

PRIVILEGED & CONFIDENTIAL - ATTORNEY CLIENT WORK PRODUCT



DEFENDANT	United States District Court Northern District of California
	Case No. <u>4:20-cv-05640-YGR</u>
	Case Title <u>Epic Games, Inc. v. Apple, Inc.</u>
	Exhibit No. <u>DX-3774</u>
	Date Entered _____
	Susan Y. Soong, Clerk
	By: _____, Deputy Clerk

Project Liberty

Update to the Board of Directors

July 27, 2020

Executive Summary

The Agenda for today is to update the board on Project Liberty

- **Epic Performance is Strong**
 - Fortnite reached record engagement of 81.2mm MAUs in May 2020 and Season 13 Battle Pass launched June 2020 is on par with the best season ever -- **Fortnite revenue in 1H was \$2.0bn beating forecast by 70%**
 - We are seeing a slow down in engagement of last 30-day rolling active users and expect **Fortnite revenue in 2H to be \$2.2bn ending the year at \$4.2bn of total Fortnite revenue**
 - Post E2 cash balance of **\$3.4bn**
- **Tide is Turning Against Apple and Google**
 - Multiple investigations in U.S. and EU
 - Unhappy customers, partners, and ecosystem
 - Negative Press
- **Significant Planning has gone into Project Liberty, Epic's War Against Mobile Platform Fees**
 - Epic has a detailed Public Relations and Legal Policy strategy
- **The Time is Now**
 - **REDACTED FOR PRIVILEGE**
 - Fortnite's all time high user base plus the Marvel Season and concerts adds pressure to Apple and Google
 - Growth is predicated on user generated content; stronger creator revenue share from lower mobile platform fees
 - Solve this problem before AR takes off and that rate is set at 30%



Executive Summary (Cont'd)

Overview of Project Liberty

Project Liberty's goal is to end the anti-competitive 30% tax on the Apple App and Google Play store

- Epic will introduce Epic Direct Pay on Apple App and Google Play with 20% discounted prices relative to those charged by mobile app stores, with consoles receiving the 20% discount to maintain price parity
- Apple and Google may reject future Fortnite builds and/or block the existing Fortnite build in retaliation against Epic for supporting direct payment
- Epic will embark on an aggressive and sustained legal and media campaign until platform fees are lowered, apps are allowed to use their own payment platform or 3rd party app stores are allowed on mobile
- Epic will attempt to lead a coalition of other leading tech companies in a PR and policy campaign against the 30% tax

Why Do This?

- Pass mobile payment processing savings on to consumers through a direct Epic customer relationship
- Create a better ecosystem for all developers -- ability to invest in development and creative vs pay a tax
- Remove anti-competitive barriers to Epic introducing a competing mobile app store on iOS and Android
- Feasible economics for Epic and creators, in preparation for Valkyrie paying creators for Fortnite based content

Potential Near-Term Implications

- Near term Epic P&L impact
- Possible loss of revenue and access to our customers due to potential Apple or Google retaliation
- Possible negative player sentiment as Apple and Google PR campaigns direct blame to Epic

Epic is Prepared to Fight as Long as it Takes and Will Not Back Down from Direct Payments



Mobile Platform Fees an Existential Issue as FN Evolves

New Content will be Driven by Other Creators

- Fortnite as a competitive platform for user content requires sharing majority of profit with creators



PRIVILEGED & CONFIDENTIAL - ATTORNEY CLIENT WORK PRODUCT



Project Liberty Plan

Overview of Battle Plan

- Hotfix Fortnite on iOS and Android to support Epic payments side-by-side with Apple and Google Payments
- Permanently drop prices by 20% on PC, console, mobile (via Epic payment only)
- Leave Apple and Google payment prices (subject to 30% tax) unchanged
- Launch public campaign around payment processing freedom and passing savings on to consumers

REDACTED FOR PRIVILEGE

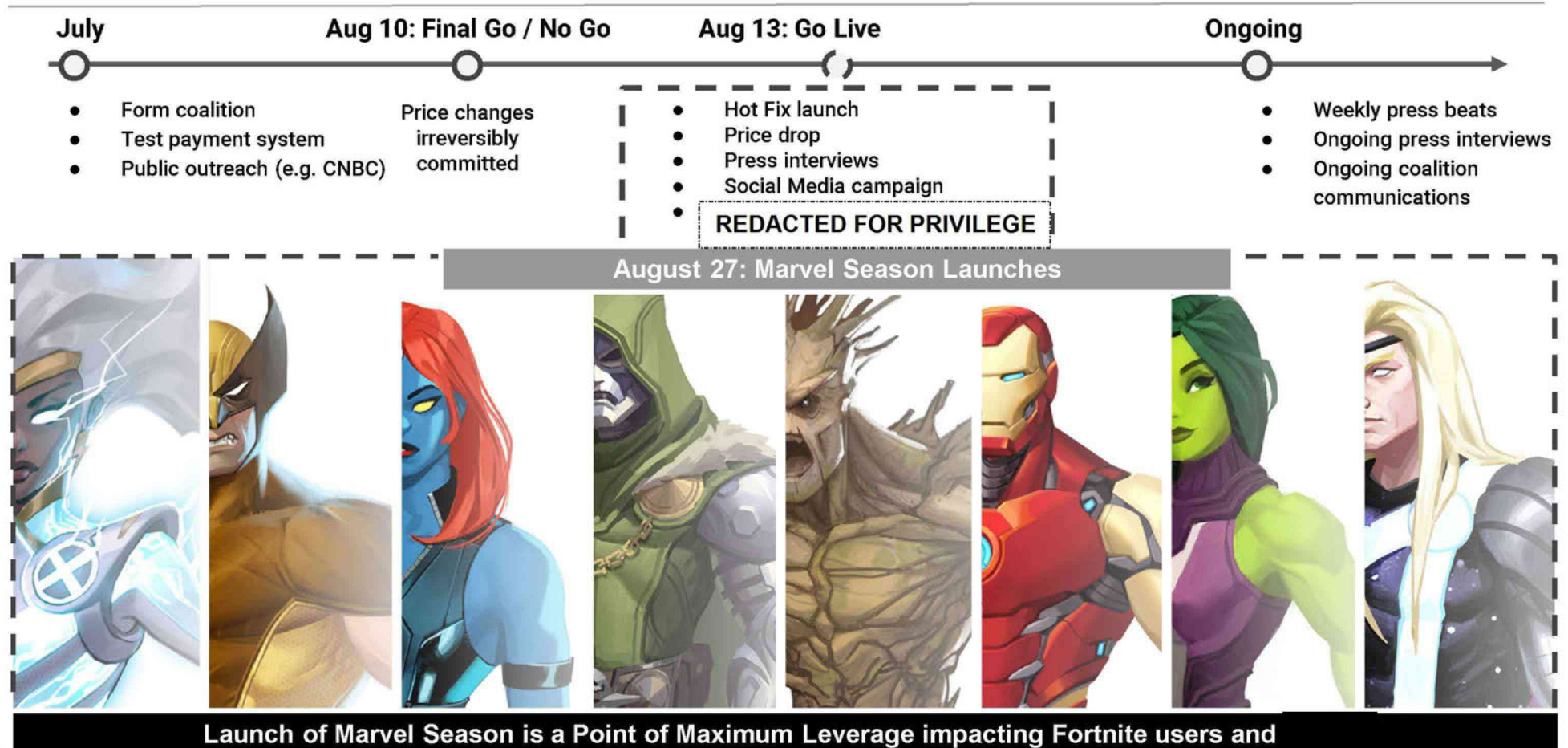


Legal Strategy

Canon Discussion



Timeline | The Time is Now





Price Change

Price Change Goals

Goal: pass on the cost savings of Epic direct payment directly to consumers, while maintaining price parity on consoles

Guideposts:

- V-Buck amounts remain the same -- easy to understand the discounts
- Maintain bonuses across SKUs
- Maintain pricing parity across platforms
- Maintain pricing aesthetics as much as possible

Price Changes

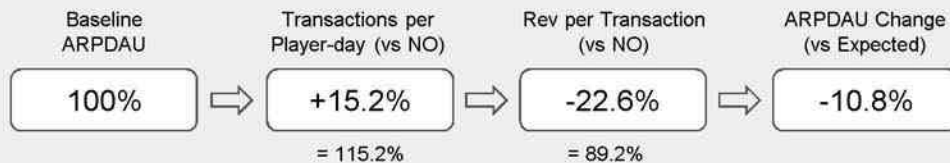
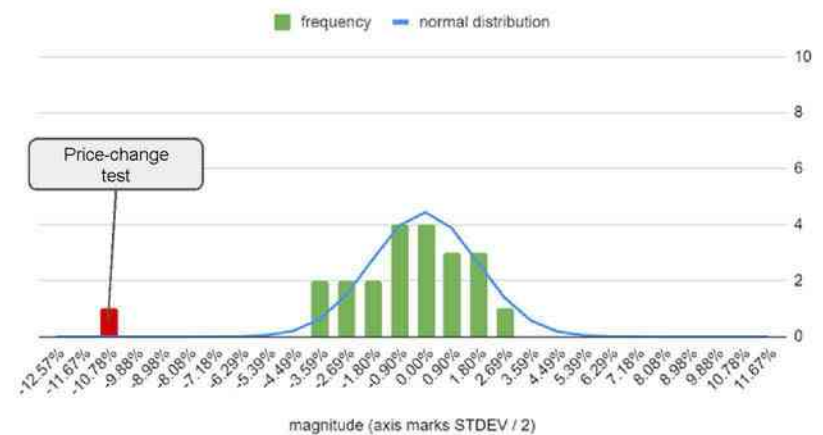
Updated Pricing Proposal	1,000 V-Bucks	2,800 V-Bucks	5,000 V-Bucks	13,500 V-Bucks
Apple / Google Pricing (Unchanged)	\$9.99	\$24.99	\$39.99	\$99.99
Updated Pricing (USD)	\$7.99	\$19.99	\$31.99	\$79.99
% Epic Discount	20%	20%	20%	20%
Net Revenue on Apple/Google <small>(30% to Apple/Google, using old prices)</small>	\$6.99	\$17.49	\$27.99	\$69.99
Net Revenue on Epic Pay <small>(Assumes 12% "platform fee" on Epic Pay)</small>	\$7.03	\$17.59	\$28.15	\$70.39
Net Revenue on Console <small>(30% to Sony/MSFT/Nintendo, using new prices)</small>	\$5.59	\$13.99	\$22.39	\$55.99



Limited Narrow Test Demonstrates Partial Elasticity

- **Test:** Lowered prices in Denmark (test) while holding Norway (control) constant
- **Results:** Purchase frequency is up, but not enough to offset price reductions.
- **ARPDau deficit:** -10.8% for DK vs NO
 - This is 6 STDEVs below the mean
 - 95% confidence interval: -14.4% to -7.2%
 - 68% confidence interval: -12.6% to -9.0%

Distribution of 30-Day ARPDau Trend Deviation for DK vs NO: Weekly Samples 2020



Metric	Result vs Control	Notes
ARPDau	-10.8%	95% confidence interval (using DK vs NO analysis) is -14.4% to -7.2%
Purchases per Player-day	+15.2%	25%+ for full elasticity
Rev per Transaction	-22.6%	Discount combined with shift to lower-end SKUs drove down rev per transaction
ARPU (per user in whole period)	-10.9%	Similar to ARPDau-based measurement
Conversion in Period	+5.6% (relative)	Slightly more users spending -- however, no increase in first-time conversion
Purchases per Player-day (Period Payers Only)	+8.4%	Purchases per player-day (for payers only) is up more than conversion



PRIVILEGED & CONFIDENTIAL - ATTORNEY CLIENT WORK PRODUCT



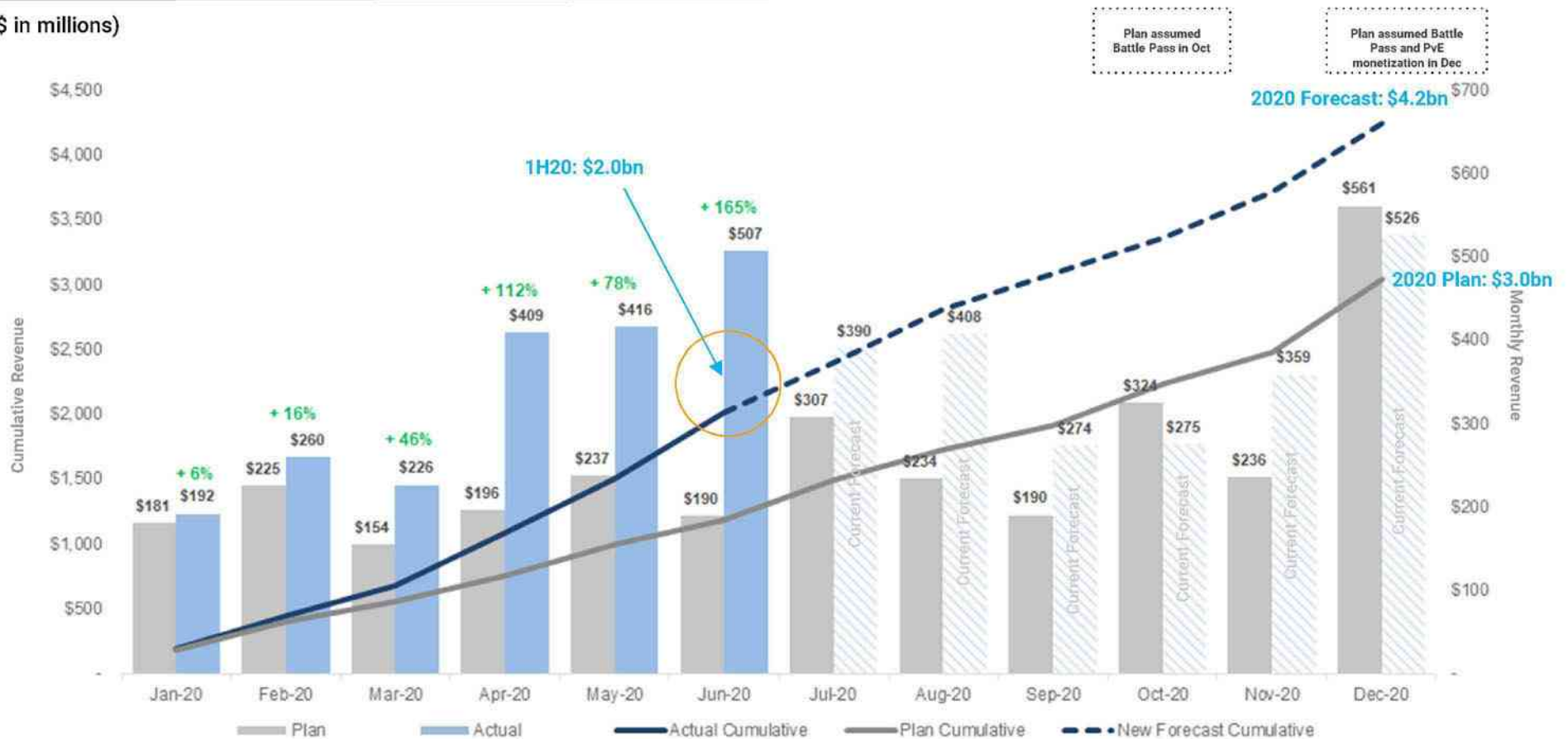
Project Liberty P&L Impact

2020 Forecast Update

PRIVILEGED & CONFIDENTIAL - ATTORNEY CLIENT WORK PRODUCT

Fortnite is Beating Plan by 70%

(\$ in millions)



1H20 Revenue of \$2.0bn came in 70% ahead of \$1.2bn Plan



2020 Forecast Update

PRIVILEGED & CONFIDENTIAL - ATTORNEY CLIENT WORK PRODUCT

Revised 2020 Forecast Based on Trends

Epic Gross Revenue (Quarterly)



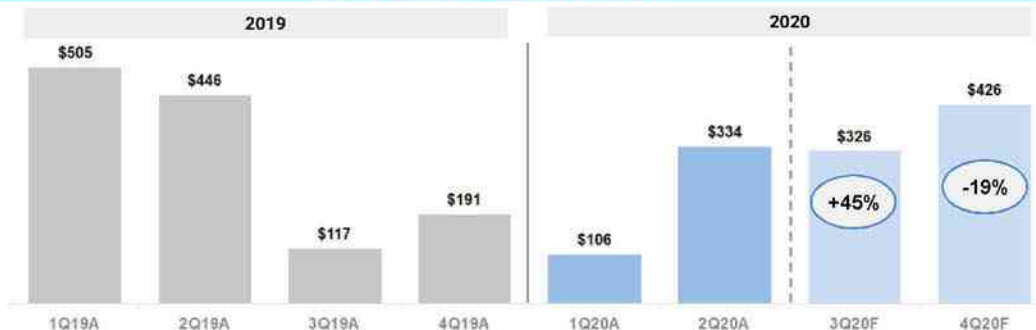
Gross Revenue



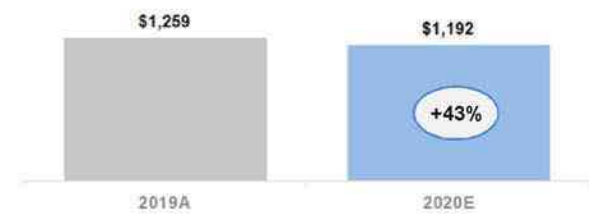
QoQ Growth	-30%	-5%	-13%	5%	-21%	86%	-18%	19%
YoY Growth	40%	-27%	-41%	-39%	-31%	35%	26%	42%

-25%	17%

EBITDAB (Quarterly)



EBITDAB



EBITDAB Margin	44%	41%	12%	19%	13%	23%	27%	30%
----------------	-----	-----	-----	-----	-----	-----	-----	-----

30%	24%

Revised 2020 forecast reflects strong 1H20 performance and current trends



* as of July 23, 2020.

2019 (Actual)

2020 (Actual / Forecast)



% New Plan vs Original Revenue and EBITDA

Project Liberty P&L Impact

PRIVILEGED & CONFIDENTIAL - ATTORNEY CLIENT WORK PRODUCT

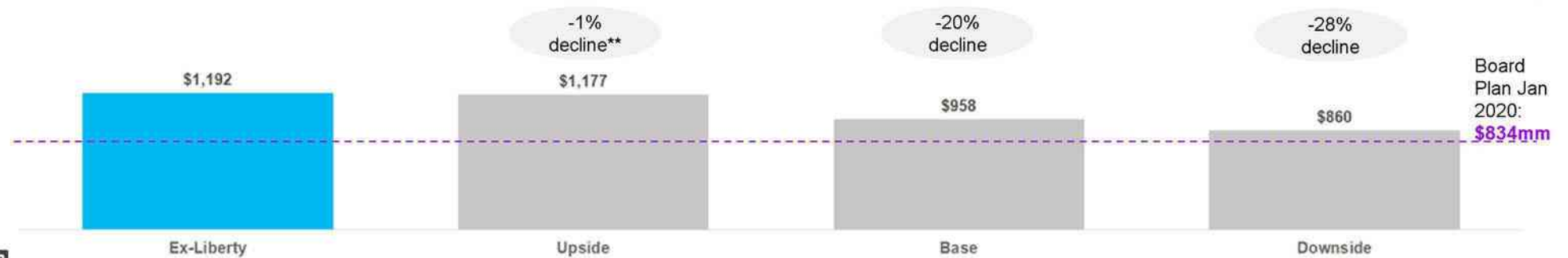


Project Liberty | 2020 P&L Impact Scenarios

2020 Fortnite Gross Revenue Impact: Reduce Prices 20%



2020 Fortnite EBITDAB Impact: Reduce Prices 20%

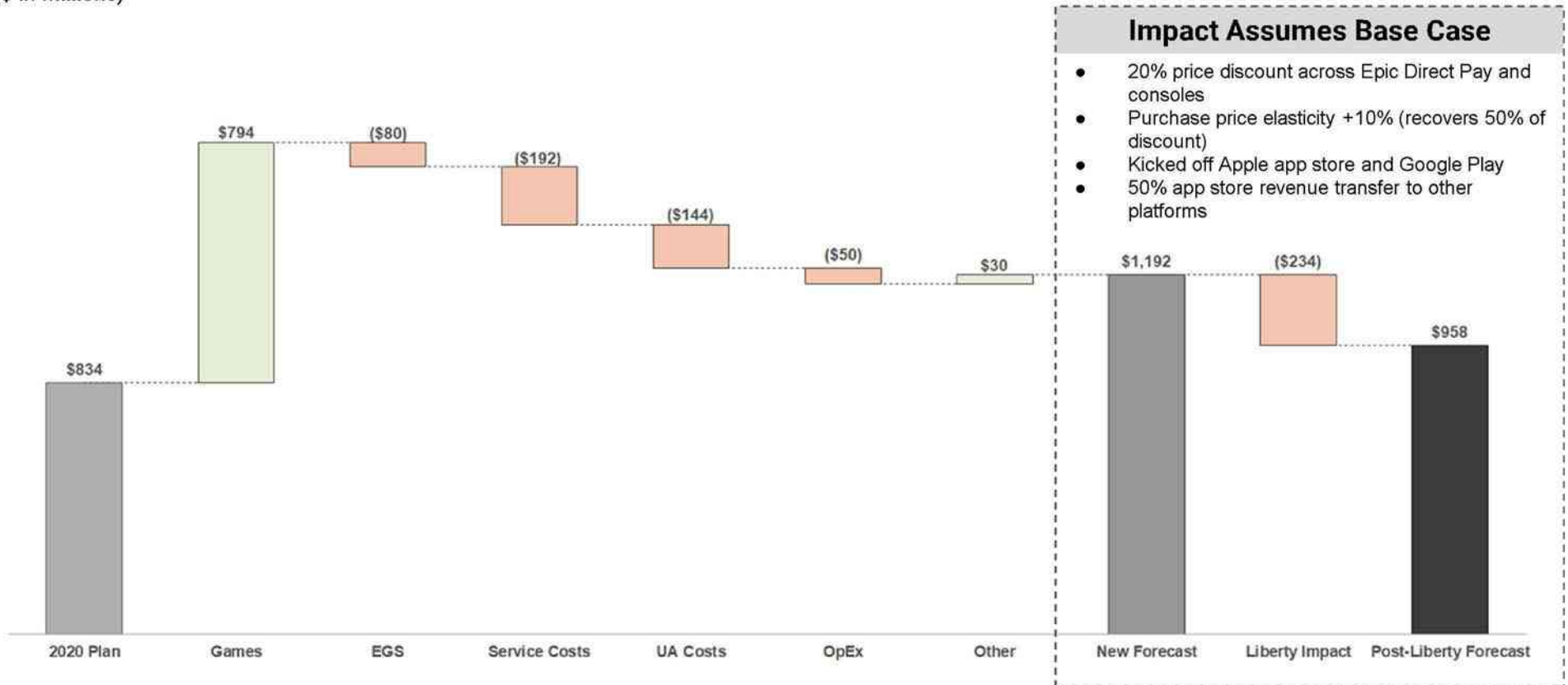


** Decline in flat revenue due to increased SAC costs

Project Liberty | 2020 EBITDAB Impact

2020 Original Plan vs Current Plan and Post Project Liberty

(\$ in millions)



Conclusions

- **This is likely going to be a long protracted battle**
- **The time is now given egregiousness of Apple, Google stance**
- **Downside mitigated by our business performance**
- **All consumers and developers benefit alongside Epic from freeing the industry from payments and store monopolies**

Thank You!

