

Duolingo, Inc. (DUOL): last 3 years (data read 13 Oct 2026)

Produced by FFP One. An AI model wrote this memo from the source named above, so it summarizes that material rather than adding new research. The model and the date it ran are listed below, if you want to check the memo against its source. FFP One is available at <https://ffp.one>.

OBJECTIVE	business model, financial performance, and key investment questions (bull and bear case)
SOURCE DATA	Duolingo, Inc. — last 3 years (data read 13 Oct 2026)
MODEL	Claude Sonnet 5.5
GENERATED	13 October 2026

Summary

Duolingo grew revenue from \$531.1M in FY2023 to \$1,037.6M in FY2025 while moving from a small operating loss to a 13.1% operating margin. The main open question is the 2026 pivot. Management is deliberately trading near-term monetization for user growth, and reported bookings growth has slowed sharply. The share price was \$147.67 on 12 Oct 2026, down 54.6% over one year.

Business model

Duolingo is a mobile-first learning platform. Its flagship app offers over 250 language courses and had over 130 million monthly active users (MAU) at 31 Dec 2025. It is freemium: all course content is free with ads, and subscriptions add an ad-free experience and extra features. About 9% of MAU were paid subscribers. Beyond language learning, the app now includes Math, Music and Chess, and the company also runs the Duolingo English Test (about 4.0% of 2025 revenue). The company describes two reinforcing flywheels: scale improves the product through data, and word-of-mouth growth lets it spend on product rather than marketing. Subscriptions drove \$873.4M of FY2025 revenue, and advertising was about 7.7%.

Financial performance

	FY2023	FY2024	FY2025
Revenue growth	43.7%	40.8%	38.7%
Gross margin	73.2%	72.8%	72.2%
Operating margin	-2.5%	8.4%	13.1%
Free cash flow margin	28.3%	36.5%	35.6%

- **Growth and margins:** Growth stayed high but eased each year. Management attributes the FY2025 gross-margin dip to AI costs in features such as Video Call and a mix shift toward lower-margin advertising. R&D fell from 36.6% to 29.5% of revenue over the period.
- **Net income:** FY2025 net income of \$414.1M (diluted EPS \$8.57) includes a one-time \$256.7M tax benefit from releasing a deferred-tax valuation allowance. Pre-tax income was \$182.4M, so the headline figure overstates underlying earnings.

- **Cash flow:** Operating cash flow was \$387.8M. Free cash flow was \$369.7M on the data table's definition and \$360.4M in the MD&A; the source does not reconcile the two.
- **Stock-based compensation:** SBC was \$137.4M, or 13.2% of revenue, down from 17.9% in FY2023.
- **Balance sheet:** The company holds \$1,036.4M of cash plus \$104.1M of short-term investments, with no debt.
- **Health scores:** The Altman Z-score is "Safe." The Piotroski score fell to 3 from 6 in FY2023. The Beneish screen flagged FY2025 as "Possible Manipulator," which is only a prompt for closer review.

The 2026 pivot

In February 2026 management said it would prioritize user growth and teaching quality over near-term results. It guided to about 11% bookings growth, versus nearly 20% under the prior approach, and an adjusted EBITDA margin of about 25%. Moves include shifting Video Call to the Super tier, a new free Speaking Adventures lesson type, and over \$50M of bookings foregone to reduce free-user friction. Interim results so far:

- **Q1 2026:** Revenue grew 27% and bookings 14%. Daily active users (DAU) reached 56.5M (+21%) and paid subscribers 12.5M (+21%).
- **Q2 2026:** Bookings grew only 8% to \$289.1M and revenue 18% to \$298.5M. DAU reached 58.7M (+23%) and paid subscribers 12.7M (+17%).
- **Guidance:** Full-year bookings growth of 10–12% and revenue growth of 15–18% were reaffirmed, and the adjusted EBITDA margin outlook was raised to about 26.5%.
- **Buybacks:** A \$400M repurchase program began in February 2026, with about \$50.6M used by 1 May.

Key questions

Bull case: User engagement is strong (FY2025 DAU +30%, DAU/MAU 39.6%). Margins and cash generation are high, the balance sheet is debt-free, and management expects DAU growth to stay above 20% through 2026. It describes two of the three drivers of that growth as permanent, while a one-time Streak Revival event was the third. Trailing P/E is 17.23x and free cash flow yield is 5.4%. The P/E uses FY2025 EPS, which includes the tax benefit.

Bear case: Monetization is slowing faster than usage: paid subscriber growth went from 28% to 17% and bookings growth to 8%. Apple and Google generated 62% and 20% of 2025 revenue and can change terms on 30 days' notice. The company says Math and Music have not produced material revenue. It also cites generative-AI and low-switching-cost competition, and a memo on AI use in April 2025 that may have contributed to unfavorable publicity and slower user growth. A 12-hour-plus AWS outage on 20 Oct 2025 is on record. The stock's maximum drawdown over the past year was 73.6%. The filing also notes concentrated voting control; directors, executives and 5% holders held 77.6% of votes at end-2024.

The source gives no figures on competitor performance or on how much of the foregone bookings may return later.

Data used — FFP One data for Duolingo, Inc. (DUOL), read 13 Oct 2026.

- Company profile: current
- Financials: FY2023–FY2025 (10-K)
- Financial health scores: FY2023–FY2025
- Business: FY2025; FY2023, FY2024 key points only
- Risk factors: FY2025; FY2023, FY2024 key points only
- MD&A (management's discussion): FY2025; FY2023, FY2024 key points only
- Cybersecurity: FY2025; FY2023, FY2024 key points only
- Footnotes (debt, leases, tax): FY2025
- Market snapshot: as of 12 Oct 2026
- 8-K events: 4 of 6 since the FY2025 10-K (2 older or lower-ranked not included)
- Fund holders: 312 funds, latest reports
- Not available: Segments (no reconciled revenue breakdown for this filing)