

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.

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**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)



Recent and Upcoming Campaigns



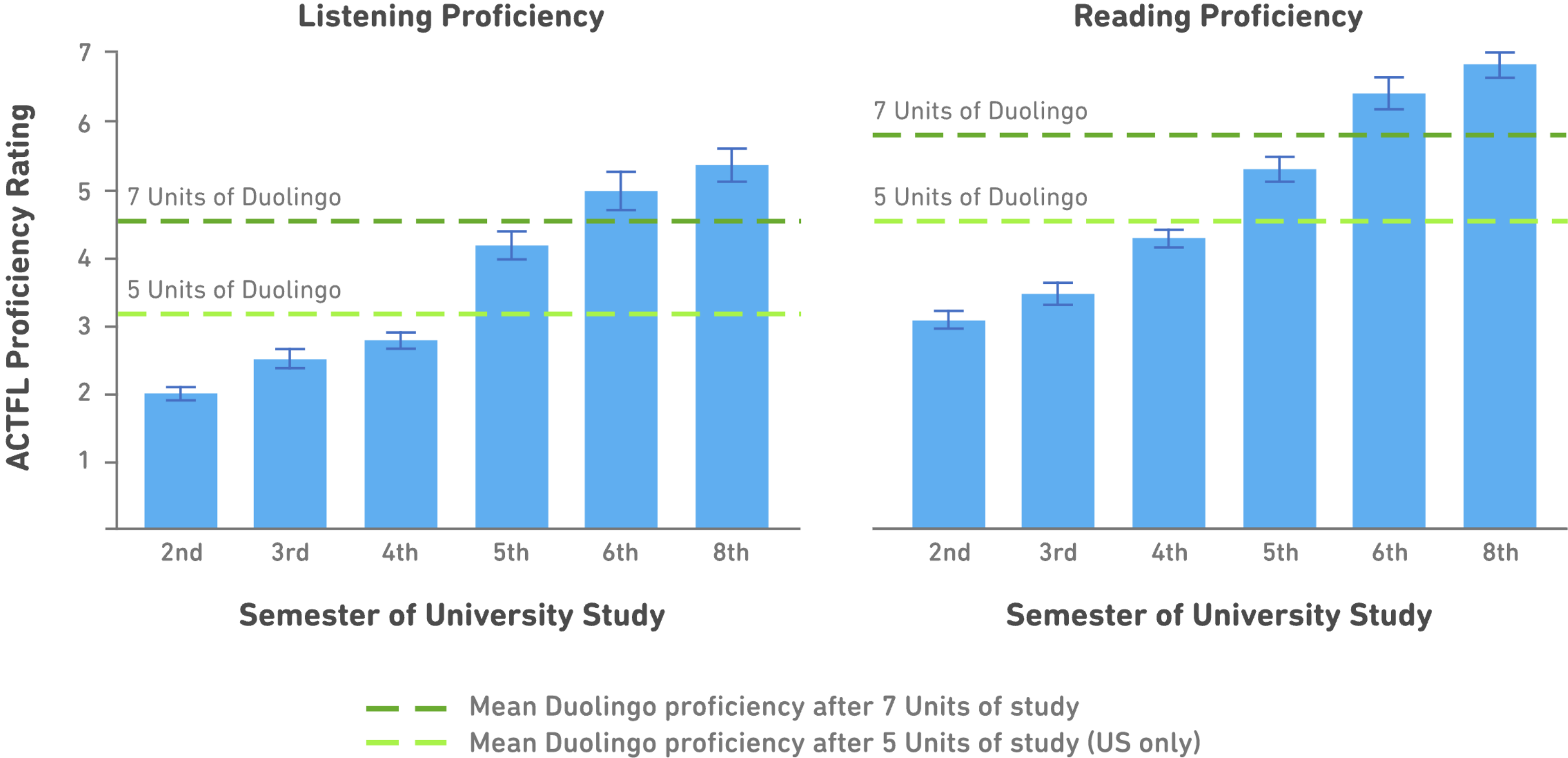
July / August



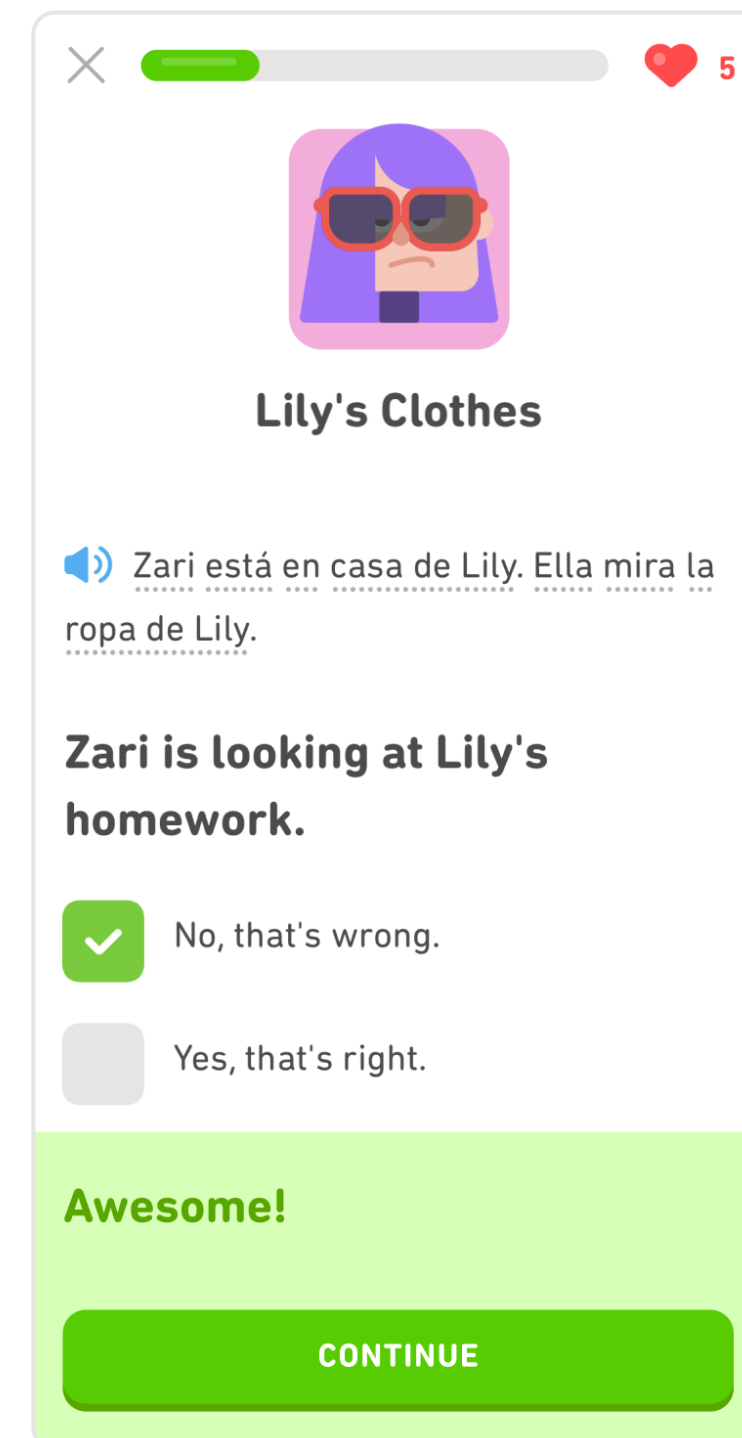
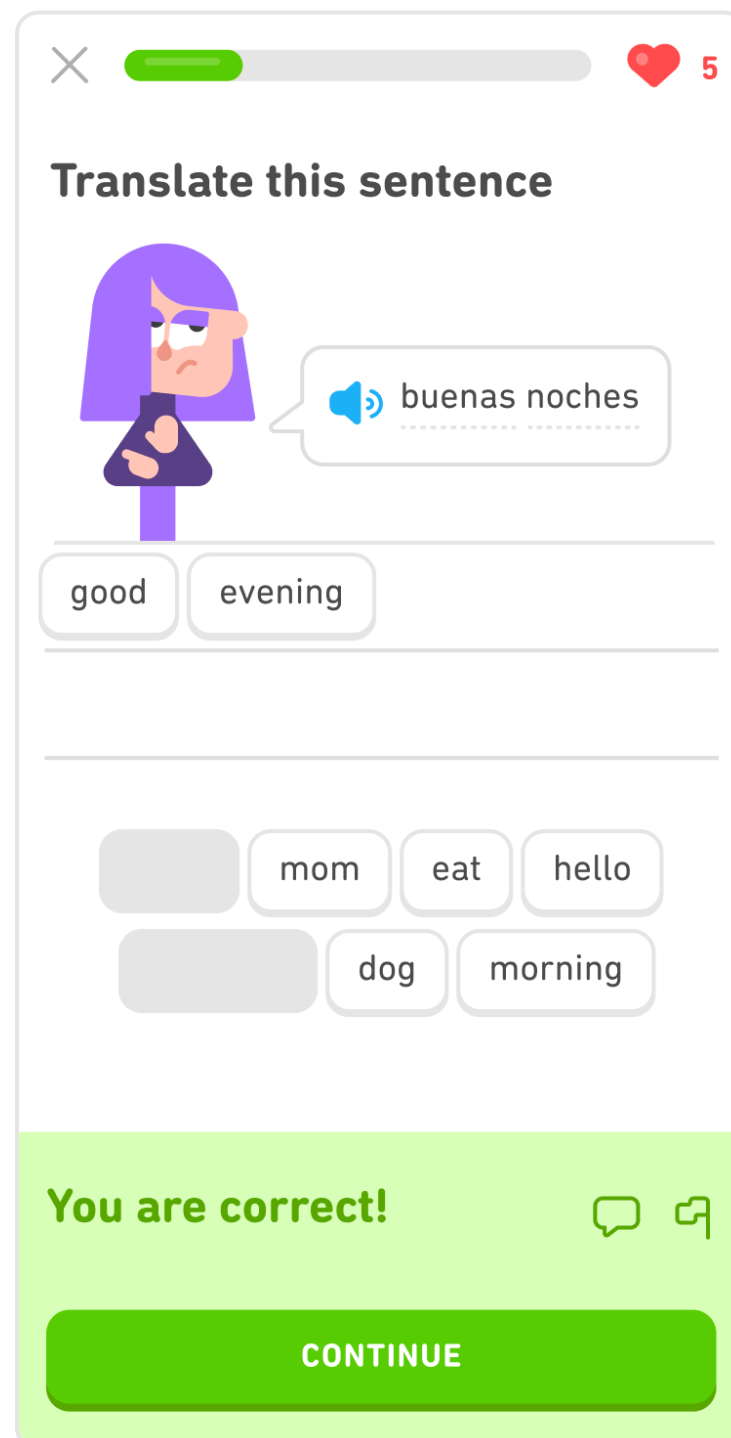
December / January



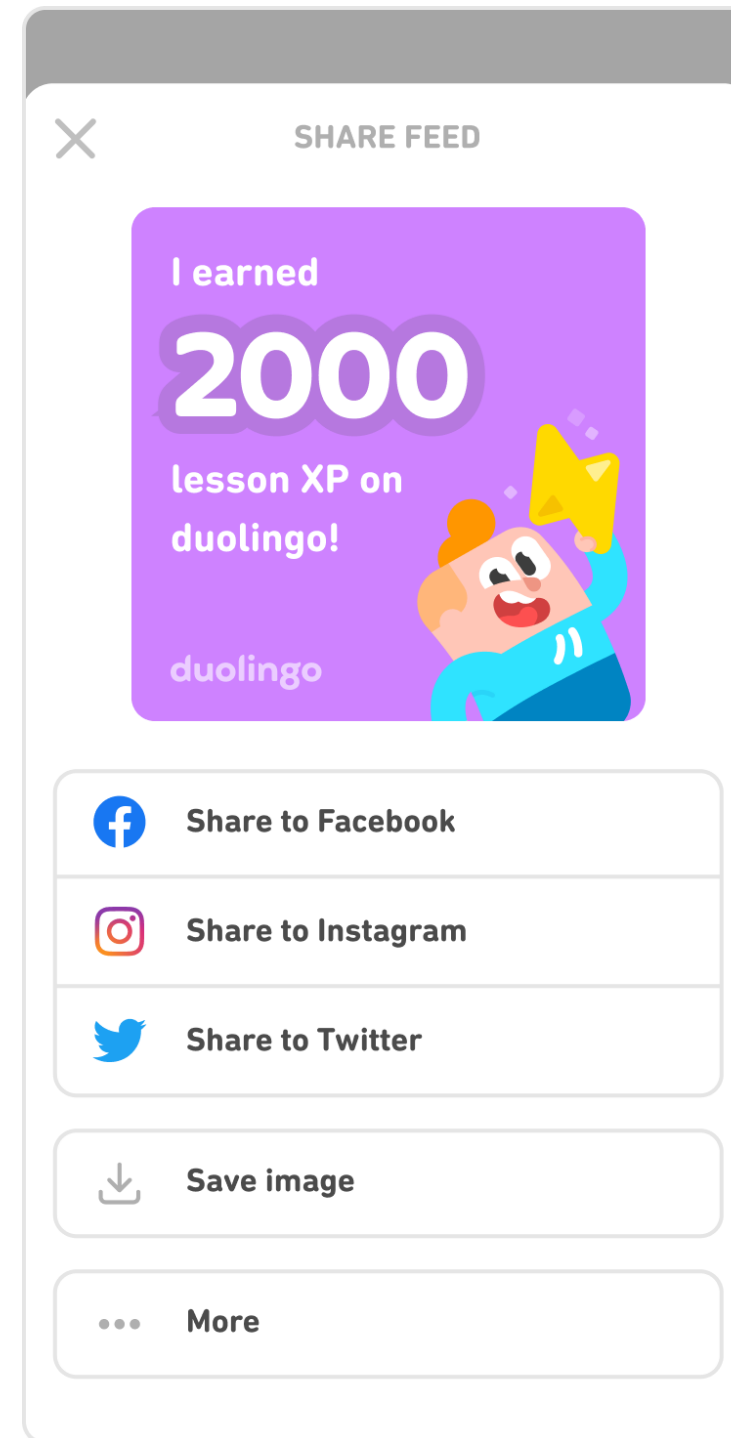
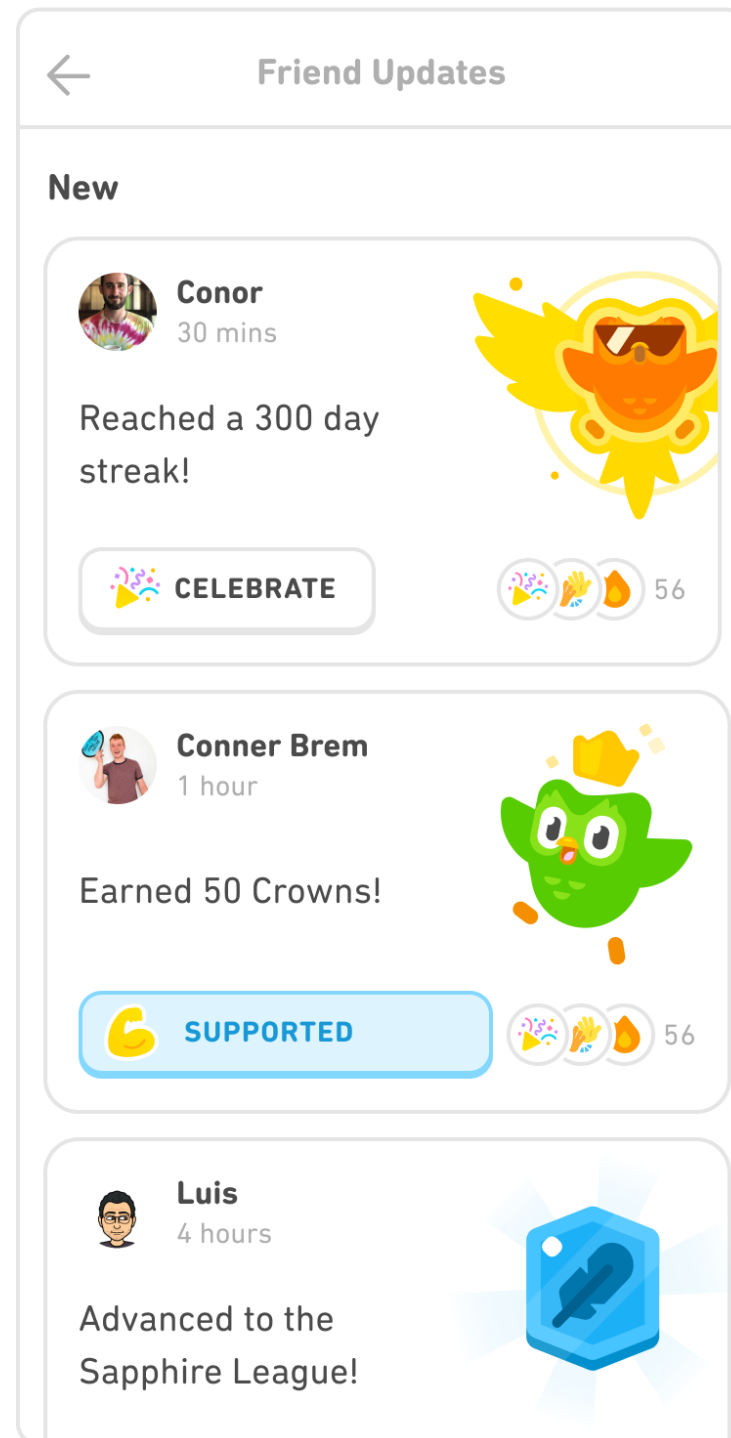
7 Duolingo Units = 5 University Semesters



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



Driving User Engagement Through Connections



40%

DAU following at least one user

+160%

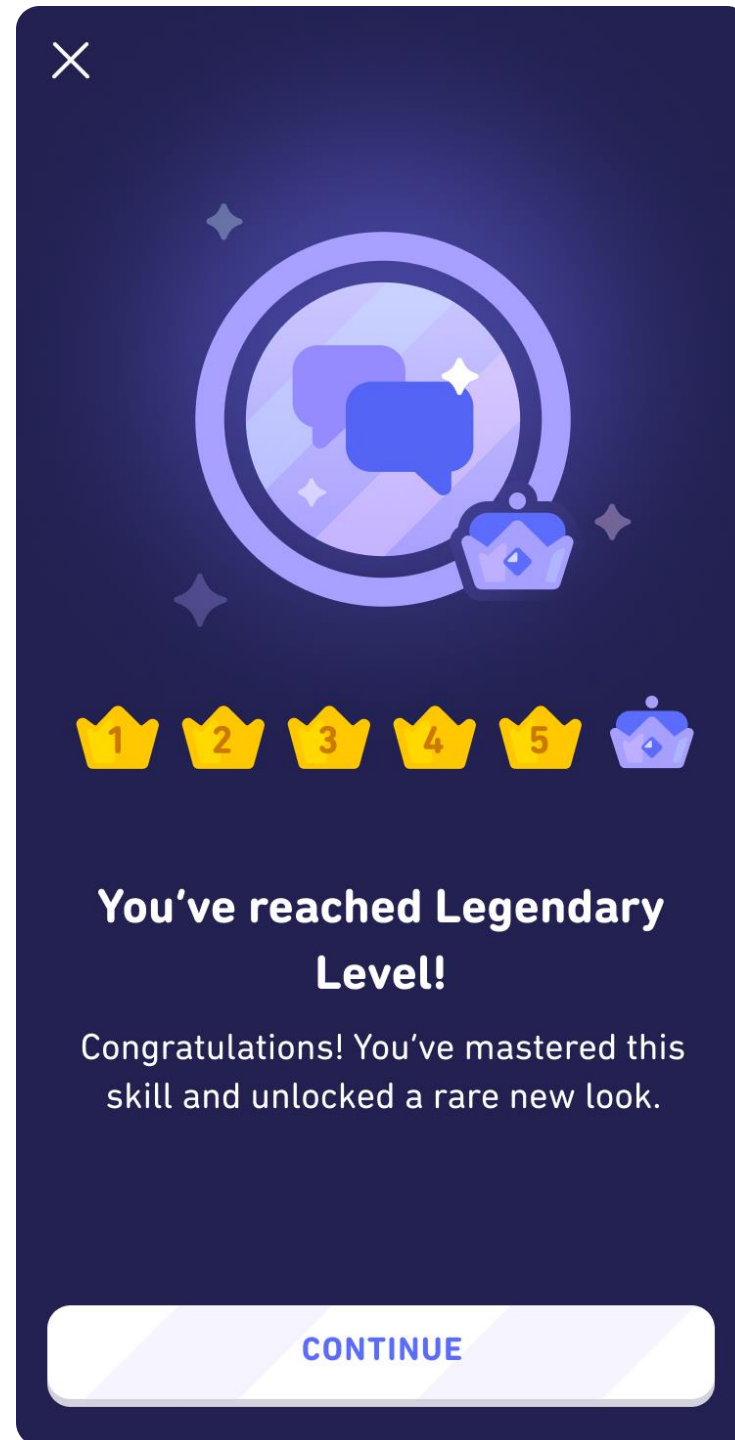
Q3 increase in DAU sending/receiving Kudos

+500K

Connections after launching contacts sync in Q3

Driving Plus Subscriptions

✕



You've reached Legendary Level!

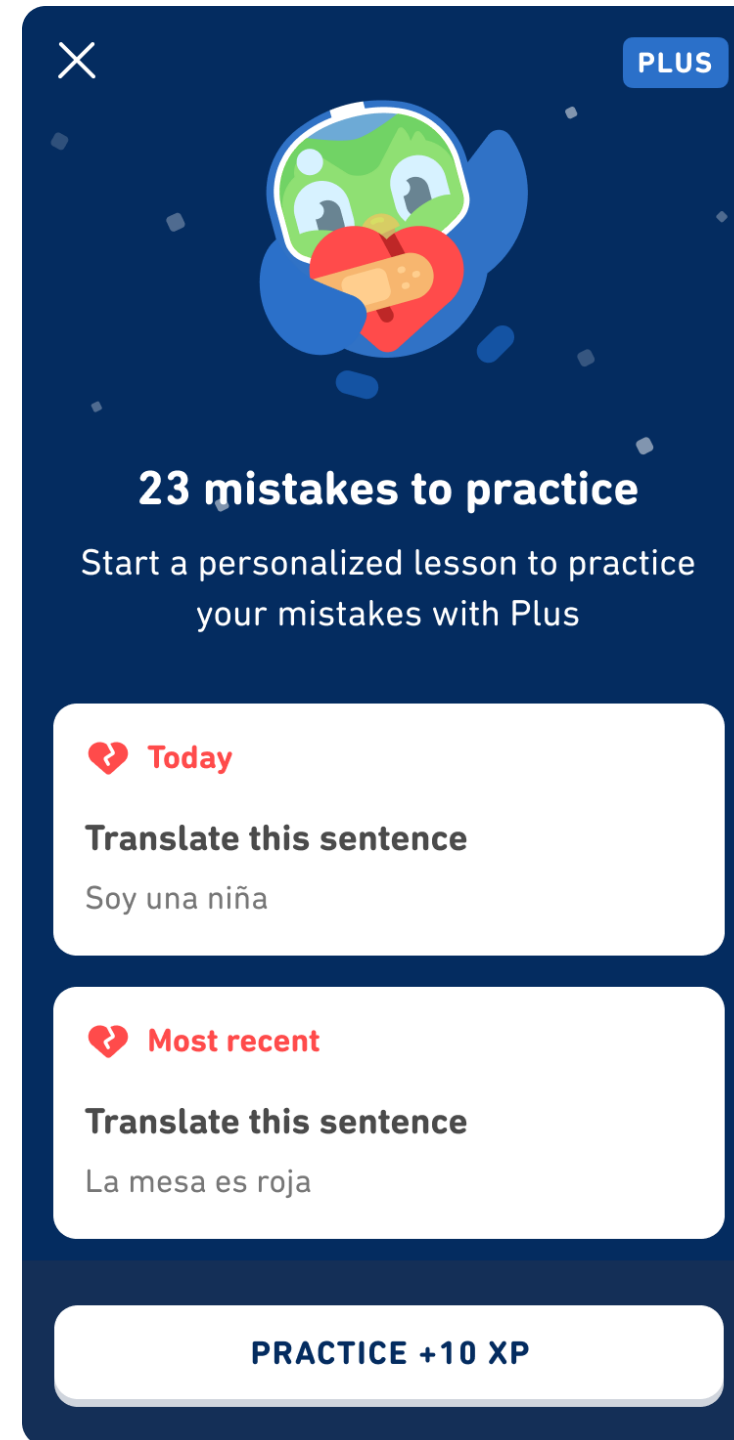
Congratulations! You've mastered this skill and unlocked a rare new look.

1 2 3 4 5

CONTINUE

This notification features a purple circular icon with a speech bubble and a crown. Below it are five yellow crowns numbered 1 to 5, with the fifth one highlighted in purple. The background is dark blue with white stars.

✕ **PLUS**



23 mistakes to practice

Start a personalized lesson to practice your mistakes with Plus

Today

Translate this sentence

Soy una niña

Most recent

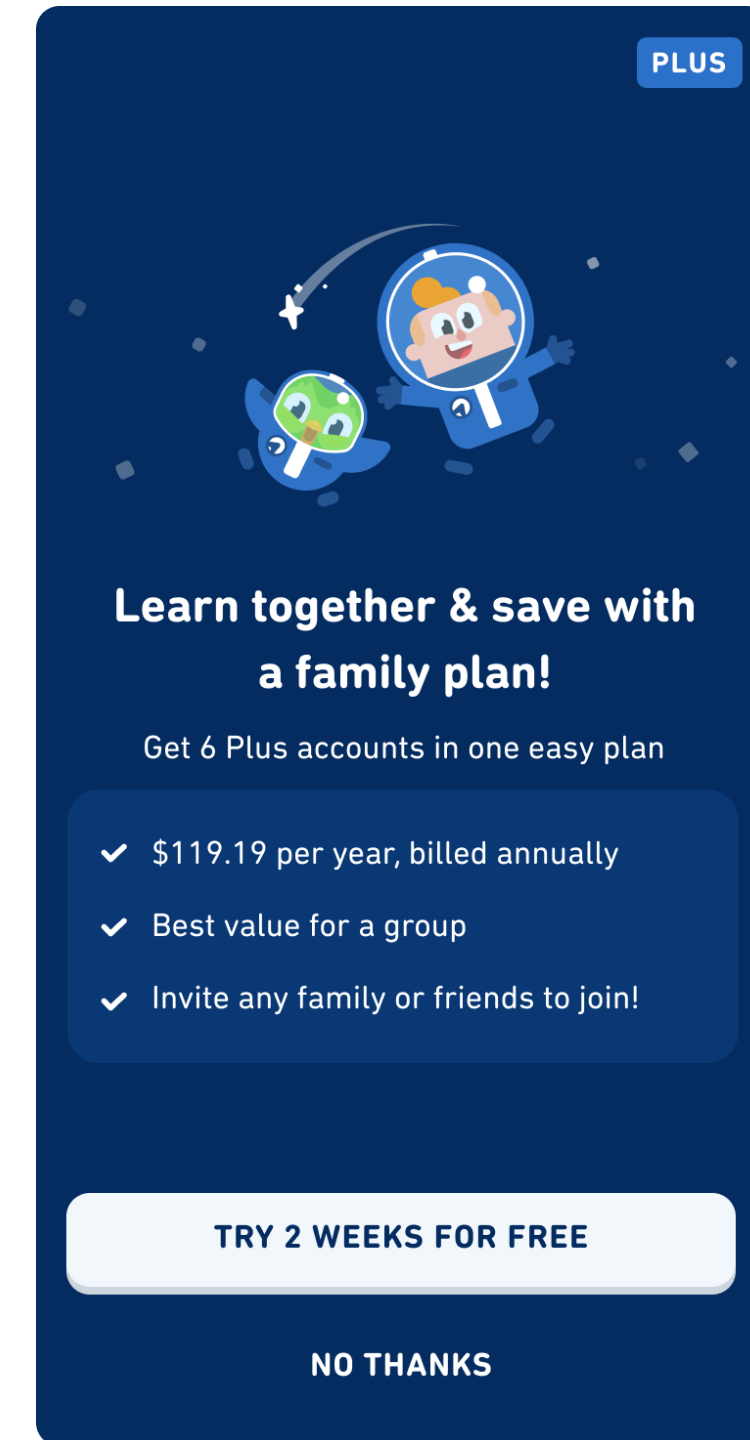
Translate this sentence

La mesa es roja

PRACTICE +10 XP

This notification features a cartoon character with a green face and a red heart. The background is dark blue with white stars. The text is white and bold.

PLUS



Learn together & save with a family plan!

Get 6 Plus accounts in one easy plan

- ✓ \$119.19 per year, billed annually
- ✓ Best value for a group
- ✓ Invite any family or friends to join!

TRY 2 WEEKS FOR FREE

NO THANKS

This notification features a cartoon character in a blue space suit. The background is dark blue with white stars. The text is white and bold.

Duolingo English Test Milestones

5

Year anniversary

Yale Duke
UNIVERSITY

Bowdoin



Georgia
Tech



JOHNS HOPKINS
UNIVERSITY

COLUMBIA UNIVERSITY
IN THE CITY OF NEW YORK

Top 25

U.S. institutions
hosting international
students all accept
DET

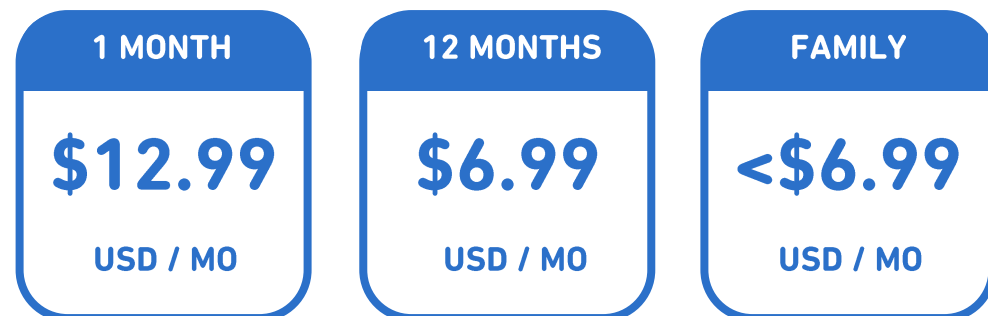
3,600+

Accepting programs

Q3 2021 financial highlights

We Have 3 Ways to Monetize

Subscription (~73%)



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%)



Duolingo English Test (DET) is an English proficiency assessment

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

Our Growth Framework

Subscriptions

- Grow users
- Drive 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

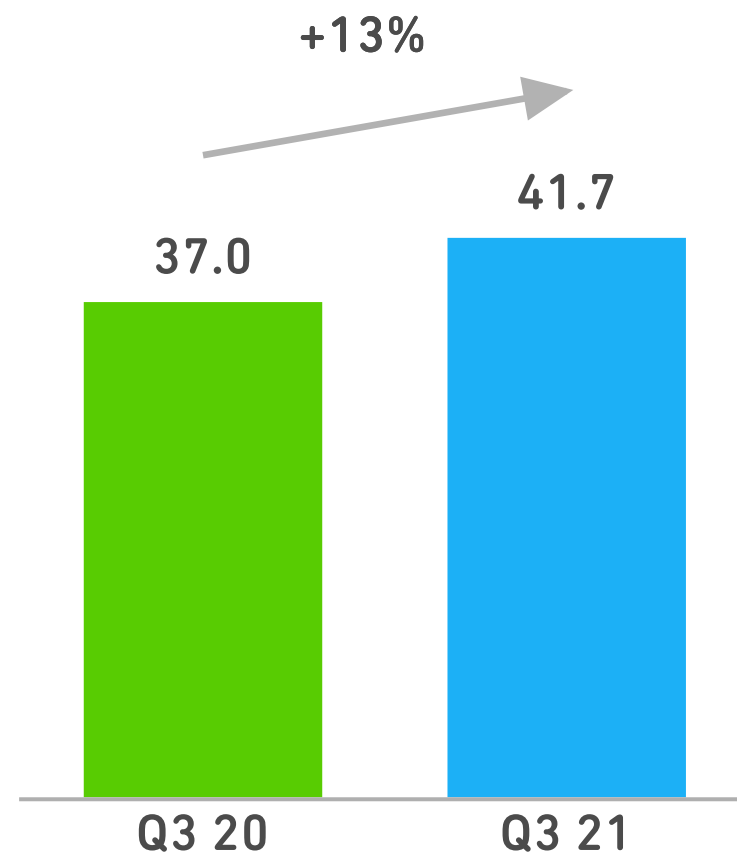
- Extend platform beyond language learning

Strong Q3 2021 Financial Results

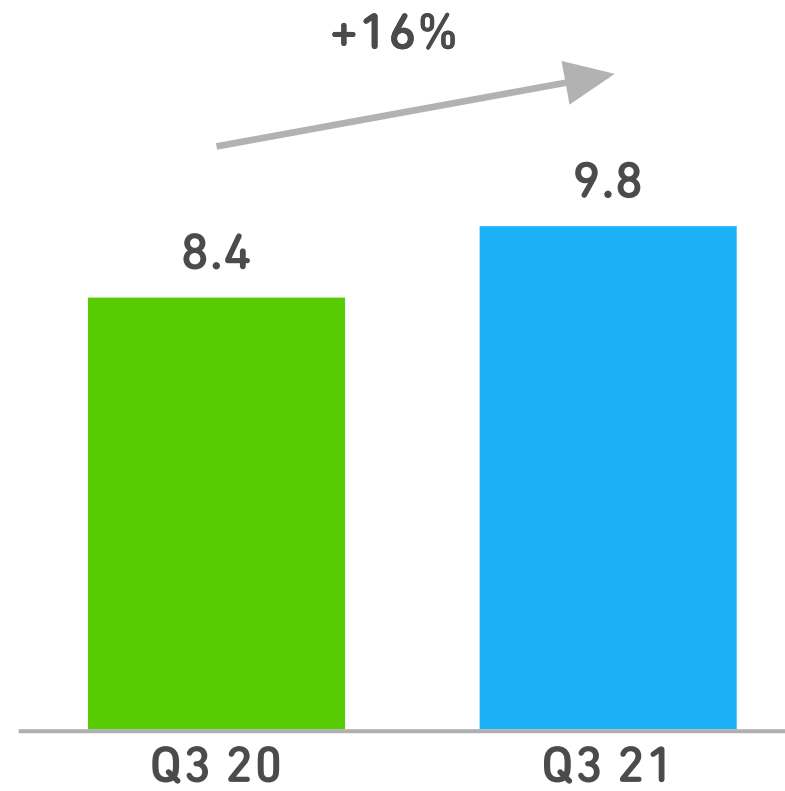
| (in millions) | Q3 2020 | Q3 2021 | YoY Growth |
|------------------------------------|---------|----------|------------|
| Operating Metrics | | | |
| Total Bookings | \$46.7 | \$73.1 | 57% |
| Subscription Bookings | \$33.8 | \$55.4 | 64% |
| Monthly active users (MAUs) | 37.0 | 41.7 | 13% |
| Daily 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

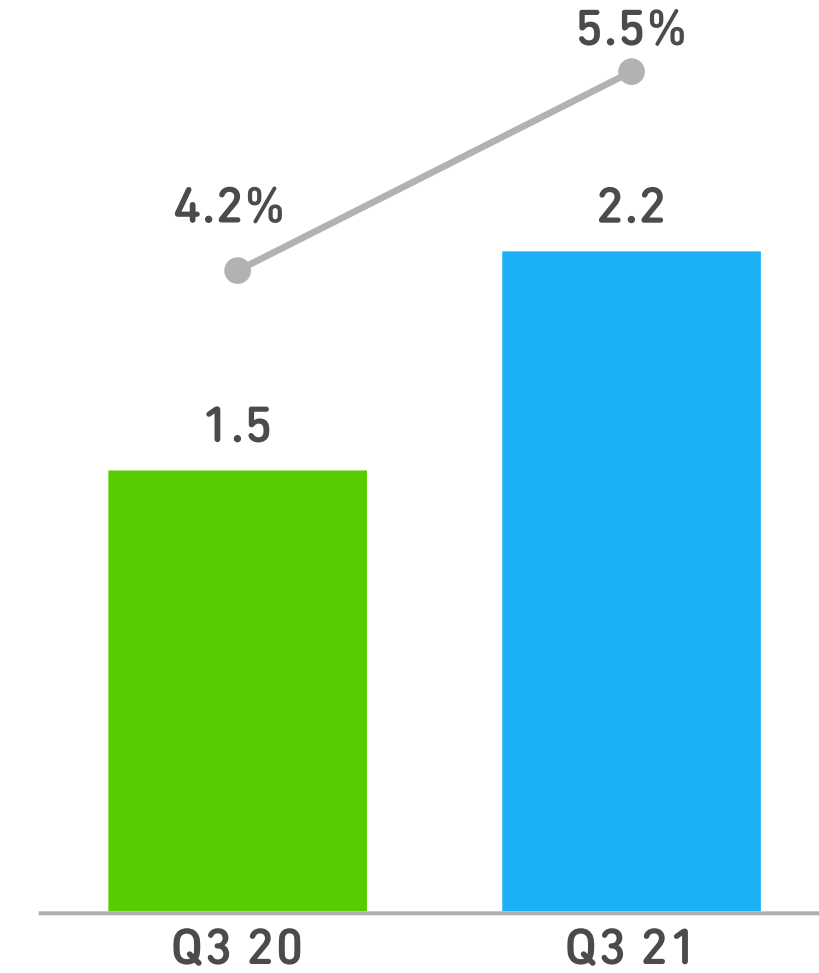
MAU (M)



DAU (M)



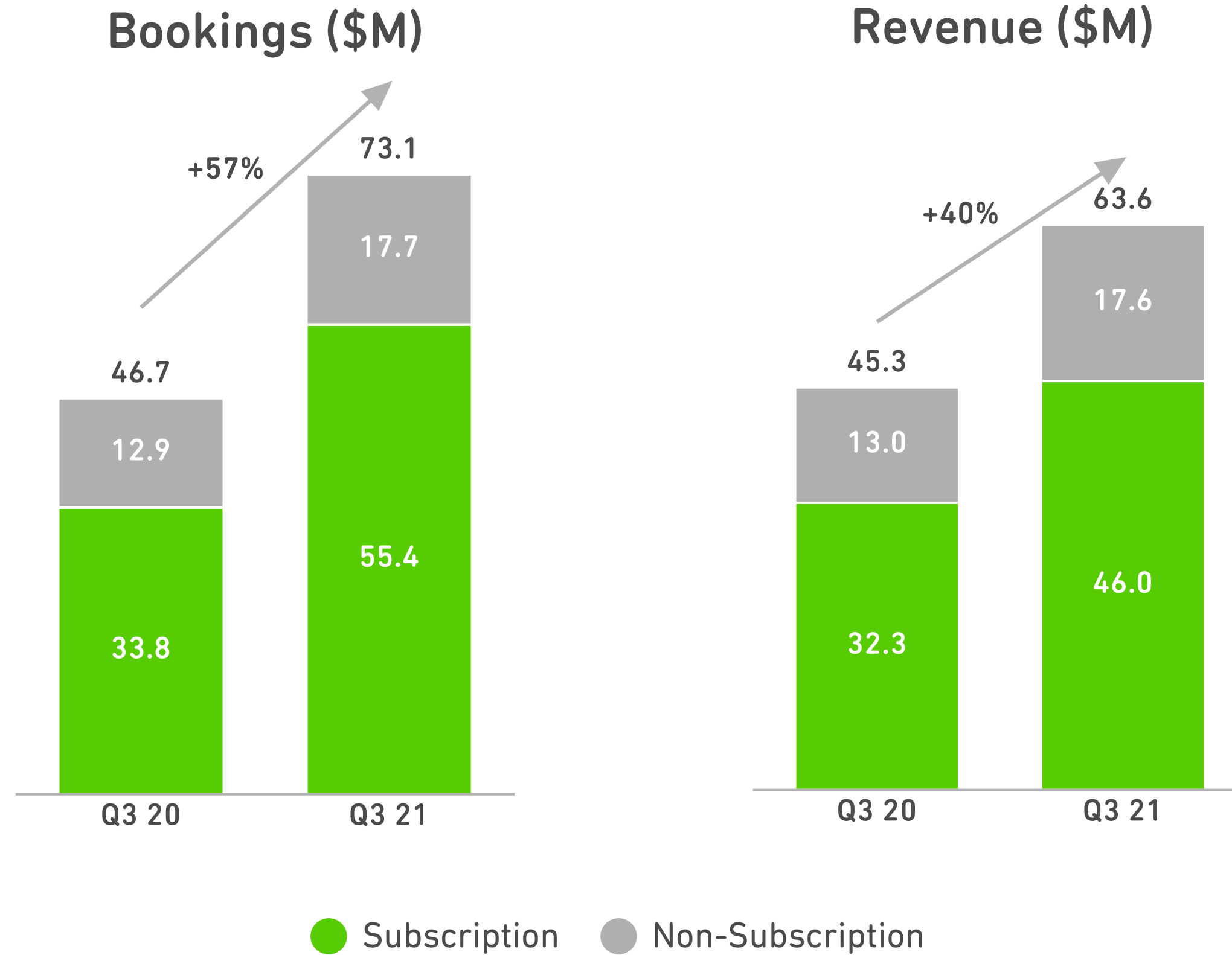
Paid Subscribers (M) and Penetration of MAUs (%)



DAU/MAU 22.8% 23.5%

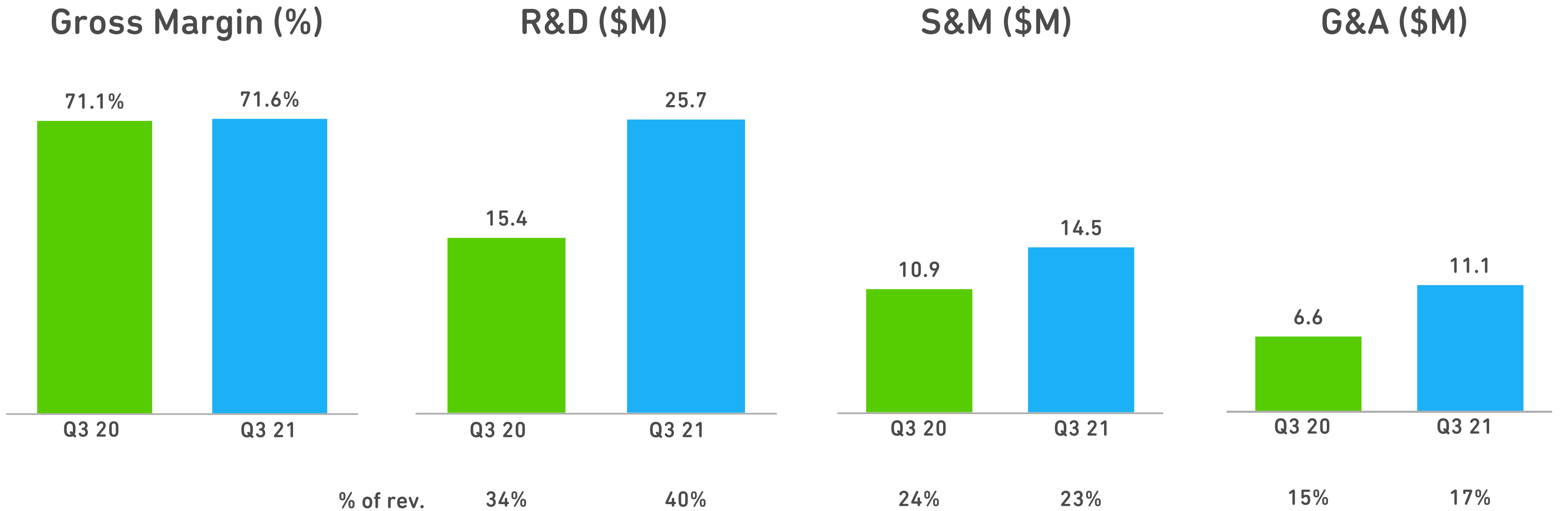
— Paid Subscriber as % of Avg. LTM MAUs

Top Line Growth



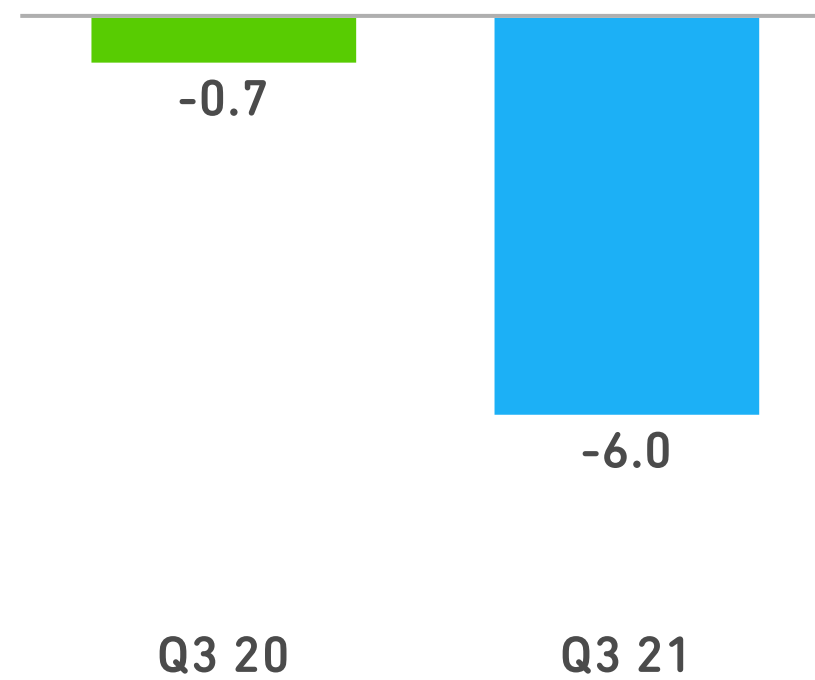
Efficient Business Model

Non-GAAP Operating Expenses

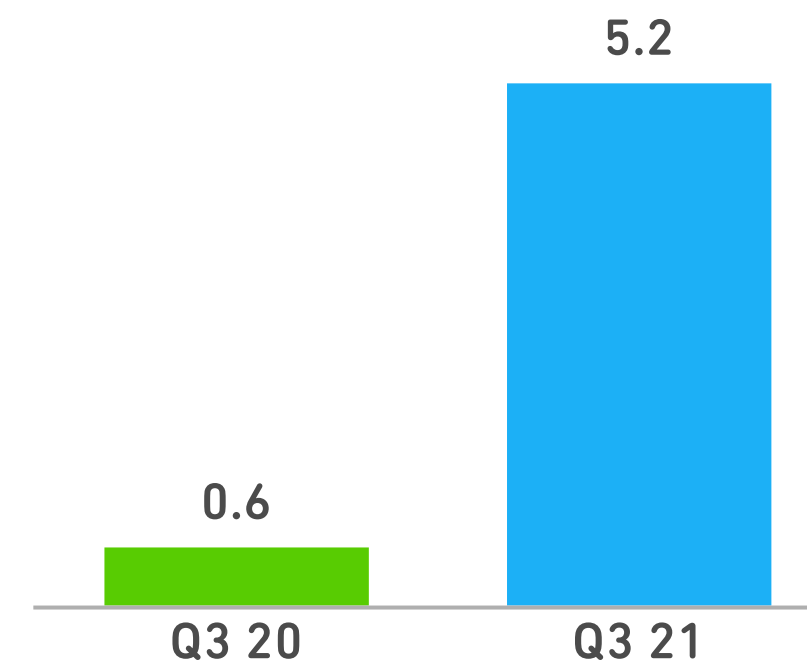


Adjusted EBITDA and Free Cash Flow

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