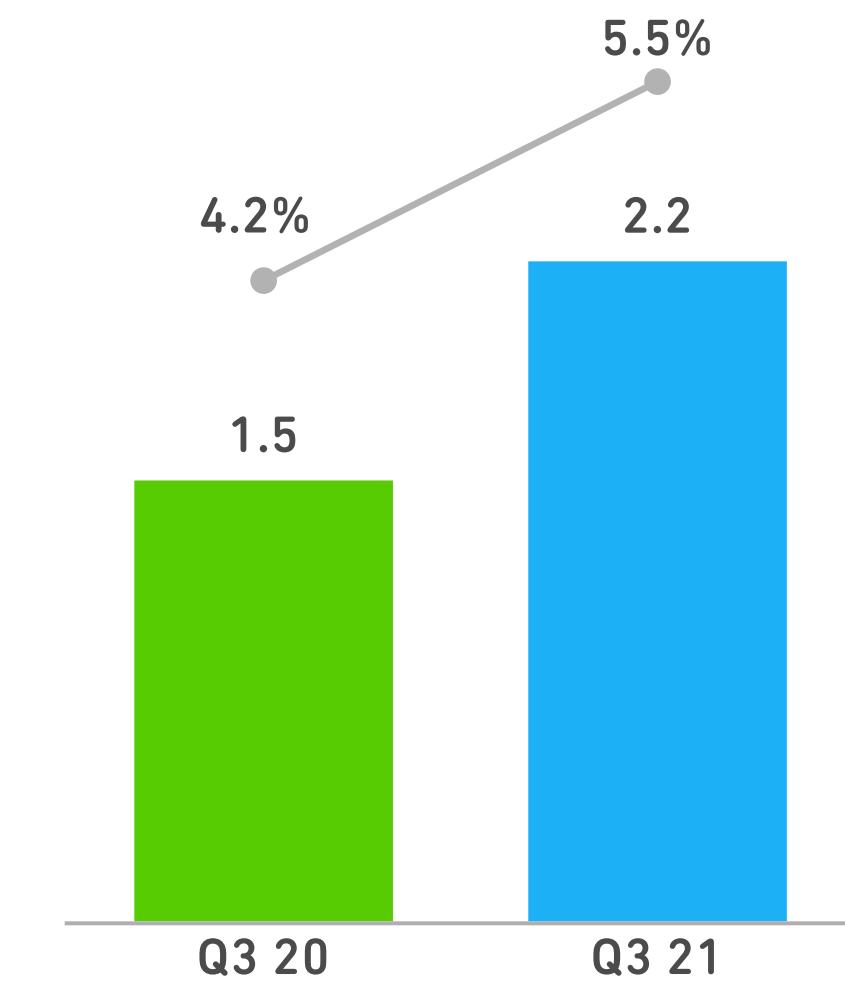
MAU (M)



DAU (M)



Paid Subscribers (M) and Penetration of MAUs (%)



DAU/MAU

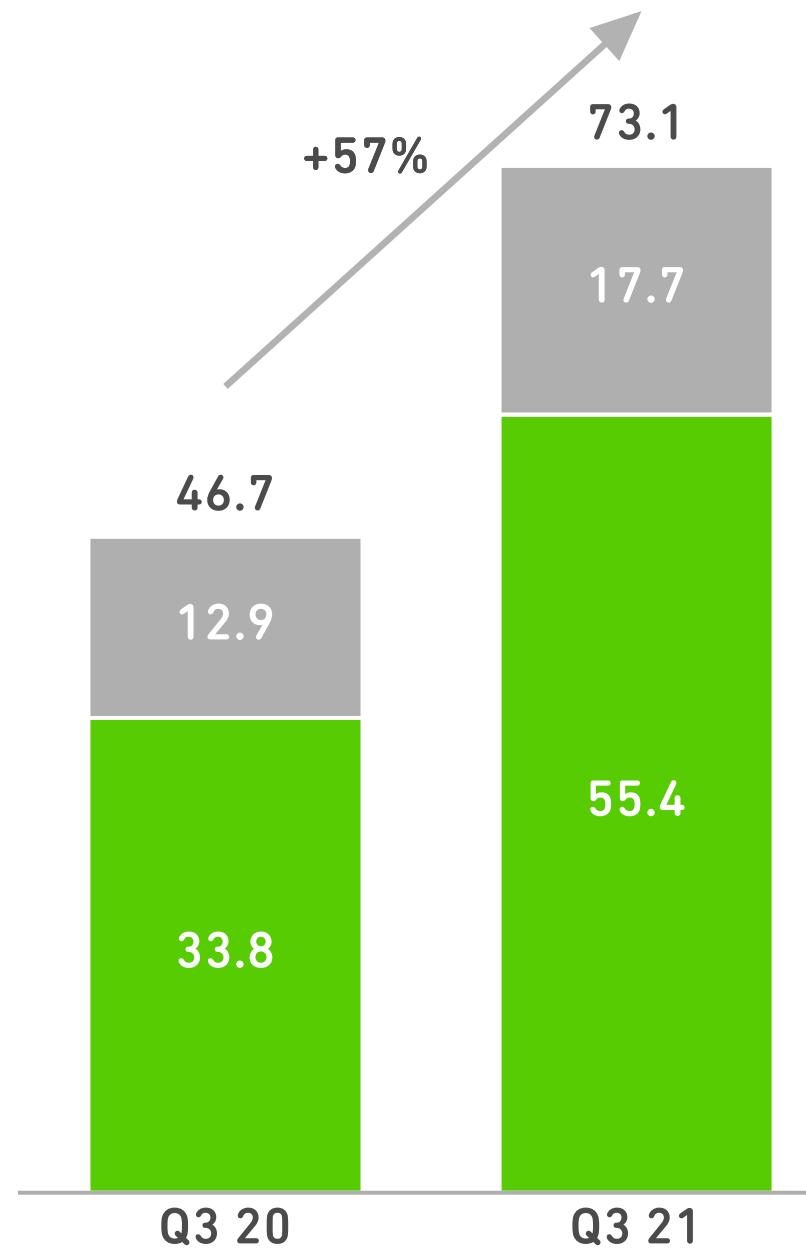
22.8%

23.5%

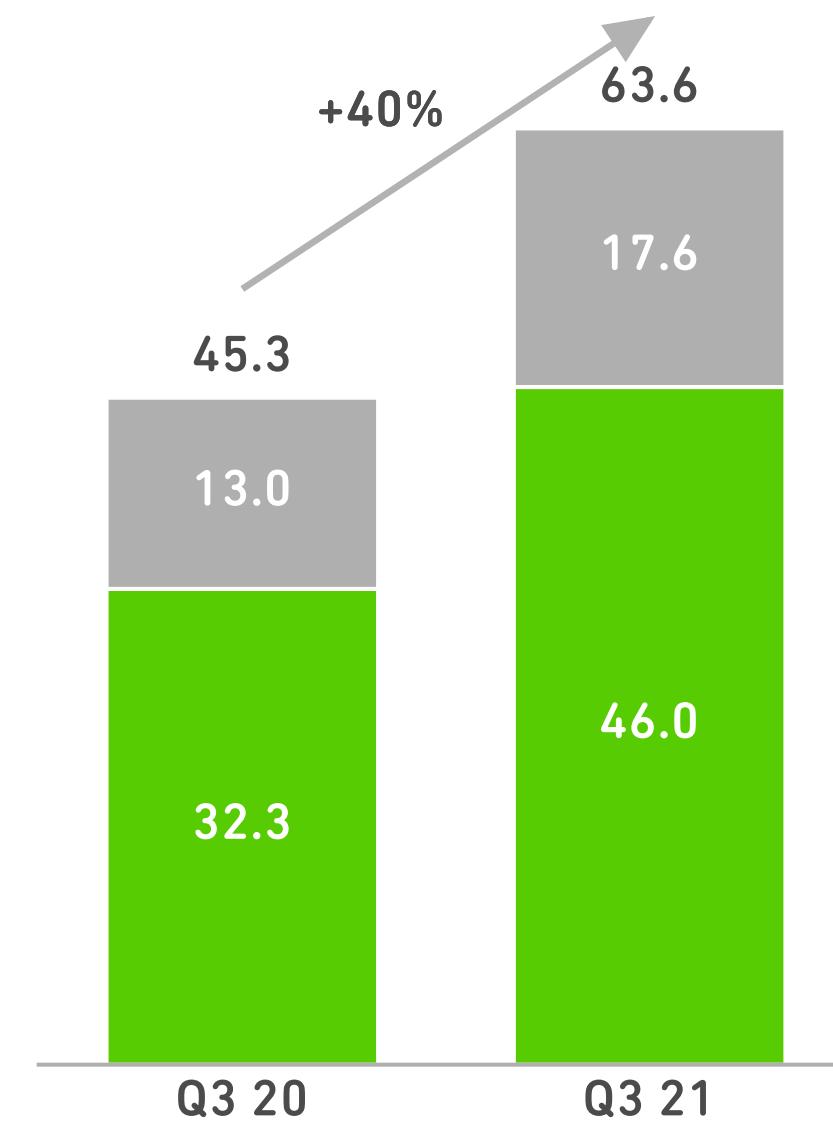
— Paid Subscriber as % of Avg. LTM MAUs

Top Line Growth

Bookings (\$M)



Revenue (\$M)



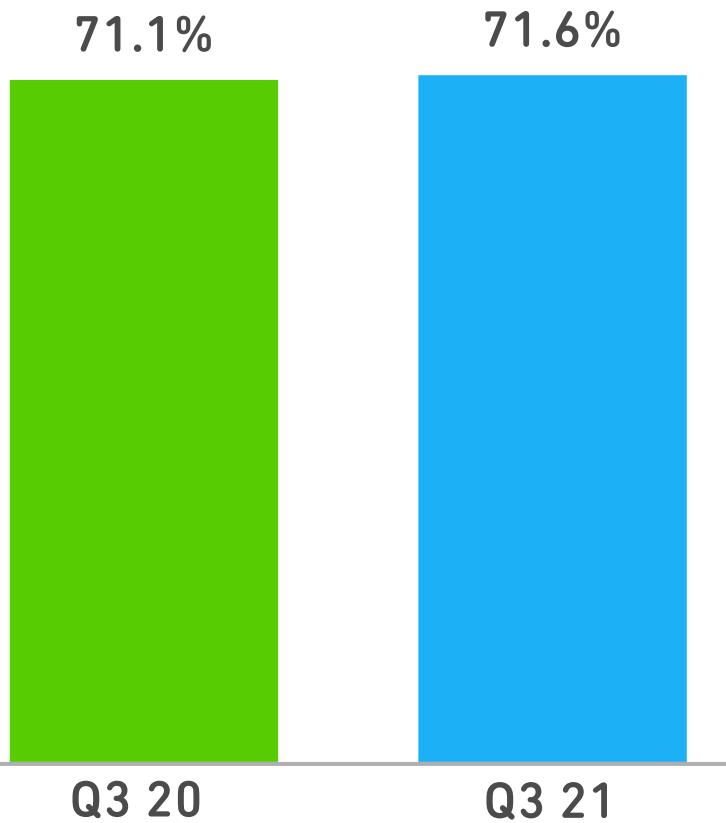
● Subscription

● Non-Subscription

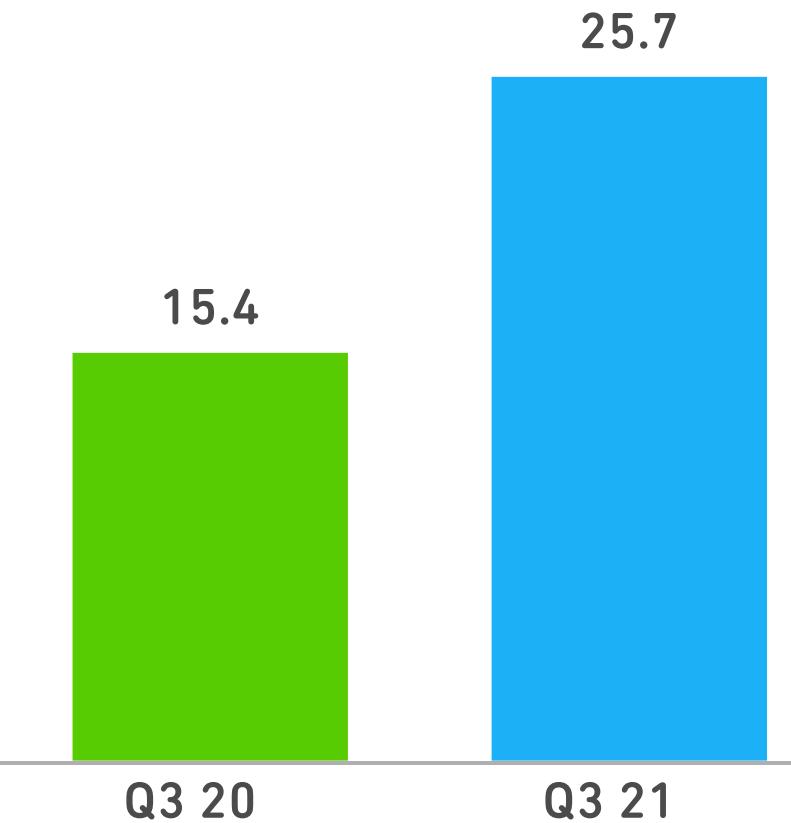
Efficient Business Model

Non-GAAP Operating Expenses

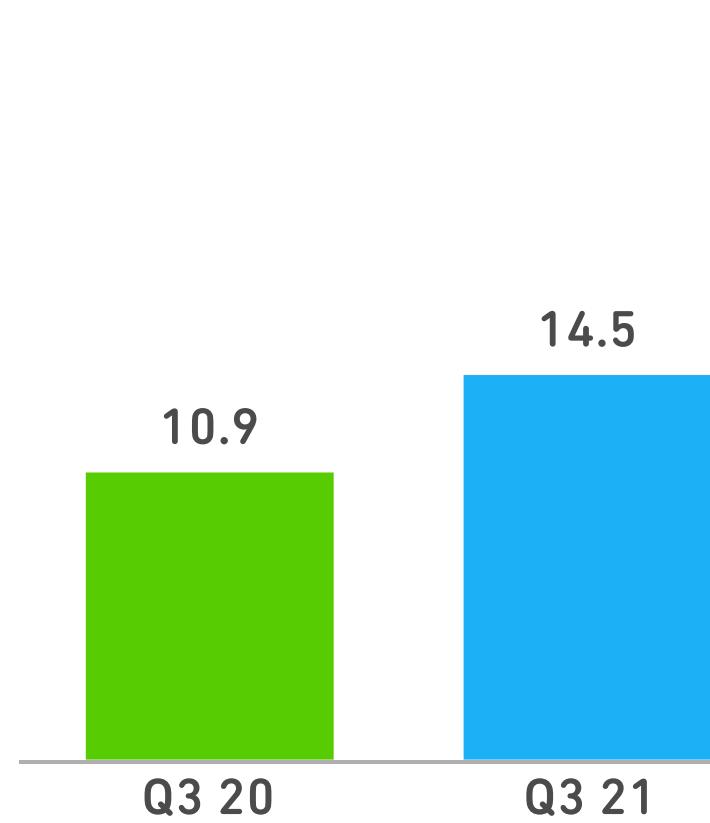
Gross Margin (%)



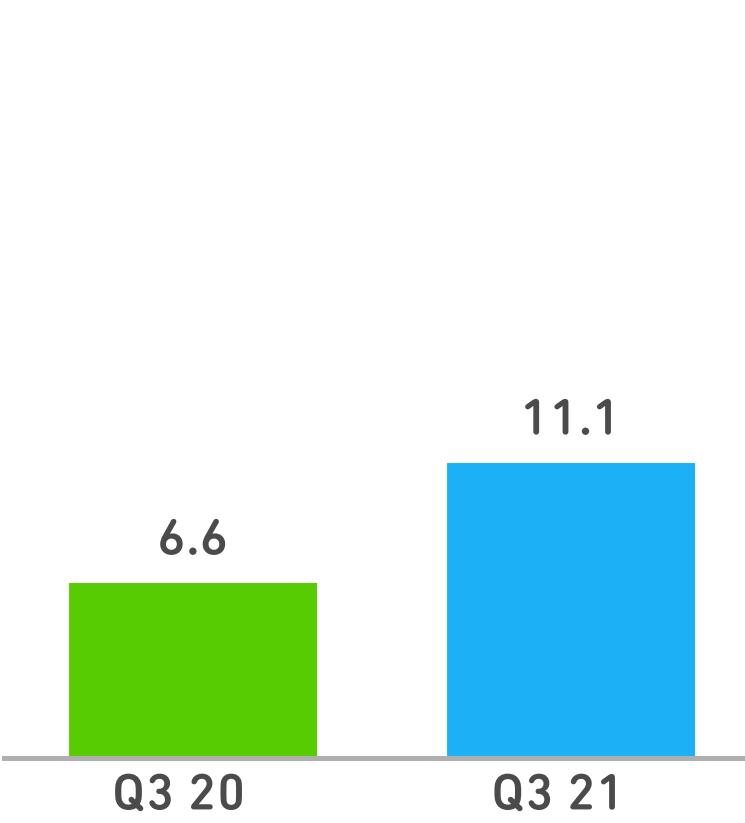
R&D (\$M)



S&M (\$M)



G&A (\$M)

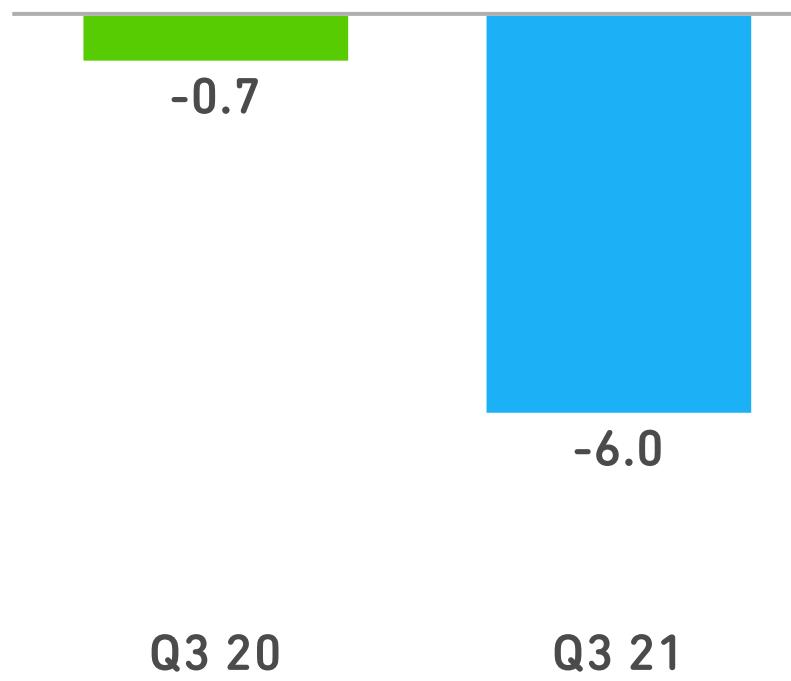


% of rev.

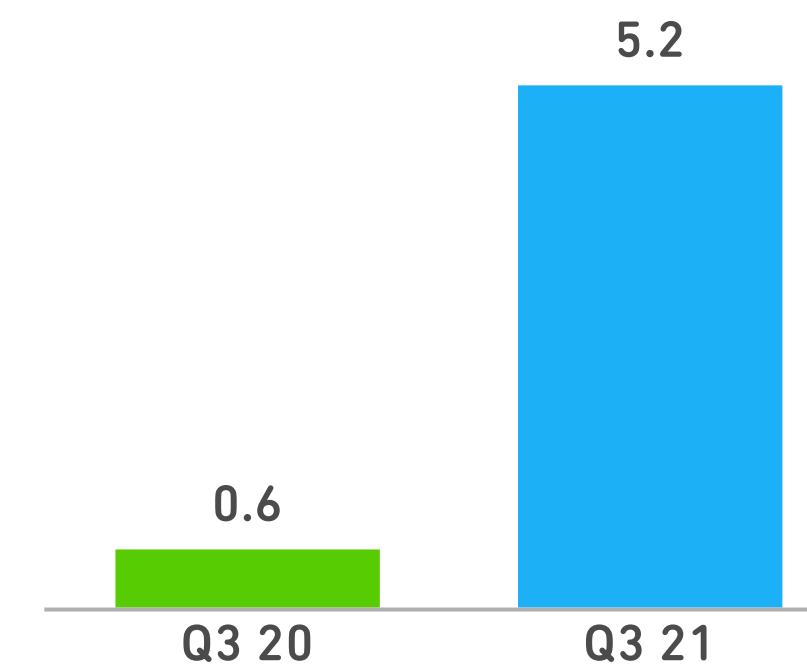
34% 40% 24% 23% 15% 17%

Adjusted EBITDA and Free Cash Flow

Adj. EBITDA (\$M)



FCF (\$M)



**Q4 2021
guidance**

Q4 2021 and FY2021 Guidance

(in millions)	Q4 2021	FY 2021
Bookings	\$79.0 – 82.0	\$282.5 – 285.5
YoY Bookings Growth	38% – 44%	49% - 50%
Revenues	\$66.5 – 69.5	\$244.0 – 247.0
YoY Revenue Growth	38% - 44%	51% - 53%
Adjusted EBITDA	\$(6.5) - (3.5)	\$(8.0) - (5.0)

appendix

Reconciliation: Net Income to Adj. EBITDA

(in thousands)	Q3 2020	Q3 2021
Net Income (Loss)	(\$3,176)	(\$28,970)
Less: Interest Income	(7)	(4)
Plus: Provision for Income Taxes	23	51
Plus: Depreciation & Amortization	627	733
Plus: IPO and Public Company Readiness Costs	127	1,560
Plus: Stock-based Compensation	1,682	20,662
Adjusted EBITDA	(\$724)	(\$5,968)

Reconciliation: Free Cash Flow

(in millions)

	Q3 2020	Q3 2021
Net cash provided by operating activities	\$847	\$4,511
Less: Capitalized Software Development Costs	-	(379)
Less: Purchases of Property and Equipment	(364)	(1,085)
Plus: IPO and Public Company Readiness Costs	127	1,560
Plus: Other adjustments (1)	-	577
Free Cash Flow	\$610	\$5,184

Reconciliation: GAAP to Non-GAAP Operating Expense

(in millions)	Q3 2020	Q3 2021
Total GAAP Operating Expense	\$35,271	\$74,217
Less: Depreciation & Amortization	(601)	(733)
Less: Stock-based Compensation	(1,679)	(20,656)
Less: Other Adjustments	(127)	(1,560)
Non-GAAP Operating Expense	\$32,864	\$51,268

Reconciliation: GAAP to Non-GAAP R&D Expense

(in millions)	Q3 2020	Q3 2021
Total GAAP Operating Expense	\$15,894	\$29,345
Less: Depreciation & Amortization	-	(99)
Less: Stock-based Compensation	(526)	(3,533)
Less: Other Adjustments	-	(46)
Non-GAAP Operating Expense	\$15,368	\$25,667

Reconciliation: GAAP to Non-GAAP S&M Expense

(in millions)	Q3 2020	Q3 2021
Total GAAP Operating Expense	\$11,142	\$15,267
Less: Depreciation & Amortization	(148)	(201)
Less: Stock-based Compensation	(116)	(408)
Less: Other Adjustments	-	(139)
Non-GAAP Operating Expense	\$10,878	\$14,519

Reconciliation: GAAP to Non-GAAP G&A Expense

(in millions)	Q3 2020	Q3 2021
Total GAAP Operating Expense	\$8,235	\$29,605
Less: Depreciation & Amortization	(453)	(433)
Less: Stock-based Compensation	(1,037)	(16,715)
Less: Other Adjustments	(127)	(1,375)
Non-GAAP Operating Expense	\$6,618	\$11,082

Endnotes

1. Page 8: MAUs are defined as unique Duolingo users who engage with our mobile language learning application or the language learning section of our website each month.
2. Page 10: Duolingo efficacy study derived from formal study we conducted in 2021 to evaluate Duolingo's effectiveness. ACTFL refers to American Council on the Teaching of Foreign Languages.
3. Page 16: Each of the percentages listed represents % of 3Q YTD Revenues.
4. Page 28-31: D&A excludes \$26k in Q3 2020 included in Cost of Revenue. Stock-based compensation excludes \$3k in Q3 2020 and \$6k in Q3 2021 included in Cost of Revenue