

Duolingo

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Investment

Impact

Growth Opportunity

Demand for language learning, especially English, is huge with an estimated 1.8 billion currently studying. Duolingo is helping to improve this learning experience and with a focus on targeted marketing and initiatives such as working with schools, the company could grow to >100m monthly active users over five years. There are currently around 100 courses on Duolingo, with the focus on both the 15 that make up 80% of daily active users and introducing new content such as pronunciation and conversation lessons. Longer term, Duolingo also has ambitions to expand into literacy and mathematics tuition. Duolingo operates a freemium model that allows people to subscribe to remove ads, download content offline and get access to some gaming features like unlimited lives. Monetisation will come from individual subscriptions, schools, testing and advertising revenues. Duolingo's founder CEO, Luis von Ahn, is mission led and language learning on the app will remain free or affordable for those who need it with advertising not interfering with course content.

Management and Culture

The chief architect behind Duolingo's culture is its founder CEO Luis von Ahn who came to the US from his native Guatemala for a Maths degree at Duke University and later PhD in Computer Science at Carnegie Mellon. Having turned down a job at Microsoft to pursue academia, Luis met student Severin Hacker, who shared his passion for education and strong belief in equal access to education. The Duolingo culture is mission-driven, long-term, product-led and data driven. The management team are well placed to achieve their mission.

Competitive Edge

Duolingo's freemium business model has allowed it to grow organically, hence lowering customer acquisition costs and allowing investment in product development which in turn attracts more users through word of mouth. Its large user base provides a superior data insight which is leveraged via AI, for example adaptive lessons where each exercise is just right in terms of difficulty. This truly personalized education keeps users more engaged. Duolingo has a very strong brand and for many people the term 'Duolingo' has become synonymous with language learning.

Financials and Valuation

The most important forward-looking financial characteristics are monthly active users (MAUs), paid conversion rate and retention rate to gauge the engagement level. MAUs are growing steadily and paid conversion rate has been increasing every year to about 5% of MAUs since Duolingo started offering subscriptions in 2017. Duolingo is still early in monetisation and is exploring different pricing strategies and categorising users for more effective conversion to subscriptions. Retention rates are not disclosed however 40-50% of new subscriptions come from users who joined in prior years. On valuation, we believe Duolingo can deliver 35% revenue growth p.a. which would enable the company to double in market cap terms over five years with a 20-30% operating profit margin.

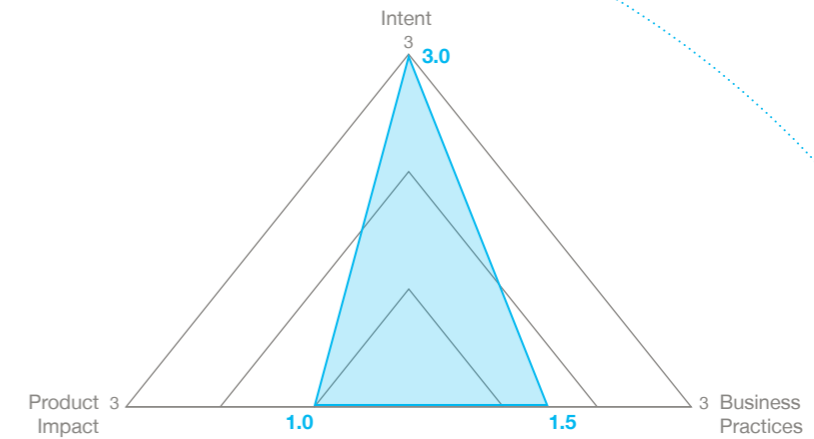


Duolingo

Duolingo is a language learning app with a mission to deliver the best education experience in the world and make this universally available.

Positive Change hypothesis

Duolingo's mission is to develop the best education in the world and make it universally available. It started with building an app that is fun, engaging and effective in helping people study languages thanks to its gamification approach and product-led culture because languages can have a profound economic and cultural impact on billions of people's lives. Longer-term, Duolingo wants to expand into other subjects like literacy and basic maths where impact could be even greater. It is run by a thoughtful and mission-obsessed founder, Luis von Ahn who will manage to strike the right balance between delivering mission and improving monetisation



Product Impact

Duolingo can help lower the barriers to greater economic opportunities for people (predominantly) in developing countries through effective, free English language teaching. As Duolingo moves onto other subjects such as maths, it could have broad positive impacts by improving educational outcomes for children around the world through its free and engaging app.

Intent

The founders are clearly motivated to improve peoples' lives through education. They have ensured that routes to monetisation have not interfered with this mission and have devoted resources to measuring efficacy.

Business Practices (ESG)

Duolingo treats employees well and has high levels of employee retention. It is run by the two co-founders who sit on the board along with experienced directors. The company has strong data protection policies and has committed not to sell personal data to outside parties. The company has adopted some governance provisions which would limit our influence however we respect the founders with the majority voting power and believe they support the long-term mission of the company.

	Relevant Targets	Relevant Products
	Target 4.5	Through the provision of digital language learning, Duolingo is expanding access to free education to anyone with internet access and a device. Affordability and a lack of physical access are substantial barriers which prevent adults from taking part in language learning. Duolingo is continuously expanding the number of language courses available to individuals and schools in over 190 countries. In many developing countries, improved language capabilities improve the economic potential of workers.

Did you know? An estimated 1.5 billion people (across the globe) are currently learning English.

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