Q3 2021 earnings presentation
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 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.

Forward-Looking Statements

This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 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 the Company’s 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, including but not limited to risks related to: the Company’s ability keep existing users or add new users, or the potential that the Company’s existing users decrease their level of engagement with the Company’s products or do not convert to paying users; the highly competitive online learning language industry; changes to the Company’s existing brand and products, or the introduction of a new brand or products, which could fail to attract or keep users; growing costs and investments that may have the effect of reducing the Company’s operating margin and profitability; inherent challenges in measurement of user metrics and other estimates; the Company’s ability to maintain good relationships with third-party platforms to distribute the Company’s products; third-party hosting and cloud computing providers; complex and evolving U.S. and international laws and regulations applicable to the Company’s business; the Company’s ability to access, collect, and use personal data about the Company’s users and payers, and to comply with applicable data privacy laws; varying and rapidly-evolving regulatory framework on privacy and data protection across jurisdictions; potential intellectual property-related litigation and proceedings; and the Company’s ability adequately obtain, protect and maintain its intellectual property rights. These and other potential risks and uncertainties that could cause actual results to differ from the results predicted are more fully detailed under the caption "Risk Factors" in the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, as such factors may be updated from time to time in the Company’s other filings with the SEC, including the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021, which are accessible on the SEC’s website at www.sec.gov and the Company’s Investor Relations website at https://investors.duolingo.com. All forward-looking statements speak only as of the date of this presentation, and 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 SEC filings.

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
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
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

Translate this sentence

Translate: ¿buenas noches

Good morning

You are correct!

CONTINUE

Lily’s Jack-o-lantern Challenge

OCTOBER

Lily’s Clothes

Zari está en casa de Lily. Ella mira la ropa de Lily.

Zari is looking at Lily’s homework.

No, that’s wrong.

Yes, that’s right.

CONTINUE
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.

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

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
Duolingo English Test Milestones

- **Yale**
- **Duke**
- **Bowdoin**
- **Georgia Tech**
- **Columbia University**

- **5** Year anniversary
- **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%)**

- **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%)**

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

<table>
<thead>
<tr>
<th>Operating Metrics</th>
<th>Q3 2020</th>
<th>Q3 2021</th>
<th>YoY Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Bookings</td>
<td>$46.7</td>
<td>$73.1</td>
<td>57%</td>
</tr>
<tr>
<td>Subscription Bookings</td>
<td>$33.8</td>
<td>$55.4</td>
<td>64%</td>
</tr>
<tr>
<td>Monthly active users (MAUs)</td>
<td>37.0</td>
<td>41.7</td>
<td>13%</td>
</tr>
<tr>
<td>Daily active users (DAUs)</td>
<td>8.4</td>
<td>9.8</td>
<td>16%</td>
</tr>
<tr>
<td>Paid Subscribers</td>
<td>1.5</td>
<td>2.2</td>
<td>49%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GAAP Financial Metrics</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$45.3</td>
<td>$63.6</td>
<td>40%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$32.2</td>
<td>$45.5</td>
<td>41%</td>
</tr>
<tr>
<td>Gross Margin (%)</td>
<td>71.1%</td>
<td>71.6%</td>
<td>49 bps</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>$(3.2)</td>
<td>$(29.0)</td>
<td>—</td>
</tr>
<tr>
<td>Net cash from operating activities</td>
<td>$0.8</td>
<td>$4.5</td>
<td>—</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-GAAP Financial Metrics</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted EBITDA</td>
<td>$(0.7)</td>
<td>$(6.0)</td>
<td>—</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$0.6</td>
<td>5.2</td>
<td>—</td>
</tr>
</tbody>
</table>
Active Users and Subscribers

MAU (M)

Q3 20: 37.0
Q3 21: 41.7

+13%

DAU (M)

Q3 20: 8.4
Q3 21: 9.8

+16%

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

Q3 20: 1.5
Q3 21: 2.2

4.2%
5.5%

— Paid Subscriber as % of Avg. LTM MAUs

DAU/MAU

Q3 20: 22.8%
Q3 21: 23.5%
Top Line Growth

Bookings ($M)

- Q3 20: 46.7
- Q3 21: 73.1
  - Subscription: 33.8
  - Non-Subscription: 12.9

Revenue ($M)

- Q3 20: 45.3
- Q3 21: 63.6
  - Subscription: 32.3
  - Non-Subscription: 13.0

+57% revenue growth
+40% revenue growth

Subscription
Non-Subscription
# Efficient Business Model

Non-GAAP Operating Expenses

<table>
<thead>
<tr>
<th>Gross Margin (%)</th>
<th>R&amp;D ($M)</th>
<th>S&amp;M ($M)</th>
<th>G&amp;A ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 20</td>
<td>Q3 21</td>
<td>Q3 20</td>
<td>Q3 21</td>
</tr>
<tr>
<td>71.1%</td>
<td>71.6%</td>
<td>15.4</td>
<td>25.7</td>
</tr>
<tr>
<td>% of rev.</td>
<td>34%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>24%</td>
<td>23%</td>
<td>10.9</td>
<td>14.5</td>
</tr>
<tr>
<td>15%</td>
<td>17%</td>
<td>6.6</td>
<td>11.1</td>
</tr>
</tbody>
</table>
Adjusted EBITDA and Free Cash Flow

Adj. EBITDA ($M)  
-0.7  
-6.0  
Q3 20  
Q3 21

FCF ($M)  
0.6  
5.2  
Q3 20  
Q3 21
Q4 2021 guidance
## Q4 2021 and FY2021 Guidance

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Q4 2021</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bookings</td>
<td>$79.0 – 82.0</td>
<td>$282.5 - 285.5</td>
</tr>
<tr>
<td>YoY Bookings Growth</td>
<td>38% – 44%</td>
<td>49% - 50%</td>
</tr>
<tr>
<td>Revenues</td>
<td>$66.5 - 69.5</td>
<td>$244.0 - 247.0</td>
</tr>
<tr>
<td>YoY Revenue Growth</td>
<td>38% - 44%</td>
<td>51% - 53%</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>$(6.5) - (3.5)</td>
<td>$(8.0) - (5.0)</td>
</tr>
</tbody>
</table>
appendix
<table>
<thead>
<tr>
<th></th>
<th>Q3 2020</th>
<th>Q3 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Income (Loss)</strong></td>
<td>($3,176)</td>
<td>($28,970)</td>
</tr>
<tr>
<td><strong>Less: Interest Income</strong></td>
<td>(7)</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Plus: Provision for Income Taxes</strong></td>
<td>23</td>
<td>51</td>
</tr>
<tr>
<td><strong>Plus: Depreciation &amp; Amortization</strong></td>
<td>627</td>
<td>733</td>
</tr>
<tr>
<td><strong>Plus: IPO and Public Company Readiness Costs</strong></td>
<td>127</td>
<td>1,560</td>
</tr>
<tr>
<td><strong>Plus: Stock-based Compensation</strong></td>
<td>1,682</td>
<td>20,662</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>($724)</td>
<td>($5,968)</td>
</tr>
</tbody>
</table>
## Reconciliation: Free Cash Flow

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Q3 2020</th>
<th>Q3 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>$847</td>
<td>$4,511</td>
</tr>
<tr>
<td>Less: Capitalized Software Development Costs</td>
<td>-</td>
<td>(379)</td>
</tr>
<tr>
<td>Less: Purchases of Property and Equipment</td>
<td>(364)</td>
<td>(1,085)</td>
</tr>
<tr>
<td>Plus: IPO and Public Company Readiness Costs</td>
<td>127</td>
<td>1,560</td>
</tr>
<tr>
<td>Plus: Other adjustments (1)</td>
<td>-</td>
<td>577</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong></td>
<td><strong>$610</strong></td>
<td><strong>$5,184</strong></td>
</tr>
</tbody>
</table>

(1) Represents cash payments of Language Impact awards paid as part of sunsetting our volunteer contributor program.
## Reconciliation: GAAP to Non-GAAP Operating Expense

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Q3 2020</th>
<th>Q3 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GAAP Operating Expense</td>
<td>$35,271</td>
<td>$74,217</td>
</tr>
<tr>
<td>Less: Depreciation &amp; Amortization</td>
<td>(601)</td>
<td>(733)</td>
</tr>
<tr>
<td>Less: Stock-based Compensation</td>
<td>(1,679)</td>
<td>(20,656)</td>
</tr>
<tr>
<td>Less: Other Adjustments</td>
<td>(127)</td>
<td>(1,560)</td>
</tr>
<tr>
<td>Non-GAAP Operating Expense</td>
<td>$32,864</td>
<td>$51,268</td>
</tr>
</tbody>
</table>
# Reconciliation: GAAP to Non-GAAP R&D Expense

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Q3 2020</th>
<th>Q3 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GAAP Operating Expense</td>
<td>$15,894</td>
<td>$29,345</td>
</tr>
<tr>
<td>Less: Depreciation &amp; Amortization</td>
<td>-</td>
<td>(99)</td>
</tr>
<tr>
<td>Less: Stock-based Compensation</td>
<td>(526)</td>
<td>(3,533)</td>
</tr>
<tr>
<td>Less: Other Adjustments</td>
<td>-</td>
<td>(46)</td>
</tr>
<tr>
<td>Non-GAAP Operating Expense</td>
<td>$15,368</td>
<td>$25,667</td>
</tr>
</tbody>
</table>
Reconciliation: GAAP to Non-GAAP S&M Expense

<table>
<thead>
<tr>
<th></th>
<th>Q3 2020</th>
<th>Q3 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GAAP Operating Expense</td>
<td>$11,142</td>
<td>$15,267</td>
</tr>
<tr>
<td>Less: Depreciation &amp; Amortization</td>
<td>(148)</td>
<td>(201)</td>
</tr>
<tr>
<td>Less: Stock-based Compensation</td>
<td>(116)</td>
<td>(408)</td>
</tr>
<tr>
<td>Less: Other Adjustments</td>
<td>-</td>
<td>(139)</td>
</tr>
<tr>
<td>Non-GAAP Operating Expense</td>
<td>$10,878</td>
<td>$14,519</td>
</tr>
</tbody>
</table>
### Reconciliation: GAAP to Non-GAAP G&A Expense

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Q3 2020</th>
<th>Q3 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GAAP Operating Expense</td>
<td>$8,235</td>
<td>$29,605</td>
</tr>
<tr>
<td>Less: Depreciation &amp; Amortization</td>
<td>(453)</td>
<td>(433)</td>
</tr>
<tr>
<td>Less: Stock-based Compensation</td>
<td>(1,037)</td>
<td>(16,715)</td>
</tr>
<tr>
<td>Less: Other Adjustments</td>
<td>(127)</td>
<td>(1,375)</td>
</tr>
<tr>
<td><strong>Non-GAAP Operating Expense</strong></td>
<td>$6,618</td>
<td>$11,082</td>
</tr>
</tbody>
</table>
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