

EXECUTIVE SUMMARY

I am recommending a Sell of Duolingo (DUOL) stock at its current price point of ~\$185. After a strong start to the year, when I had previously been long going into 1Q earnings, the company has experienced a series of set backs resulting in lower than projected growth and poor market sentiment. I see the stock potentially dropping back down to 2023 levels of ~\$150 a share.

INVESTMENT THESIS 3 CORE FACTORS

1. **AI Backlash:** In early 2025, I gave them credit for utilizing AI to speed up production of courses and allow them to output product faster than they had previously done. The market agreed with my assessment, and it initially led to an exorbitant increase in the price. DUOL's consumers, on the other hand, weren't so thrilled. DUOL took a big hit in social media sentiment, with many comments from users turning negative as a result of their noticeable AI use and putting a damper on their core marketing strategy.
2. **Growth Slowdown:** In line with the backlash from AI, their top line numbers have begun to diminish. Subscription growth dropped to the lowest it has been in years at 8.9% QoQ, relative to fairly steady low-double-digit growth in many of the previous quarters since 2023. "Other" growth (advertising revenue, English test revenue, etc.) has also dropped to just 1.5%. For a company whose stock price is driven by its ability to continue growing at a staggering rate, these trends bode poorly for their long-term success.
3. **International Strength Wavering:** The majority of DUOL's revenue has consistently come from non-US countries. In 2024, revenue was \$311mm from the U.S. and \$436mm from Rest of World (RoW). While they don't report geographic income quarterly, if we use the Duolingo English Test as a proxy for RoW consumption, we have seen a drop in income from their English test in every quarter of 2025 on a YoY basis and this could signal weakening of their international base thus leading to bigger problems for their growth potential down the road.

CATALYSTS

The main catalysts will come quarterly as DUOL continues to report its growth numbers. If we see a continued weakening in their subscription growth, along with weakening of their Other growth category, I would expect the market to continue to increase in bearish sentiment. Another core catalyst will come when they report full year 2025 earnings and show their geographic numbers. Lower than expected RoW numbers could also spark flight from the stock if they don't have a plan to maintain growth outside of the U.S.

CONCLUSION

DUOL was a market darling early in the year and recited the correct words to shareholders on their AI use and growth potential. Unfortunately, their consumer base was not as interested in their AI developments as shareholders were. A strong pushback from their customers on social media has now started to reflect in their growth numbers and could continue to drive the stock price down. As I don't see a clear path to reversing their decline in public image, I expect to see worsening growth numbers in coming quarters that will lead to continued stock price depreciation.