

1Q25 Initial Earnings Release Post-Mortem

DUOL came in very close to projected upside numbers in 1Q25 with some numbers exceeding upside targets and others falling a bit short but still wildly above the base case scenario projections. Monthly active users (MAUs) and Daily active users (DAUs) were both above projections (these numbers do not directly flow through, so they aren't sensitized) by 4.1% and 4.3% respectively. Revenue numbers beat my model's base projections by almost 5% and **also beat UPSIDE projections by 3.3%**. Net income beat base projections by a staggering 43.7%, but did fall short of upside projections by 9.5%. Similarly, adjusted EBITDA beat base projections by 29% but fell short of upside projections by 6%. I will need to take a closer look at cost numbers once the 10-Q comes out, but their numbers in the presentation suggest costs were almost exactly at Base projection numbers so they fall short of some of the projected cost savings in the upside scenario leading to the discrepancy between top-line and bottom-line results versus projections.

The causes for the results are a mix of different inputs. Their "Dead Duo" ad campaign produced strong results in both adding new users and resurrecting previous users thanks to its 1.7bn generated organic impressions. They have also started to roll out AI enhancements ahead of schedule. AI contributed to helping them launch 150 new language courses in 1Q thanks to AI generated content. AI allowing them to add content at a faster pace was one of my key points for them being able to improve their platform in my initial thesis. Also in line with my initial thesis, my "they can just add anything" narrative is coming to fruition with the addition of **Chess** to their learning courses in the near future (late 2Q25 or early 3Q25). While chess wasn't one of my exact projections in my initial thesis, it is very much in sync with the core idea of they are a "learn things" platform and "things" can really be whatever they want it to be.

Overall, 1Q25 went about as good as you could have hoped for the position. Numbers came in similarly to upside projections, and in some cases even beating the upside targets. There is some work to do once the 10-Q comes out in terms of taking a look at underlying numbers, but overall, I am very happy with DUOL's progress this Q. Their current stock price of \$460 has exceeded my projection range of ~\$375-430 which was a 15-30% increase from where I entered the position as they currently sit at ~\$460. I will re-evaluate the target price in light of these new numbers and decide whether or not to keep the position or if the market has fully corrected and it is time to exit. I will add to this note below if I find anything material in the filings and will of course update the model once the 10-Q releases to give new price targets or recommend closing the position.

1Q25 Post 10-Q and Model Update Write-Up

Quick update after updating the model and reviewing the 10-Q. The upside scenario received a small boost with the 1Q numbers as expected. That being said, we have already seen a nearly 60% increase in the stock since entering the position in late April and I, of course, no longer see anywhere near as much potential upside as I did last month. The current stock price (~\$500) is above the 40x EBITDA multiple upside price of \$481. While higher multiples reflect further potential upside if the stock re-rates higher, I think a week after earnings and the stock having stabilized in this range, it is a good time to exit the position for a gain of 55% from when we entered. If they stumble in future earnings and the stock takes a jolt back down, I will revisit as I think the company is very strong fundamentally and should continue to perform well.