

AUGUST 11, 2021

# Q2 2021 earnings presentation

duolingo



# Safe harbor

The information contained in this presentation is for informational purposes only. The information contained in this presentation is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Neither Duolingo, Inc. ("Duolingo" or the "Company") or any of its affiliates, nor Goldman Sachs & Co. LLC or Allen & Company LLC, make any representation or warranty, express, or implied as to, and no reliance should be placed on, the fairness, accuracy, completeness, or correctness of any of the information or opinions contained in this presentation. This presentation has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person.

We have filed a registration statement (including a prospectus) with the SEC for the offering to which this communications relates. Before you invest, you should read the prospectus in the registration statement and the other documents we have filed with the SEC for more complete information about us and this offering. You may get these documents for free by visiting EDGAR on the SEC website at <http://www.sec.gov>. Alternatively, any underwriter or dealer participating in the offering will arrange to send you the prospectus if you request it by contacting: Goldman Sachs & Co. LLC, Attention: Prospectus Department, 200 West Street, New York, New York 10282, by telephone at 1-866-471-2526 or by email at [prospectus-ny@ny.email.gs.com](mailto:prospectus-ny@ny.email.gs.com); and Allen & Company LLC, Attention: Prospectus Department, 711 Fifth Avenue, 10th Floor, New York, New York 10022, by telephone at 212-339-2696 or by email at [allenprospectus@allenco.com](mailto:allenprospectus@allenco.com).

This presentation shall not constitute an offer to sell or the solicitation of an offer to buy these securities, nor shall there be any sale of these securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities law of any such state or jurisdiction.

## Forward-Looking Statements

This presentation contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the Company's results may differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact could be deemed forward-looking statements, including, but not limited to: possible or assumed future results of operations, including descriptions of our business plan, and strategies. These statements are based on estimates and information available to the Company at the time of this presentation and are not guarantees of future performance. Actual results could differ materially from the Company's current expectations as a result of many factors. The Company assumes no obligation, and does not intend, to update these forward-looking statements, except as required by law. Investors are urged to review in detail the risks and uncertainties outlined in Duolingo's Securities and Exchange Commission filings, including but not limited to Duolingo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 as well as the Risk Factors contained therein. You may get these documents for free by visiting EDGAR on the SEC website at <http://www.sec.gov>.

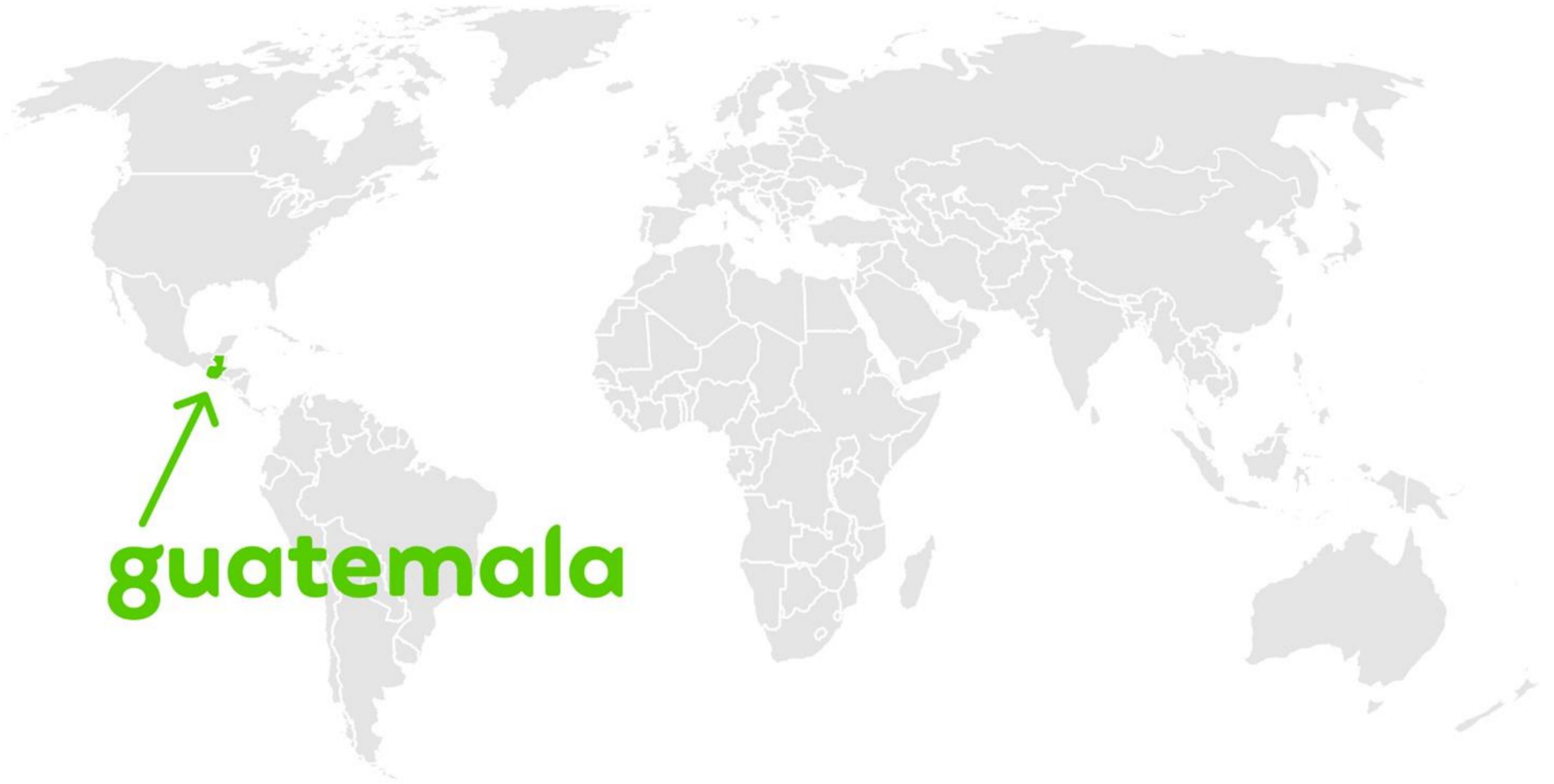
## Non-GAAP Financial Measures

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. 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 Company Introduction
- 2 Q2 2021 Financial Highlights
- 3 Q3 2021 and FY2021 Guidance

# company introduction



**guatemala**

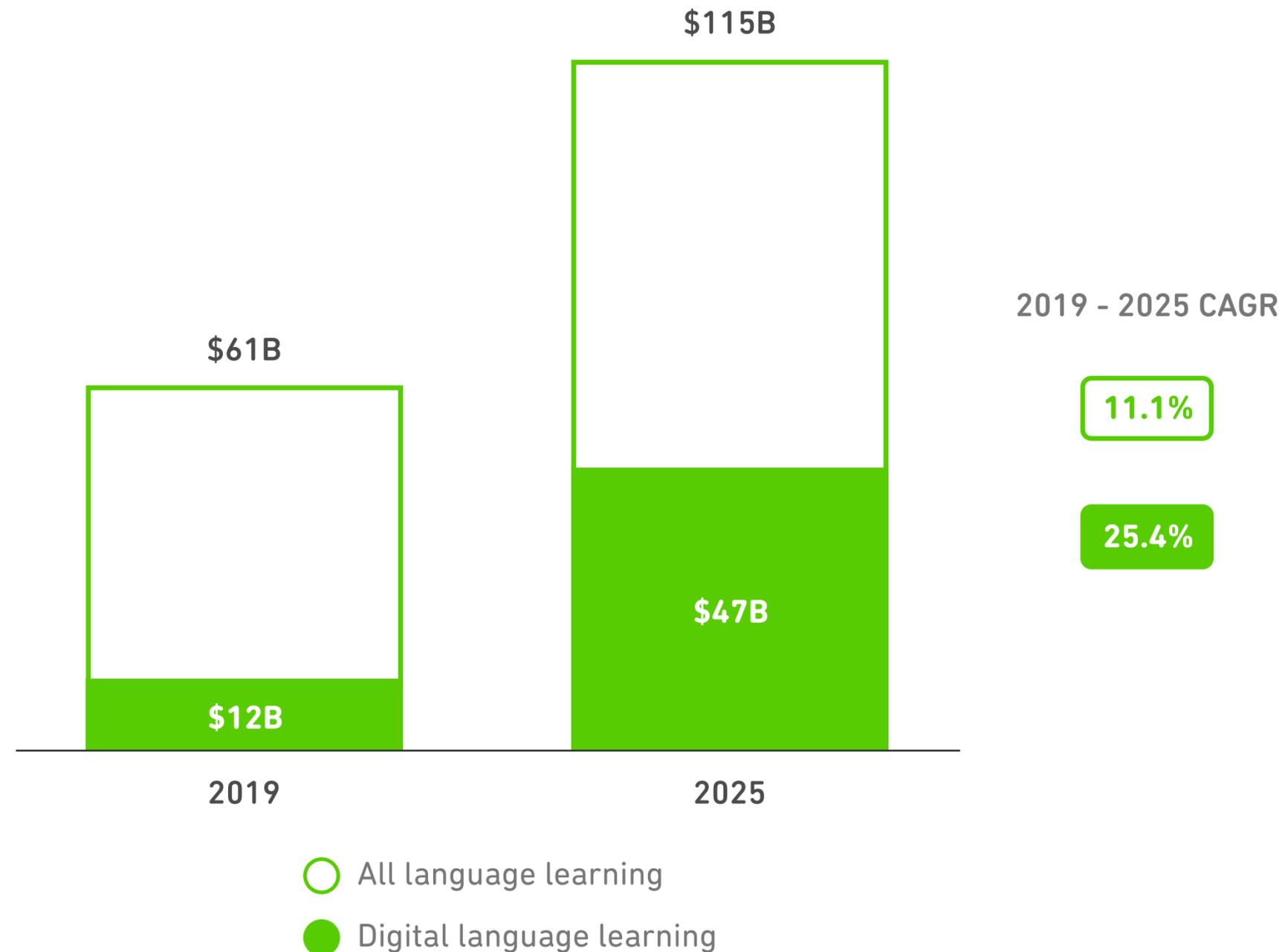
**Our mission is to develop the  
best education in the world and  
make it universally available**

**duolingo**

**~1.8B** people in the world are  
learning a foreign language



# Language learning market is large, growing, and shifting online





**Downloaded  
500M+ times**

- Mobile-first
- Free
- Fun

# Monthly Active Users (M)




 85
  30
  5


 PLUS

UNIT 1

 10 XP

 5  
**Basics 1**

 5       3  
**Phrases**      **Animals**

 1      










**Translate this sentence**



 Hola, buenos días.

Hello   am   Juan   to   morning  
           good   meet

CHECK


 85
  30
  5


 PLUS

UNIT 1

 10 XP

 5  
**Basics 1**

 5     3  
**Phrases**    **Animals**

 1    










**Translate this sentence**



 Hola, buenos días.

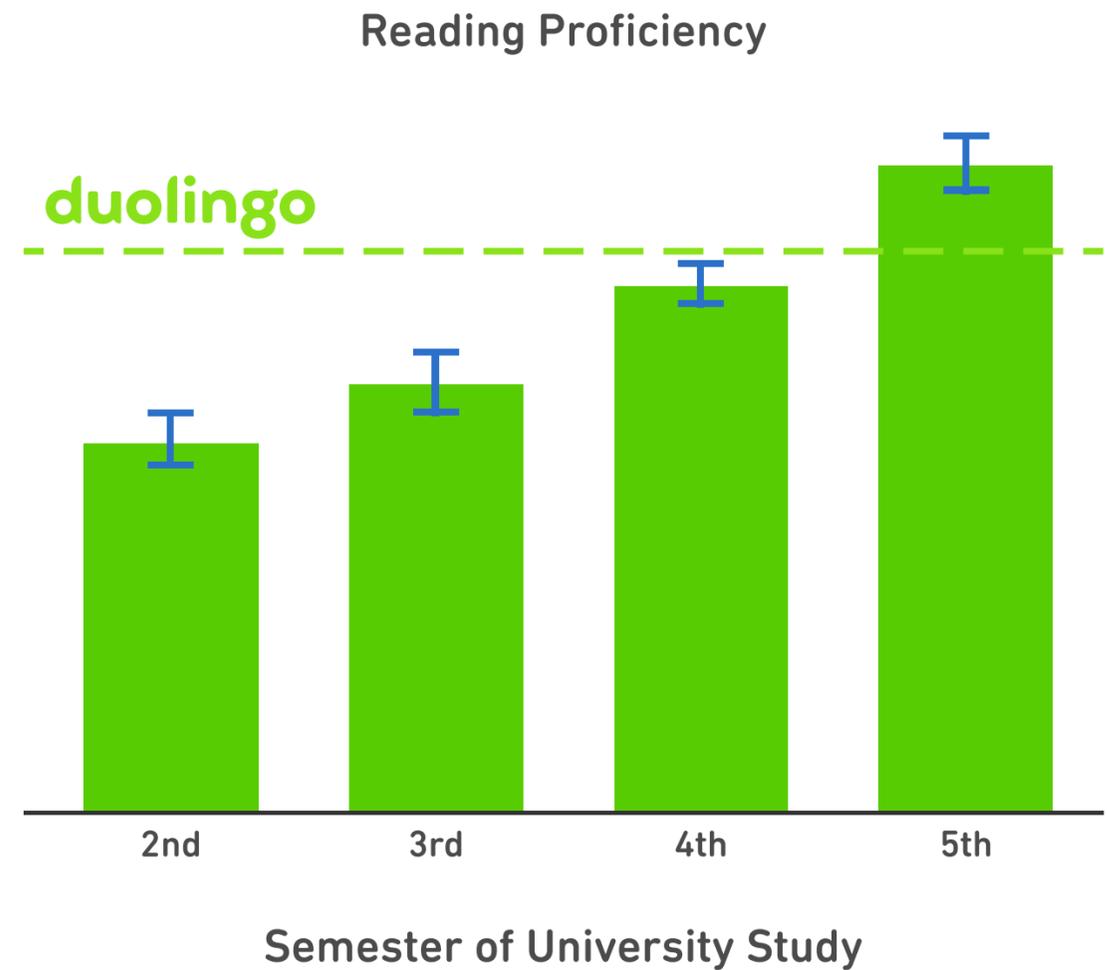
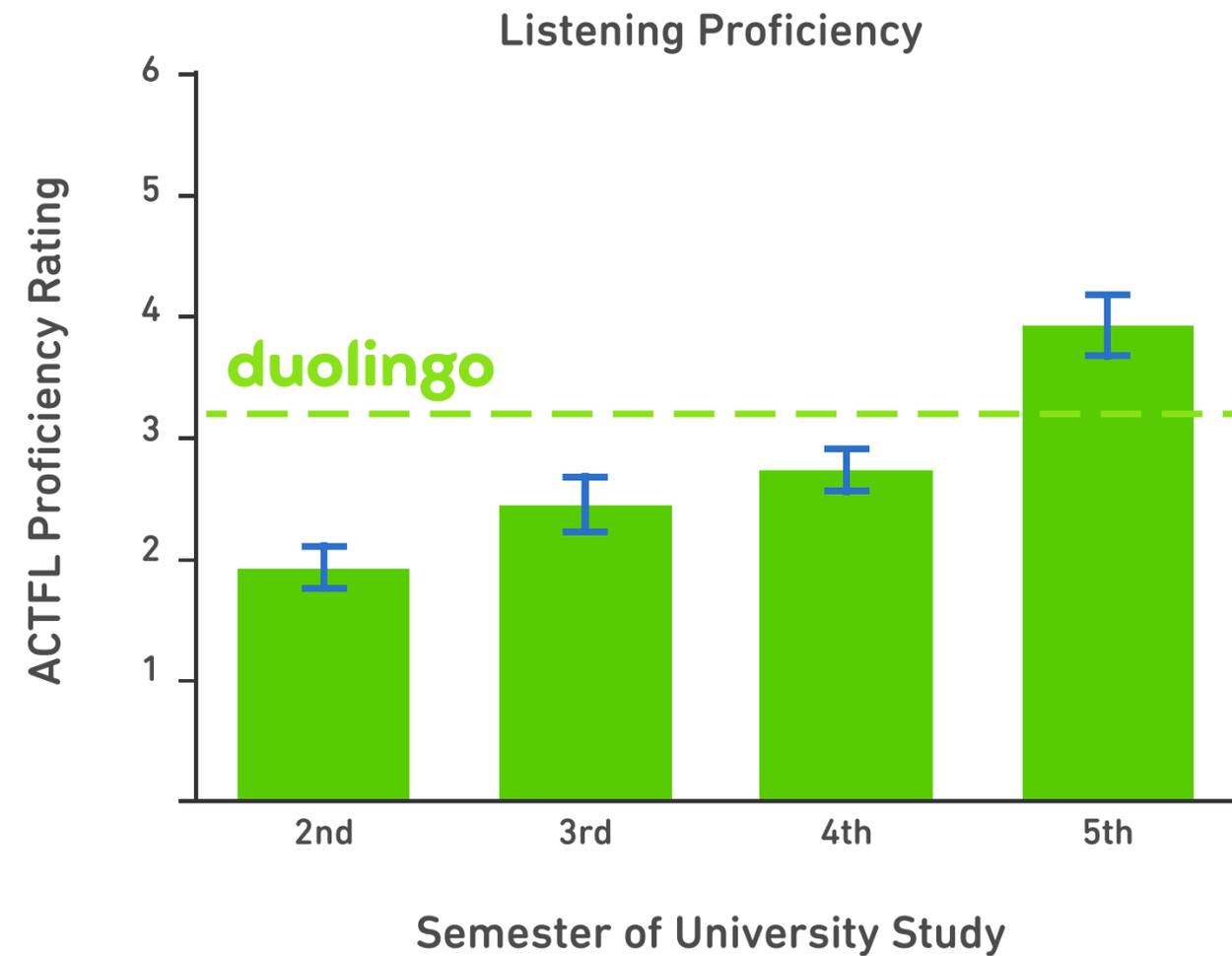
Hello   am   Juan   to   morning  
           good   meet

CHECK

**We use data from over half a billion  
exercises completed every day to  
improve learning efficacy**

**duolingo**

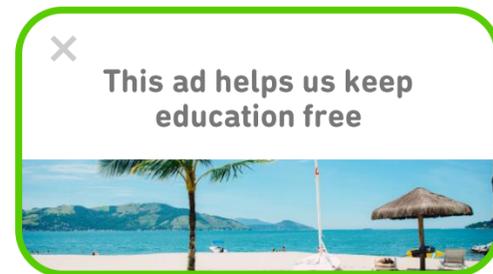
# 5 Duolingo units = 4 university semesters



--- Mean Duolingo proficiency after 5 units of study

# We have 3 ways to monetize

## Ads (~17%)



Free Duolingo users are monetized via Programmatic ads (Google and Facebook)

## Subscription (~73%)



Duolingo Plus is our premium plan with helpful features:

- Ad-free
- Offline lessons
- Unlimited hearts (lives)
- More ways to track progress

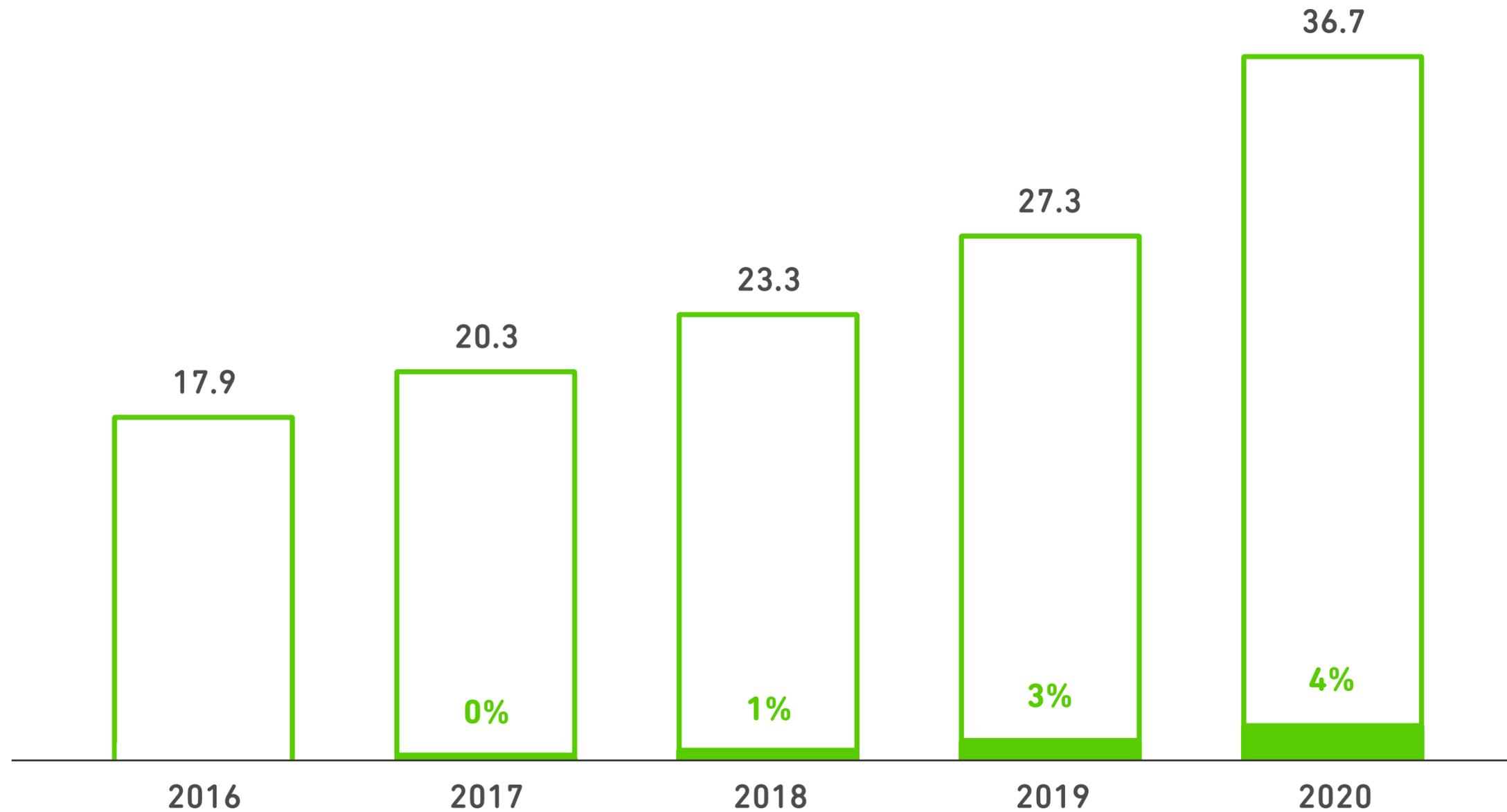
## Assessment (~9%)



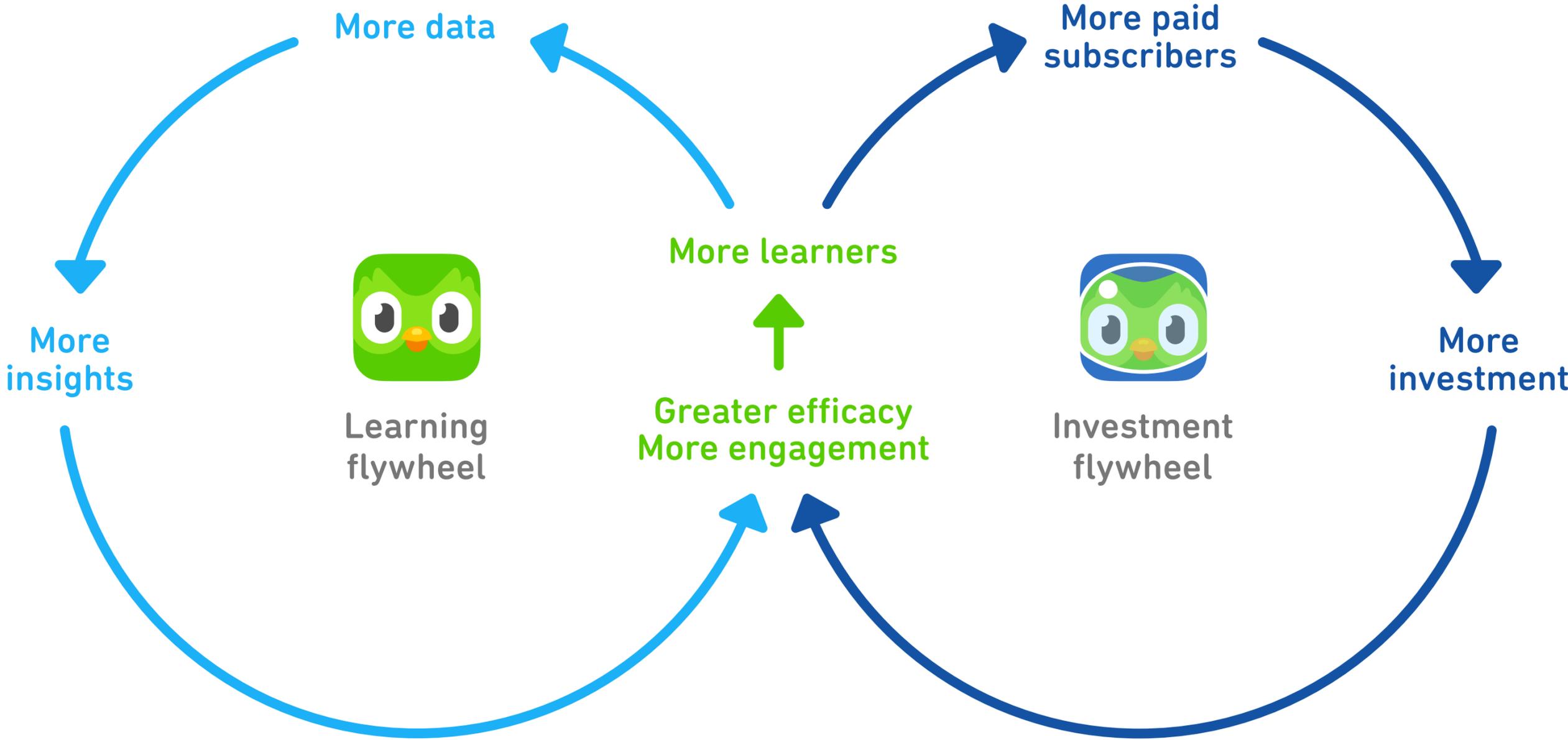
Duolingo English Test (DET) is an English proficiency exam:

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

# Strong growth in MAUs (M) and paid subscribers (as % of MAUs)



# Powerful flywheel effects driven by strong business model



# Strategy



## Grow users

Reach more learners around the world



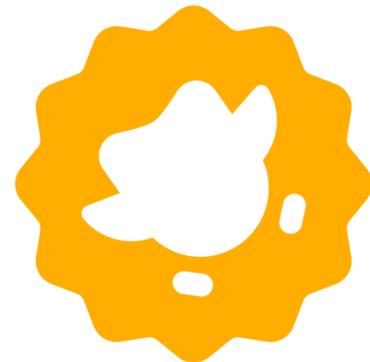
## Teach better

Teach more effectively, and to higher levels of proficiency



## Grow subscribers

Make Duolingo Plus valuable to more learners



## Become the proficiency standard

Make "Duolingo Score" the universal credential for language proficiency

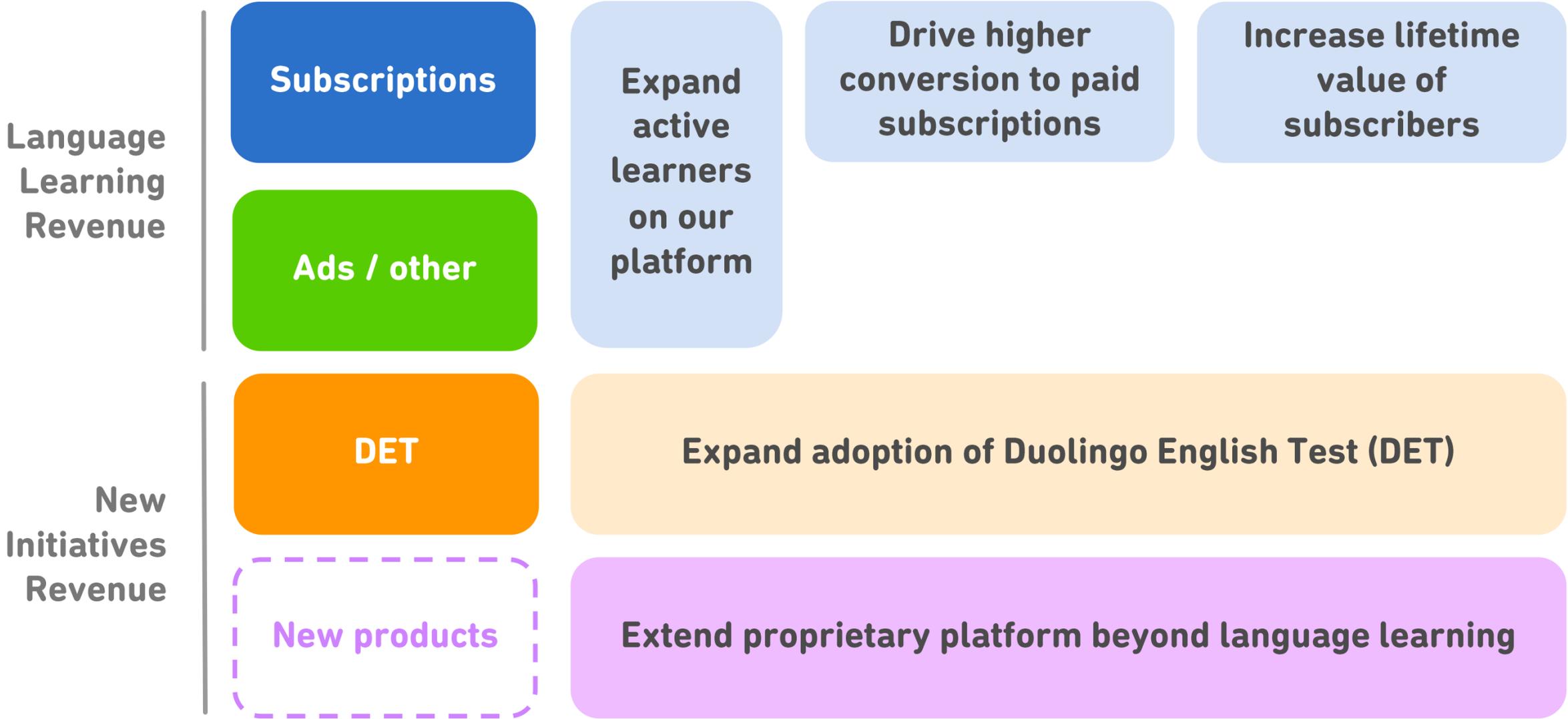


## Expand beyond language learning

Provide high quality, universally available education in more subjects

# Q2 2021 financial highlights

# Our Growth Framework

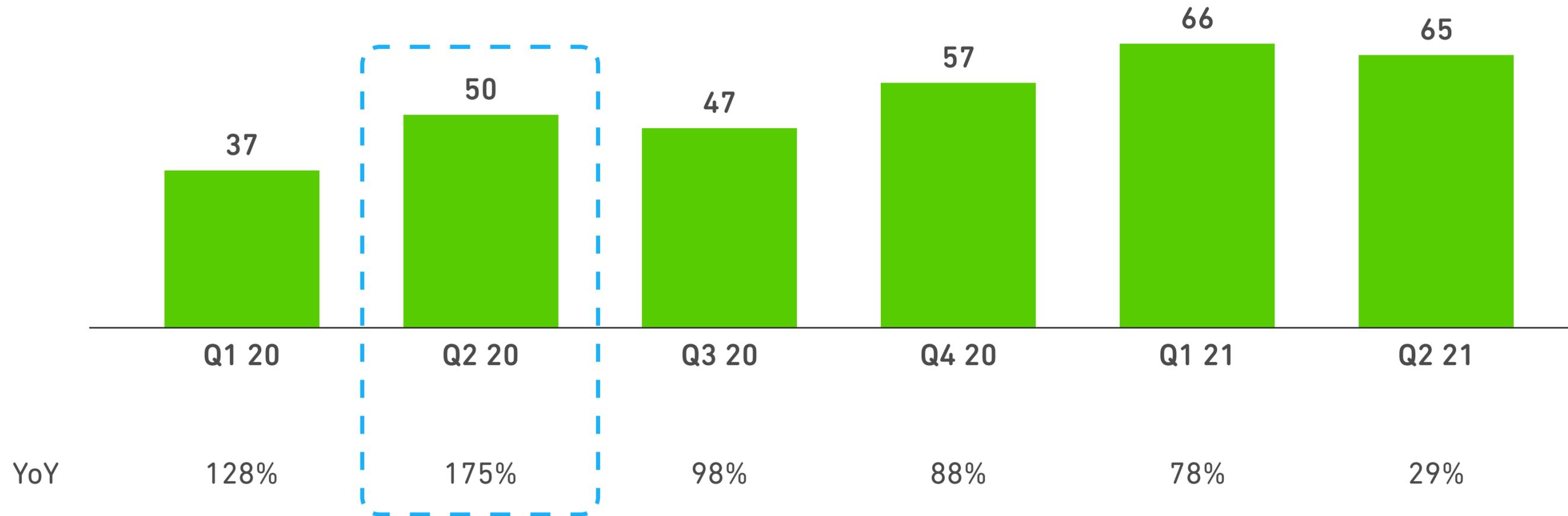


# Strong Q2 2021 Financial Results

(in millions)	Q2 2020	Q2 2021	YoY Growth
<b>Operating Metrics</b>			
Total Bookings	\$49.6	\$64.5	30%
Subscription Bookings	\$36.6	\$48.9	34%
Monthly active users (MAUs)	39.2	37.9	(3%)
Daily active users (DAUs)	9.0	9.1	2%
Paid Subscribers	1.3	1.9	46%
<b>GAAP Financial Metrics</b>			
Revenues	\$40.0	\$58.8	47%
Gross Profit	\$28.2	\$42.7	51%
Gross Margin (%)	70.5%	72.6%	207bps
Net Income (Loss)	\$0.0	\$(0.2)	—
Net cash from operating activities	\$8.5	\$(0.9)	—
<b>Non-GAAP Financial Metrics</b>			
Adjusted EBITDA	\$2.3	\$3.7	—
Free Cash Flow	\$7.9	\$2.1	—

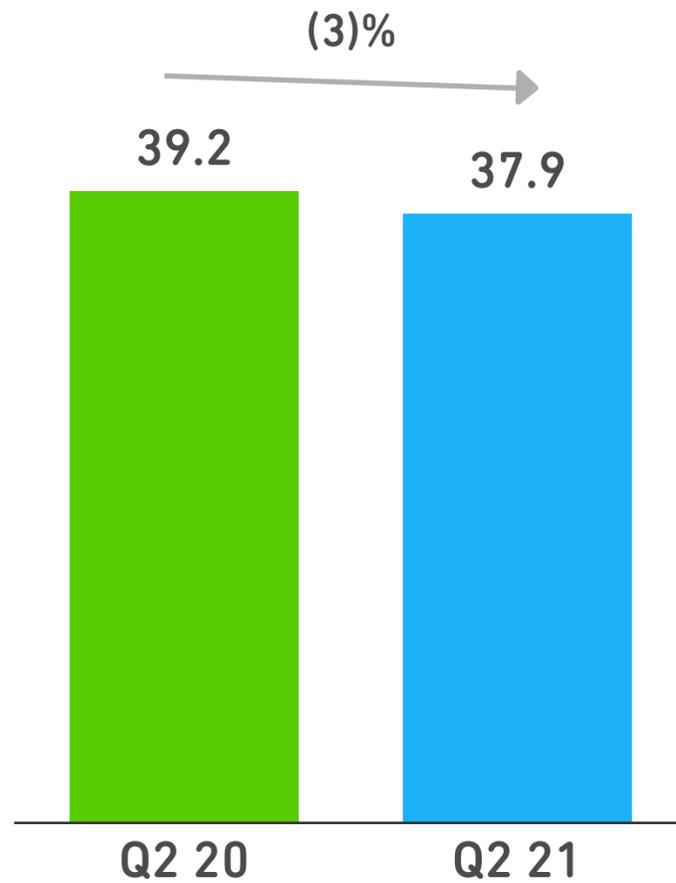
# COVID-19 Impact

Bookings (\$M)

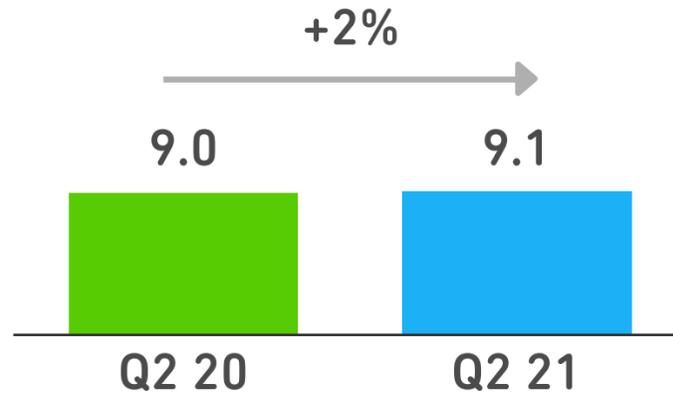


# Active Users and Subscribers

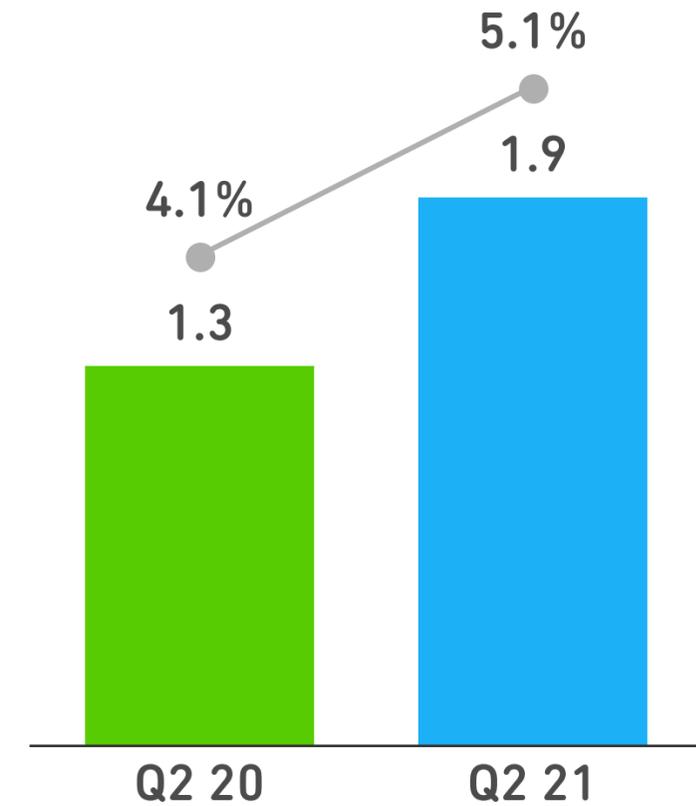
### MAU (M)



### DAU (M)



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



DAU/MAU

23%

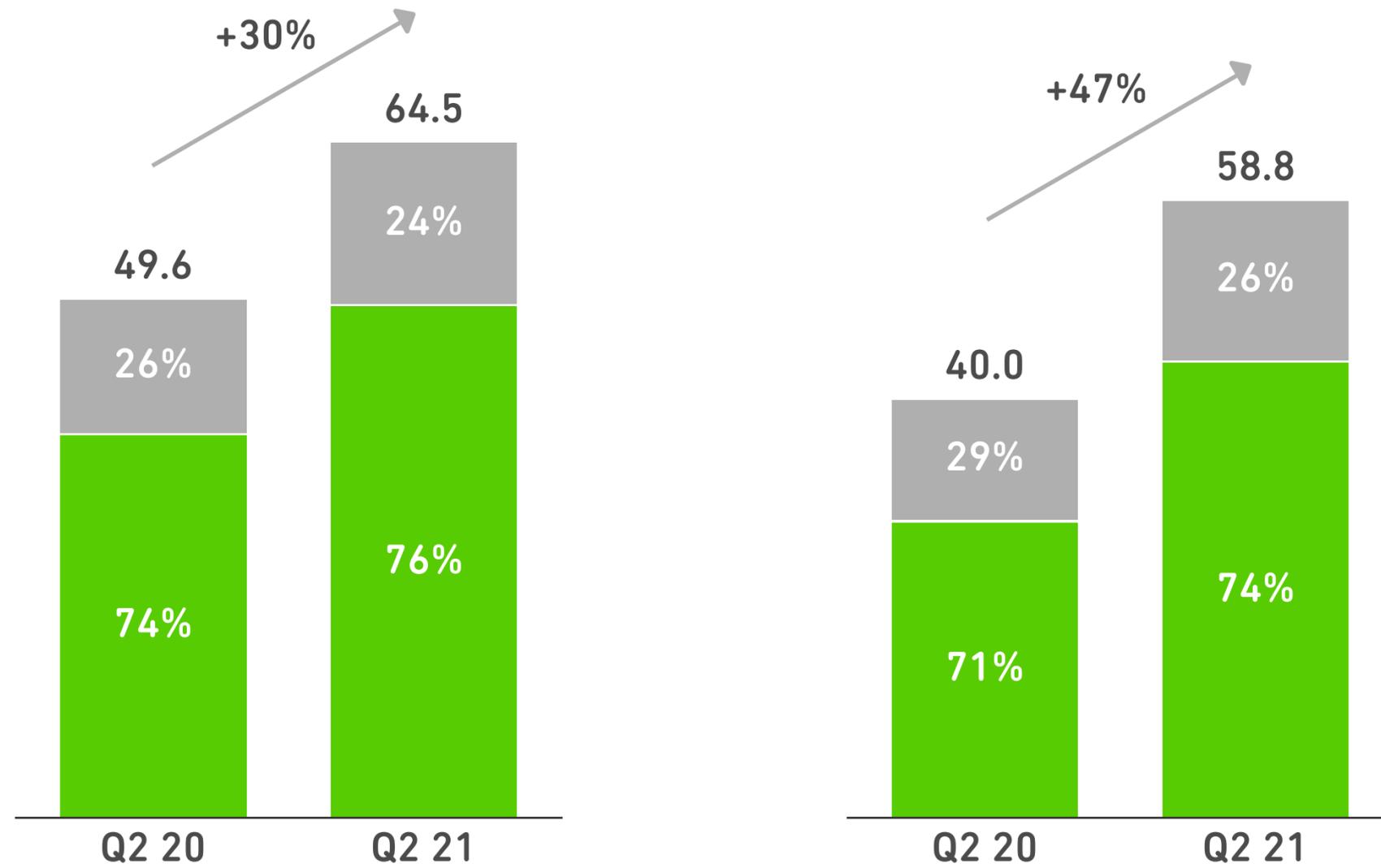
24%

● Paid Subscriber as % of Avg. LTM MAUs

# Top Line Growth

Bookings (\$M)

Revenue (\$M)

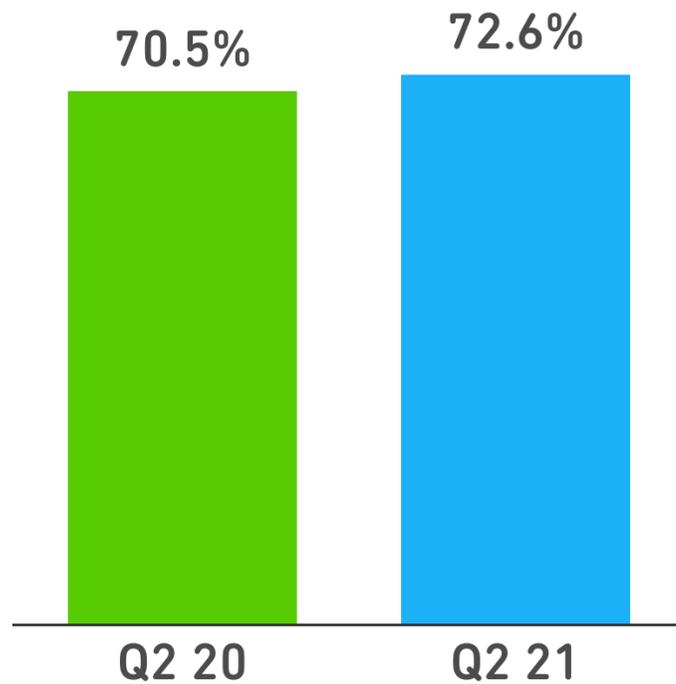


● Subscription ● Non-Subscription

# Efficient business model

Non-GAAP Operating Expenses

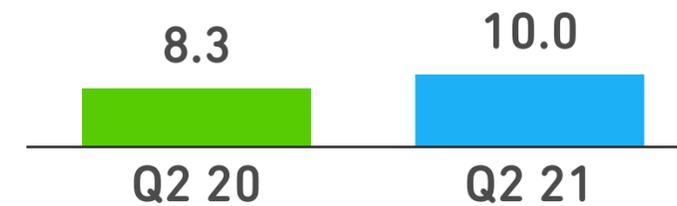
## Gross Margin (%)



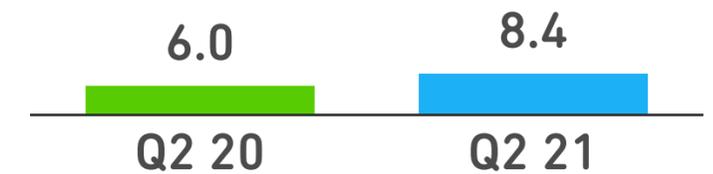
## R&D (\$M)



## S&M (\$M)



## G&A (\$M)



% of rev.

29%

35%

21%

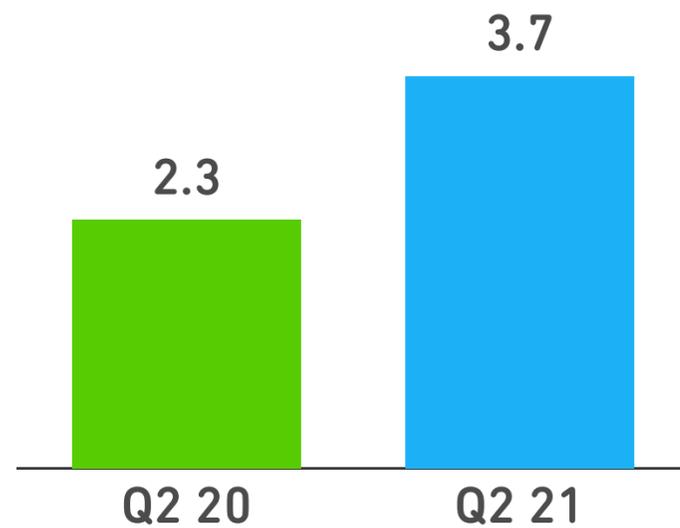
17%

15%

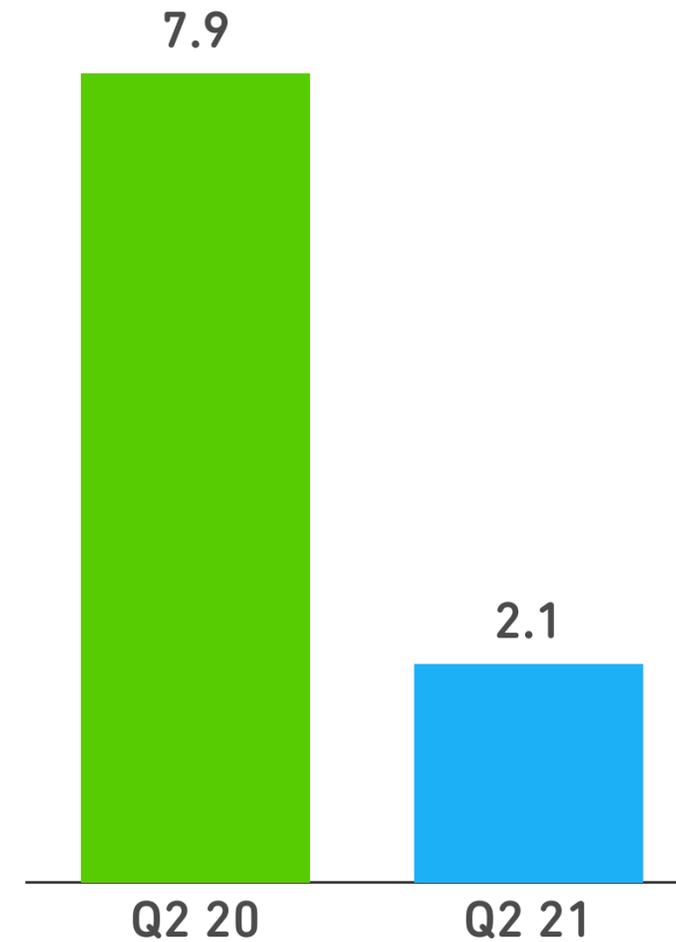
14%

# Adjusted EBITDA and Free Cash Flow

Adj. EBITDA (\$M)



FCF (\$M)



# Q3 2021 guidance

# Q3 2021 and FY2021 Guidance

(in millions)

Q3 2021

FY 2021

---

**Bookings**

**\$63 - \$66**

**\$267 - \$273**

---

YoY Bookings Growth

35% - 41%

40% - 44%

---

**Revenues**

**\$58.5 - 61.5**

**\$236 - \$242**

---

YoY Revenue Growth

29% - 36%

46% - 50%

---

**Adjusted EBITDA**

**\$(12) - (8)**

**\$(14) - (8)**

---

appendix

# Reconciliation: Net Income to Adj. EBITDA

(in millions)

Q2 2020

Q2 2021

	Q2 2020	Q2 2021
<b>Net Income (Loss)</b>	<b>\$0.0</b>	<b>(\$0.2)</b>
Less: Interest Income	(0.0)	(0.0)
Plus: Provision for Income Taxes	0.0	0.0
Plus: Depreciation & Amortization	0.6	0.6
Plus: Stock-based Compensation	1.7	2.9
Plus: Other one-time adjustments	0.0	0.3
<b>Adjusted EBITDA</b>	<b>\$2.3</b>	<b>\$3.7</b>

# Reconciliation: Free Cash Flow

(in millions)

Q2 2020

Q2 2021

	Q2 2020	Q2 2021
<b>Net cash provided by operating activities</b>	<b>\$8.5</b>	<b>(\$0.9)</b>
Less: Capital Expenditures	(0.6)	(1.1)
Less: Capitalized software development costs	(0.0)	(0.7)
Plus: Other one-time adjustments (1)	0.0	1.2
Plus: Other adjustments (2)	0.0	3.6
<b>Free Cash Flow</b>	<b>\$7.9</b>	<b>\$2.1</b>

(1) Represents IPO-related expenses

(2) Represents cash payments of Language Impact awards paid as part of sunsetting our volunteer contributor program.

# Reconciliation: GAAP to Non-GAAP Operating Expense

(in millions)

Q2 2020

Q2 2021

	Q2 2020	Q2 2021
<b>Total GAAP Operating Expense</b>	<b>\$28.1</b>	<b>\$43.1</b>
Less: Depreciation & Amortization	(0.6)	(0.6)
Less: Stock-based Compensation	(1.7)	(2.9)
Less: Other Adjustments	(0.0)	(0.3)
<b>Non-GAAP Operating Expense</b>	<b>\$25.8</b>	<b>\$39.3</b>

# Reconciliation: GAAP to Non-GAAP R&D Expense

(in millions)

Q2 2020

Q2 2021

	Q2 2020	Q2 2021
<b>Total GAAP Operating Expense</b>	<b>\$12.1</b>	<b>\$21.9</b>
Less: Depreciation & Amortization	(0.0)	(0.0)
Less: Stock-based Compensation	(0.5)	(1.1)
Less: Other Adjustments	(0.0)	(0.0)
<b>Non-GAAP Operating Expense</b>	<b>\$11.6</b>	<b>\$20.8</b>

# Reconciliation: GAAP to Non-GAAP S&M Expense

(in millions)

Q2 2020

Q2 2021

<b>Total GAAP Operating Expense</b>	<b>\$8.6</b>	<b>\$9.6</b>
Less: Depreciation & Amortization	(0.2)	(0.2)
Less: Stock-based Compensation	(0.1)	(0.1)
Less: Other Adjustments	(0.0)	0.6
<b>Non-GAAP Operating Expense</b>	<b>\$8.3</b>	<b>\$10.0</b>

# Reconciliation: GAAP to Non-GAAP G&A Expense

(in millions)

Q2 2020

Q2 2021

	Q2 2020	Q2 2021
<b>Total GAAP Operating Expense</b>	<b>\$7.4</b>	<b>\$11.6</b>
Less: Depreciation & Amortization	(0.4)	(0.4)
Less: Stock-based Compensation	(1.0)	(1.7)
Less: Other Adjustments	(0.0)	(1.0)
<b>Non-GAAP Operating Expense</b>	<b>\$6.0</b>	<b>\$8.4</b>

# Endnotes

1. Page 7, 8: Number of global language learners and language learning market size figures source: HolonIQ.
2. Page 14: Duolingo efficacy study derived from formal study we conducted in 2020 to evaluate Duolingo's effectiveness. ACTFL refers to American Council on the Teaching of Foreign Languages.
3. Page 15: In-app purchase (IAP) revenue represents 1% of the total. Each of the percentages listed represents % of 2020 Revenues.
4. Page 16: 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.