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Research Report (Feb 27, 2026)

Duolingo (DUOL)

Background

Duolingo is the largest language(courses including English/ Spanish/ French/ German/ Japanese/ Korean etc) learning APP in terms of DAU with 85% of market share, which has surpassed DAU of 52.7mn (up 30% YoY) and 12.2mn paid subscribers (up 28% YoY) by end of 2025. The company was founded in 2011 by Luis von Ahn and listed in 2021 (IPO at ~$102/share), company has been compounding its user base at double digit % growth and fivefold its DAU since IPO listing in 2021 (from ~9.6M DAU at IPO to 52.7M) with rising margins on scalable business model. Its share price has been tanking mainly on double whammy of AI disruption concern and strategic shift, the company is shifting its focus to prioritization of enhancing learning experience and growing user base instead of short-term monetization, thus, forecasting a slowdown in both topline and bottomline growth for 2026 (e.g., bookings growth guided to 10-12% YoY vs. 33% in 2025, revenue 15-18% YoY vs. 39% in 2025, Adjusted EBITDA margin ~25% vs. 29.5% in 2025).

Combined Sequential Metrics: DAU, MAU, Paid Subscribers, Bookings, & Adj. EBITDA Margin

duolingo

Quarter	DAU (M)	QoQ DAU Growth (%)	MAU (M)	QoQ MAU Growth (%)	Paid Subs (M)	QoQ Paid Subs Growth (%)	Total Bookings ($M)	QoQ Bookings Growth (%)	Adj. EBITDA Margin (%)	QoQ Margin Change (pts)
Q4 2025	52.7	+4.4	133.1	-1.6	12.2	+6.1	336.8	+19.5	29.8	+0.3
Q3 2025	50.5	+5.9	135.3	+5.4	11.5	+5.5	281.9	+5.2	29.5	-1.7
Q2 2025	47.7	+2.4	128.3	-1.5	10.9	+5.8	268.0	-1.3	31.2	+4.0
Q1 2025	46.6	+15.1	130.2	+11.6	10.3	+8.4	271.6	+0.0 (flat from Q4 2024 est.)	27.2	+2.2
Q4 2024	40.5	+8.9	116.7	+3.2	9.5	+10.5	271.6	+28.4	25.0	+0.3
Q3 2024	37.2	+9.1	113.1	+9.2	8.6	+7.5	211.5	+11.3	24.7	-2.3
Q2 2024	34.1	+8.6	103.6	+6.1	8.0	+6.7	190.1	-3.7	27.0	+0.7
Q1 2024	31.4	+16.7	97.6	+10.4	~7.5	-	197.5	+3.4	26.3	+3.0
Q4 2023	26.9	+11.2	88.4	+6.4	6.6	-	191.0	+24.4	23.3	+7.0
Q3 2023	24.2	-	83.1	-	5.8	-	153.6	-	16.3	-

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Main Investment Thesis

AI DISRUPTION

On AI disruption concern, we believe the company is an AI beneficiary instead of being a victim, management has confirmed shortening lead time for new course development along with much lower costs, thanks to technological advancement, including for its Video Call with Lily & more AI-powered speaking function. In fact, company has accelerated on product/feature expansion on lower cost and shorter lead time, with new program launch of Chess, Maths and the like, this should improve user experience, higher retention rate and a more sustainable business model, DAU for Chess has increased to 7mn user within one year of launch (representing ~13% of total DAUs, highlighting rapid adoption and potential cross sell opportunities). It is unreasonable to expect human would stop learning language, stop learning Chess, stop learning Maths and the likes due to AI advancement, the dramatic selloff should offer a lower entrance opportunity for Asset Light companies this year, for patient investors, while capital is being piled into HALO(Heavy Asset Low Obsolescence) trades due to panic.

EXECUTION TRACK RECORD

Based on Duolingo's historical execution, including up to its Q425 performance in its major KPI ***(MAU +60% from 83.1M in Q3 2023 to 133.1M in Q4 2025/DAU >2x from 24.2M to 52.7M /Bookings >2x from $153.6M to $336.8M/margin ~doubled from 16.3% to 29.8% for past 2 years)***, management has shown its capability of further growing its user to its medium term target of 100mn DAU by 2028(with a guidance of 20% growth for 2026, this implies ~26% growth for subsequent 2 years), we also believe the negative reaction to its strategic shifting to enhancement of user experience, thus, user growth from immediate monetization is an overreaction on preference of short-termism to longer term sustainable growth. Full-year 2025 financials further underscore execution strength: revenue $1,037.6M (up 39% YoY), total bookings $1,158.4M (up 33% YoY, surpassing $1B for the first time), Adjusted EBITDA $305.9M (29.5% margin, up ~380 bps YoY), free cash flow $360.4M (34.7% margin), and adjusted net income $157.4M (excluded an one-time $256.7M tax benefit from deferred tax asset valuation allowance release).

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Q4 and FY25 Highlights

User Metrics	Q4 2024	Q4 2025
Daily Active Users	40.5M	52.7M 30% YoY
Paid Subscribers at period end	9.5M	12.2M 28% YoY

Financial Metrics	Q4 2025	FY 2025
Revenue	$282.9M 35% YoY	$1,037.6M 39% YoY
Total Bookings	$336.8M 24% YoY	$1,158.4M 33% YoY
Net Income (1)	$42.0M	$414.1M
Adjusted EBITDA	$84.3M 29.8% margin	$305.9M 29.5% margin
Net cash provided by operating activities	$107.3M	$387.8M
Free cash flow (2)	$93.7M	$360.4M

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VALUATION

We believe the company is being undervalued due to market's short-termism and overreaction on AI disruption with HALO(Heavy Asset Low Obsolescence) trade being the main theme since end of last year.

The company is trading at ***EV/EBITDA ~10x*** (with net cash ~$1.1B—and ~$300M guided Adjusted EBITDA at 25% margin on $1.20–1.22B revenue), much lower than its historical of ~70-90x (3-year average ~90x from 2023–2025, with peaks over 200x in 2024-2025 during high-growth periods and lower multiples in earlier loss-making phases) and more than reasonable on an already lowered estimate of 15-18% Revenue growth during the investment phase cycle for 2026. Additional supporting metrics include strong free cash flow generation (~$360M in 2025, ~35% margin), gross margins stable at ~72%, and a $400M share repurchase authorization (reflecting balance sheet strength with >$1B cash and minimal debt).

Reference:
Q4FY25 Duolingo 12-31-25 Shareholder Letter

Extract from P.5: management chose a longer term vision to build a more defensible business

The medium-term goal of this strategy is ***to reach 100 million DAUs in 2028****. If we succeed in doubling our DAUs, the payoff would be huge: a more resilient brand; a business with meaningfully higher bookings and profit; and most importantly, a company that reaches and teaches far more people around the world. But the* ***short-term implication is that this year will see slower bookings growth and lower profitability****. We expect bookings growth of around 11% in 2026, compared to the nearly 20% we believe we could achieve if we operated like we have in past years. Additionally, because we will offer AI features to more users and have slightly higher marketing spend, we expect our Adjusted EBITDA margin will decrease to about 25%. I believe this is the right course to take.* ***We could also reach higher bookings in 2028 with the strategy that we've employed until now, but we believe the result would be a smaller and less valuable business in the long run. In that scenario, we would likely have fewer DAUs and make more money per user, but would have less total impact and our position as the leading education app in the world would be less defensible.***

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Summary of Financial and Key Operating Metrics

(in millions)	Q4 2024	Q4 2025	YoY			
User Metrics						
Monthly active users (MAUs)	116.7	133.1	14%			
Daily active users (DAUs)	40.5	52.7	30%			
Paid subscribers (period end)	9.5	12.2	28%			

	Q4 2024	Q4 2025	YoY	2024	2025	YoY
Operating Metrics						
Subscription bookings	$236.5	$296.6	25%	$730.7	$996.3	36%
Total bookings	$271.6	$336.8	24%	$870.6	$1,158.4	33%
GAAP Financial Measures						
Revenues	$209.6	$282.9	35%	$748.0	$1,037.6	39%
Gross profit	$150.6	$205.9	37%	$544.4	$749.5	38%
Gross margin (%)	71.9%	72.8%	~90 bps	72.8%	72.2%	~(50) bps
Net income (1)	$13.9	$42.0	>100%	$88.6	$414.1	>100%
Net cash from operating activities	$83.3	$107.3	29%	$285.5	$387.8	36%
Non-GAAP Financial Measures (2)						
Adjusted EBITDA	$52.3	$84.3	61%	$191.9	$305.9	59%
Adjusted EBITDA margin	25.0%	29.8%	~490 bps	25.7%	29.5%	~380 bps
Free cash flow (3)	$80.9	$93.7	16%	$264.4	$360.4	36%
Free cash flow margin	38.6%	33.1%	~(550) bps	35.3%	34.7%	~(60) bps

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Q1 and FY 2026 Guidance

Duolingo is providing the following guidance for the first quarter ending March 31, 2026, and the full year ending December 31, 2026[1].

(in millions)	Q1 2026	FY 2026
Bookings	**$301.5**	**$1,274 - $1,298**
YoY Bookings Growth	11%	10% - 12%
Revenues	**$288.5**	**$1,197 - $1,221**
YoY Revenue Growth	25%	15% - 18%
Adjusted EBITDA (2)	**$73.6**	**$299 - $305**
Adjusted EBITDA margin (2)	**25.5%**	**25.0%**

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