

PRIVATE AND CONFIDENTIAL

	United States District Court Northern District of California
DEFENDANT A	Case No. <u>4:20-cv-05640-YGR</u>
	Case Title <u>Epic Games, Inc. v. Apple, Inc.</u>
	Exhibit No. <u>DX-4376</u>
	Date Entered _____
	Susan Y. Soong, Clerk
	By: _____, Deputy Clerk

Finance Board Presentation

January 2020



2018 – 2019 Consolidated Financials – Actual

Preliminary, Non-GAAP
(\$ in millions)

	Annual View		Commentary	
	2018A	2019A	\$ Diff	% Diff
Fortnite	\$5,477	\$3,709	(\$1,767)	-48%
Other	8	100	93	92%
Game Revenue	\$5,484	\$3,810	(\$1,675)	-44%
Game License & Royalties	\$109	\$79	(\$30)	-37%
Enterprise	9	10	1	5%
UE Asset Marketplace	6	8	2	22%
Engine Revenue	\$124	\$97	(\$27)	-28%
Epic Games Store	\$2	\$233	\$231	99%
Merchandise/Other	\$18	\$82	\$64	78%
Total Gross Revenue	\$5,628	\$4,221	(\$1,406)	-33%
Platform Royalties	\$1,439	\$1,057	(\$383)	-36%
Production & Hosting	201	290	89	31%
Player Support	25	59	34	57%
UA	147	276	129	47%
Payment Processing Fees	37	28	(9)	-31%
EGS & Marketplace Costs	14	465	451	97%
Esports Costs	18	214	196	92%
Cost of Sales	\$1,882	\$2,390	\$508	21%
Gross Income	\$3,746	\$1,831	(\$1,915)	-105%
Gross Margin	66.6%	43.4%		
People	\$150	\$275	\$125	46%
Outsourcing	42	110	68	62%
Marketing	82	59	(22)	-38%
IT	24	39	15	38%
Consulting	8	14	5	40%
Legal & Accounting	39	30	(9)	-31%
Travel & Entertainment	10	18	7	43%
Facilities	8	17	9	54%
Other	13	27	15	53%
Total Operating Expense	\$376	\$588	\$212	36%
EBIT excl. Bonus	\$3,370	\$1,243	(\$2,127)	-171%
EBIT excl. Bonus Margin	59.9%	29.4%		
Bonus	\$482	\$523	\$41	8%
EBIT	\$2,888	\$720	(\$2,168)	-301%
EBIT Margin	51.3%	17.1%		
EBITDA	\$2,895	\$733	(\$2,162)	-295%
EBITDA Margin	51.4%	17.4%		
Employees	1,063	1,932	869	45%

Other game revenue is primarily Rocket League and Battle Breakers

EGS launched in December 2018, minimum guarantees
2019 Esports event costs of \$107M, and prize pool costs of \$107M

People cost has increase in proportion to new hires, of which 36% are M&A related
\$68M related to Fortnite, \$16M related to Engine, \$14M related to Team Online, \$4M related to other games
Marketing spend focused towards Esports verses other industry events

2018 includes \$15M in legal settlements

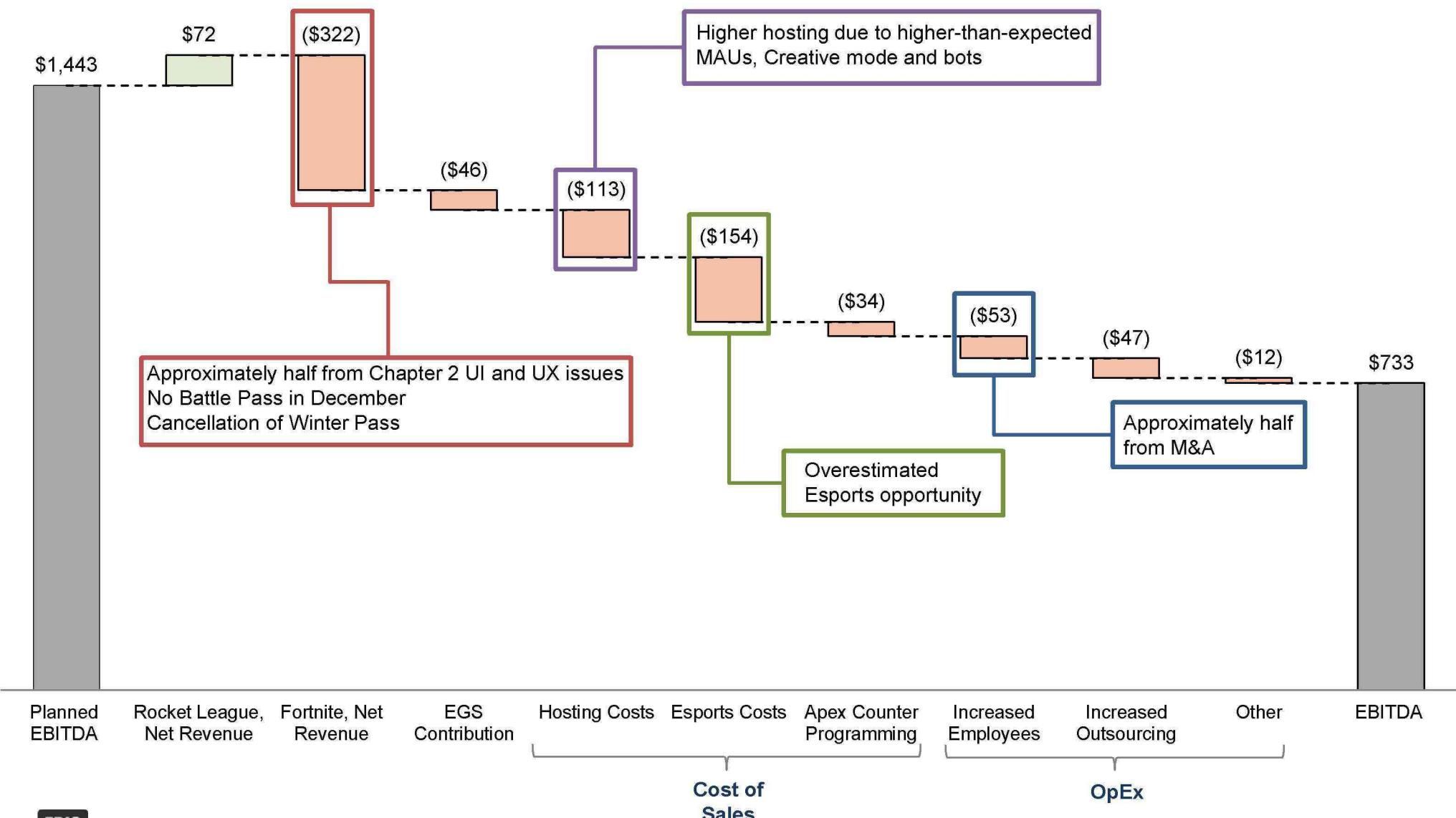
Due to monthly timing 4 bonus payments in 2019, vs 3 in 2018

Includes 313 employees from acquisition in 2019

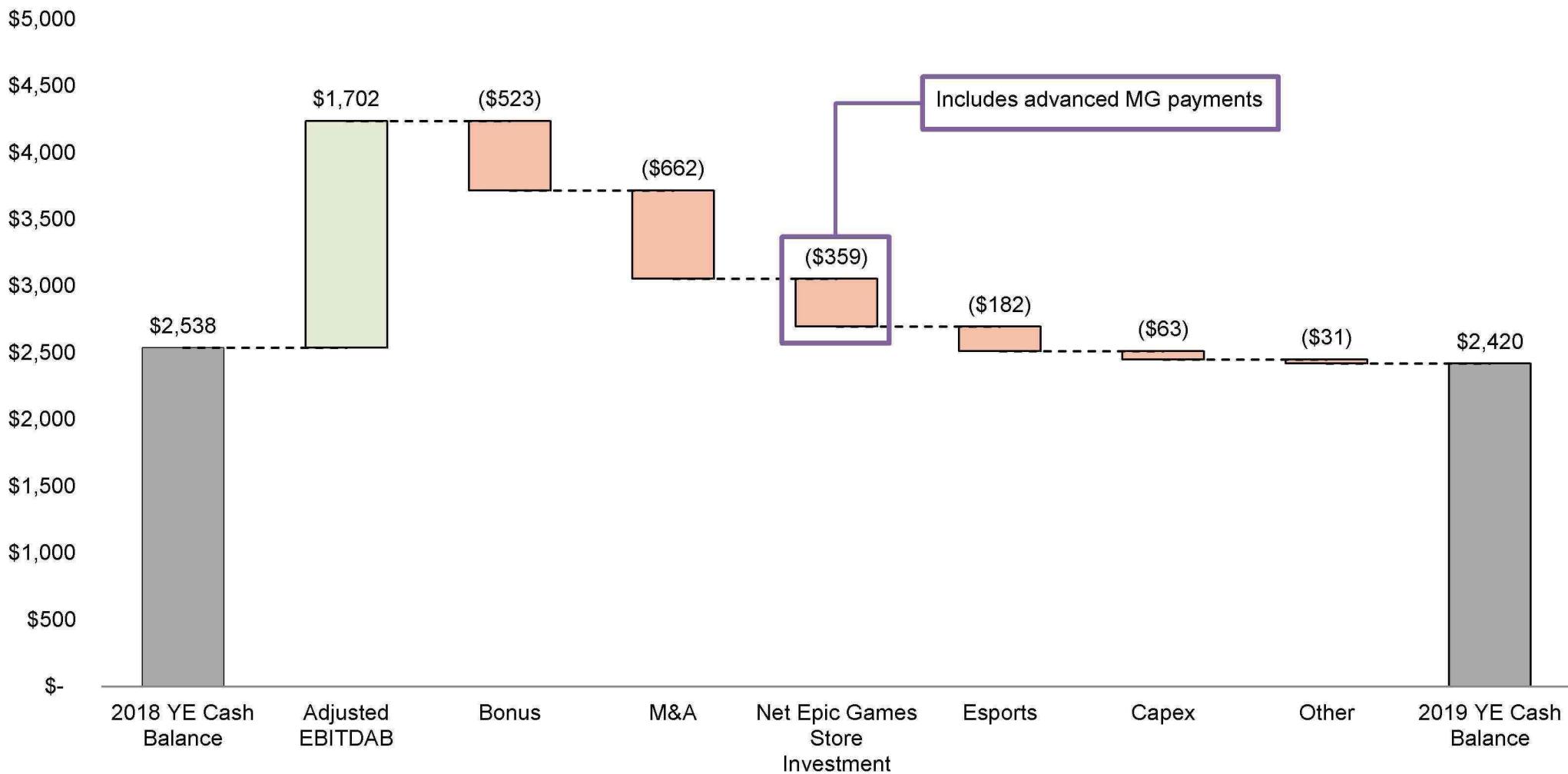


2019 EBITDA Bridge – Plan vs. Actual

\$ in Millions



2018 – 2019 Cash Flow Bridge



Note: Adjusted EBITDAB does not include EGS investments and Esports

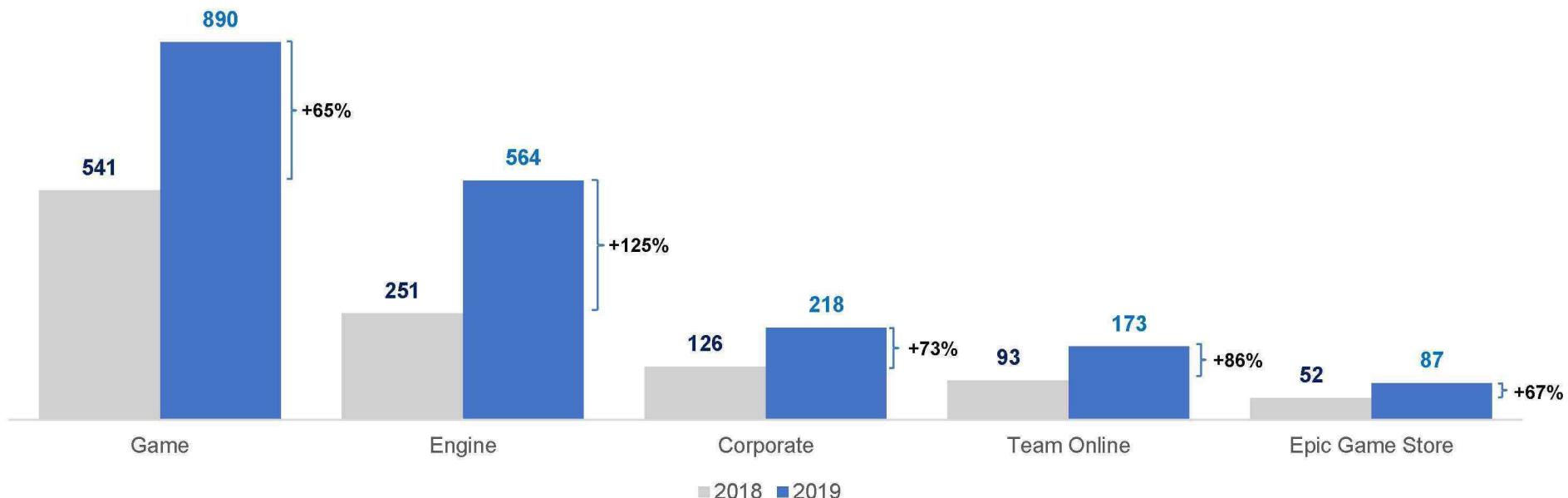
Employee Summary

	2018	2019	Δ	% Δ	% of '19
Game	541	890	349	+65%	46%
Engine	251	564	313	+125%	29%
Corporate	126	218	92	+73%	11%
Team Online	93	173	80	+86%	9%
Epic Game Store	52	87	35	+67%	5%
Total	1,063	1,932	869	+82%	100%

M&A represents
36% of 2019

	2018	2019	Δ	% Δ	% of '19
US	770	1309	539	+70%	68%
Serbia	0	117	117	-	6%
Canada	39	115	76	+195%	6%
China	79	94	15	+19%	5%
UK	70	86	16	+23%	4%
Sweden	10	50	40	+400%	3%
Finland	29	43	14	+48%	2%
Germany	23	41	18	+78%	2%
Korea	23	24	1	+4%	1%
Japan	12	20	8	+67%	1%
France	0	15	15	-	1%
Other	8	18	10	+125%	1%
	1,063	1,932	869	+82%	100%

2018 and 2019 Employee Summary



Balance Sheet

Preliminary, Non-GAAP
(\$ in millions)

	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	Commentary
ASSETS						
Current Assets						
Cash and cash equivalents	2,538	2,774	2,275	2,386	2,420	
Accounts receivable	767	490	458	372	413	
Income tax receivable	-	-	-	-	4	
Prepays and other current assets	46	272	448	328	333	Prepaid expenses are largely comprised of Epic Games Store advances
Total Current Assets	3,351	3,536	3,181	3,086	3,170	
Non-Current Assets						
Property and equipment, net	61	74	93	109	112	
Goodwill	41	148	780	757	566	Goodwill resulting from 2019 acquisitions
Intangible assets, net	1	0	11	11	29	
CSV of life insurance	3	3	3	3	3	
Investments	1	1	3	3	10	
Deferred tax asset	76	76	18	17	18	
Other assets	2	1	4	10	15	
Total Non-Current Assets	184	303	911	920	853	
TOTAL ASSETS	3,536	3,839	4,093	4,006	4,023	
LIABILITIES						
Current Liabilities						
Accounts payable	29	71	72	60	92	
Accrued expenses	68	94	67	142	164	Accrued expenses are related to Esports & Support-A-Creator payouts owed as of period end
Income tax Payable	2	14	19	47	-	
Current portion of deferred revenue	109	109	221	210	107	
Total Current Liabilities	208	288	379	459	364	
Long Term Liabilities						
Deferred revenue, less current	21	21	54	52	19	
Loan payable, long-term	4	4	4	11	11	
Other liabilities	-	-	7	-		
Total Long Term Liabilities	24	24	65	63	30	
TOTAL LIABILITIES	232	312	443	522	394	
EQUITY						
Common stock	-	-	-	0	1	
Additional paid-in-capital	697	647	1,816	1,679	1,834	
Unrealized FX gain/loss	(1)	(0)	1	(0)	1	
Retained earnings	2,608	2,880	1,833	1,805	1,794	
Total Equity	3,304	3,526	3,650	3,484	3,629	
TOTAL LIABILITIES AND EQUITY	3,536	3,839	4,093	4,006	4,023	



Epic P&L | Revised 2020E Forecast vs 2019 and 2018

Epic 2020 P&L				Commentary
	2018A	2019A	2020F	
1 (\$ in millions, except per MARPPU)				
Fortnite Revenue	\$5,477	\$3,709	\$2,771	
MAUs	66.6	65.1	60.6	
% Conversion	22%	17%	14%	
MAPs	14.4	10.9	8.6	
MARPPU	\$31.70	\$28.32	\$26.75	
Other Games	8	100	250	
2 Game Revenue	\$5,484	\$3,809	\$3,021	
Engine Revenue	124	97	100	
Store Revenue	2	233	401	
Other Revenue	18	82	59	
Gross Revenue	\$5,628	\$4,221	\$3,582	
YoY Growth %	0%	-25%	-15%	
3 Platform Royalties	\$1,439	\$1,057	\$812	
Production/Hosting Costs	201	290	281	
Player Support	25	59	55	
UA	147	276	227	
Payment Processing Fees	37	28	38	
EGS/Marketplace Royalties	14	465	663	
Esports Cost	18	214	85	
4 Cost of Sales	\$1,882	\$2,390	\$2,162	
Gross Profit	\$3,746	\$1,831	\$1,420	
% Margin	68%	48%	47%	
People	\$150	\$275	\$365	
Outsourcing	42	110	153	
Marketing	82	59	53	
Other	102	144	159	
5 Operating Expenses	369	576	718	
EBITDA (excl. Bonus)	\$3,377	\$1,255	\$701	
% Margin	60%	30%	20%	
Bonus	\$482	\$523	\$171	
6 EBITDA	\$2,895	\$733	\$531	
% Margin	51%	17%	15%	
Employees	1,063	1,932	2,232	



Epic P&L | Revised 2020E Forecast vs Previous Forecast

Epic 2018A - 2020E Profit and Loss					
(\$ in millions, except for per MARPPU)	Actuals		Original 2020 Forecast ¹		Current 2020 Forecast ²
	2018A	2019A	Base	Low	
Fortnite Revenue	\$5,505	\$3,709	\$3,565	\$2,815	\$2,771
MAUs	66.6	65.0	59.8	51.6	60.6
% Conversion	21.6%	16.8%	17.8%	16.7%	14.2%
MAPs	14.4	10.9	10.6	8.6	8.6
MARPPU	\$31.70	\$28.36	\$27.96	\$27.28	\$26.75
Other Games	8	100	250	250	250
Total Game Revenue	\$5,513	\$3,810	\$3,815	\$3,065	\$3,021
Engine Revenue	124	97	125	125	100
Epic Game Store Revenue	2	233	401	401	401
Merchandising	16	82	50	40	59
Gross Revenue	\$5,654	\$4,221	\$4,392	\$3,631	\$3,582
YoY Growth %		(25%)	4%	(14%)	
Platform Costs	1,461	1,057	1,019	818	812
Production / Hosting	201	290	290	273	281
Player Support / Payment Processing	62	88	100	95	93
User Acquisition	153	276	203	170	227
EGS / Marketplace	22	465	648	648	663
Esports	18	214	95	95	85
Cost of Sales	\$1,917	\$2,390	\$2,355	\$2,101	\$2,162
Gross Profit	\$3,737	\$1,831	\$2,037	\$1,531	\$1,420
Margin %	66%	43%	46%	42%	40%
People	141	275	365	365	365
Outsourcing (Contractors)	45	110	151	151	153
Marketing/Events	83	59	60	60	53
Other	106	144	158	158	159
Operating Expenses	\$375	\$588	\$734	\$734	\$730
% of Gross Revenue	7%	14%	17%	20%	20%
EBIT (excl. Bonus)	\$3,363	\$1,243	\$1,302	\$796	\$689
Margin %	59%	29%	30%	22%	19%
Organic Headcount Adds		561	300	300	300
M&A Headcount Adds		306	-	-	-
Total Headcount	1,063	1,930	2,230	2,230	2,230



Appendix



2018 – 2019 Quarterly Consolidated Financials – Actual

Preliminary, Non-GAAP
(\$ in millions)

	2018 Actuals				2019 Actuals			
	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Fortnite	\$782	\$1,474	\$1,619	\$1,601	\$1,109	\$1,014	\$782	\$805
Other	8	(1)	0	0	0	13	43	43
Game Revenue	\$790	\$1,473	\$1,620	\$1,601	\$1,109	\$1,027	\$825	\$849
Game License & Royalties	\$30	\$31	\$14	\$34	\$12	\$21	\$15	\$31
Enterprise	3	2	4	1	2	1	3	3
UE Asset Marketplace	1	2	1	2	1	2	2	2
Engine Revenue	\$34	\$34	\$19	\$37	\$16	\$25	\$20	\$36
Epic Games Store	-	-	-	\$2	\$27	\$35	\$96	\$76
Merchandise/Other	\$0	\$1	\$0	\$17	\$10	\$15	\$20	\$38
Total Gross Revenue	\$824	\$1,508	\$1,639	\$1,656	\$1,161	\$1,102	\$960	\$998
Platform Royalties	\$207	\$389	\$430	\$413	\$305	\$292	\$227	\$233
Hosting	34	53	72	42	70	71	69	80
Player Support	2	3	8	13	13	15	15	16
UA	13	27	42	65	99	46	41	90
Payment Processing Fees	6	12	10	9	7	7	7	7
EGS/Marketplace Costs	1	1	6	6	48	71	188	158
Esports Costs	-	-	4	14	8	18	142	46
Cost of Sales	\$264	\$484	\$572	\$562	\$549	\$521	\$690	\$630
Gross Income	\$560	\$1,024	\$1,067	\$1,094	\$612	\$581	\$270	\$368
Gross Margin	68.0%	67.9%	65.1%	66.1%	52.7%	52.7%	28.1%	36.9%
People	\$31	\$33	\$39	\$46	\$52	\$60	\$77	\$85
Outsourcing	8	9	10	15	20	22	31	38
Marketing	9	19	27	27	12	20	12	14
IT	4	5	6	10	10	7	12	10
Consulting	1	3	3	2	3	5	3	3
Legal & Accounting	1	22	3	14	6	10	8	6
Travel & Entertainment	2	2	2	4	4	4	5	4
Facilities	2	2	2	2	3	4	5	5
Other	2	3	5	3	4	6	5	12
Total Operating Expense	\$59	\$98	\$96	\$123	\$115	\$137	\$158	\$178
EBIT excl. Bonus	\$501	\$926	\$971	\$972	\$497	\$444	\$112	\$190
EBIT excl. Bonus Margin	60.8%	61.4%	59.2%	58.7%	42.8%	40.3%	11.6%	19.1%
Bonus	\$2	\$135	\$144	\$202	\$180	\$143	\$103	\$96
EBIT	\$500	\$791	\$827	\$770	\$317	\$301	\$9	\$94
EBIT Margin	60.6%	52.5%	50.5%	46.5%	27.3%	27.3%	0.9%	9.4%
EBITDA	\$500	\$792	\$828	\$774	\$318	\$302	\$10	\$102
EBITDA Margin	60.7%	52.5%	50.5%	46.7%	27.4%	27.5%	1.1%	10.2%
Employees	756	853	936	1,063	1,312	1,666	1,817	1,932



2019 P&L – Plan vs. Actual

Epic 2019 P&L

Commentary

		2019 Plan	2019 Actual
1	<u>(\$ in millions, except for per MARPPU)</u>		
	<u>Fortnite Revenue</u>	\$4,138	\$3,709
	MAUs	59.0	65.1
	% Conversion	21%	17%
	MAPs	12.1	10.9
	MARPPU	\$28.51	\$28.32
2	<u>Other Games</u>	0	100
	<u>Game Revenue</u>	\$4,138	\$3,809
	Engine Revenue	128	97
	Store Revenue	160	233
	Other Revenue	165	82
	Gross Revenue	\$4,592	\$4,221
	YoY Growth %	-18%	-25%
4	<u>Cost of Sales</u>	\$2,149	\$2,390
	<u>Operating Expenses</u>	459	576
	EBITDA (excl. Bonus)	\$1,984	\$1,255
	% Margin	43%	30%
	<u>Bonus</u>	\$541	\$523
	EBITDA	\$1,443	\$733
	% Margin	31%	17%

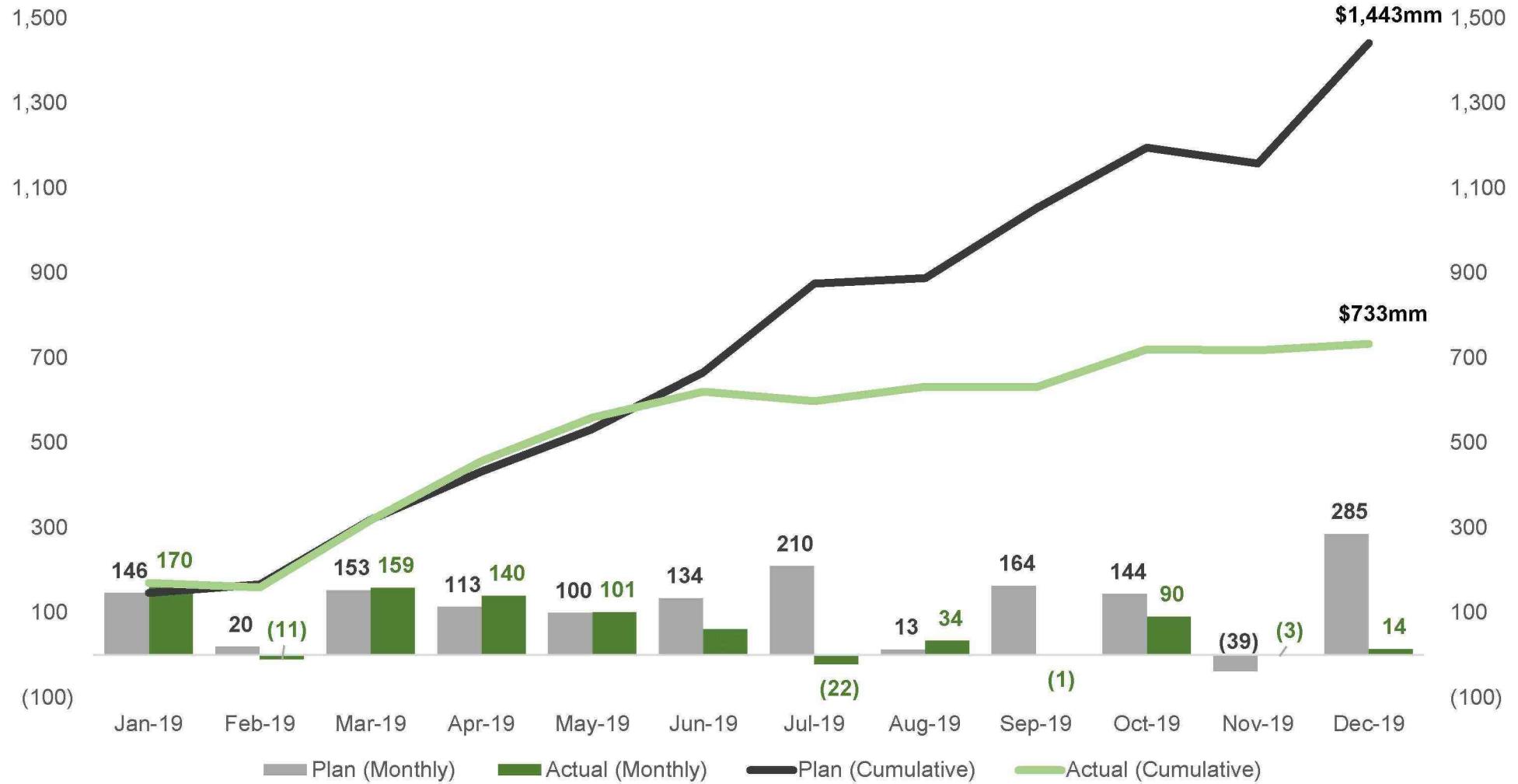
- 1** Fortnite revenue ~30% off peak year of 2018 consistent with large gaming IPs
 - MAUs slight decline year over year given saturation in core markets and platforms
 - Conversion stabilized to 16.8% which leads to a decline in MAPs to ~11mm from 14mm in 2018
 - Monetization declined ~11% to \$28.33 as demand for cosmetic content weakens
- 2** Other games comprises of Psyonix (consolidated financials as of July 2019) and Battle Breakers
- 3** No Esports revenue (\$150mm)
- 4** Operating expenses includes employee costs of \$275mm (1,932 employees at end of 2019), \$110mm in outsourcing costs, \$60mm in marketing/events, and ~\$145mm of other operating expenses.



Note: Cost of sales include platform fees, hosting / production, player support, UA, payment processing, Epic Store royalties, and esports event costs.

2019 EBITDA – Plan vs. Actual

\$ in Millions



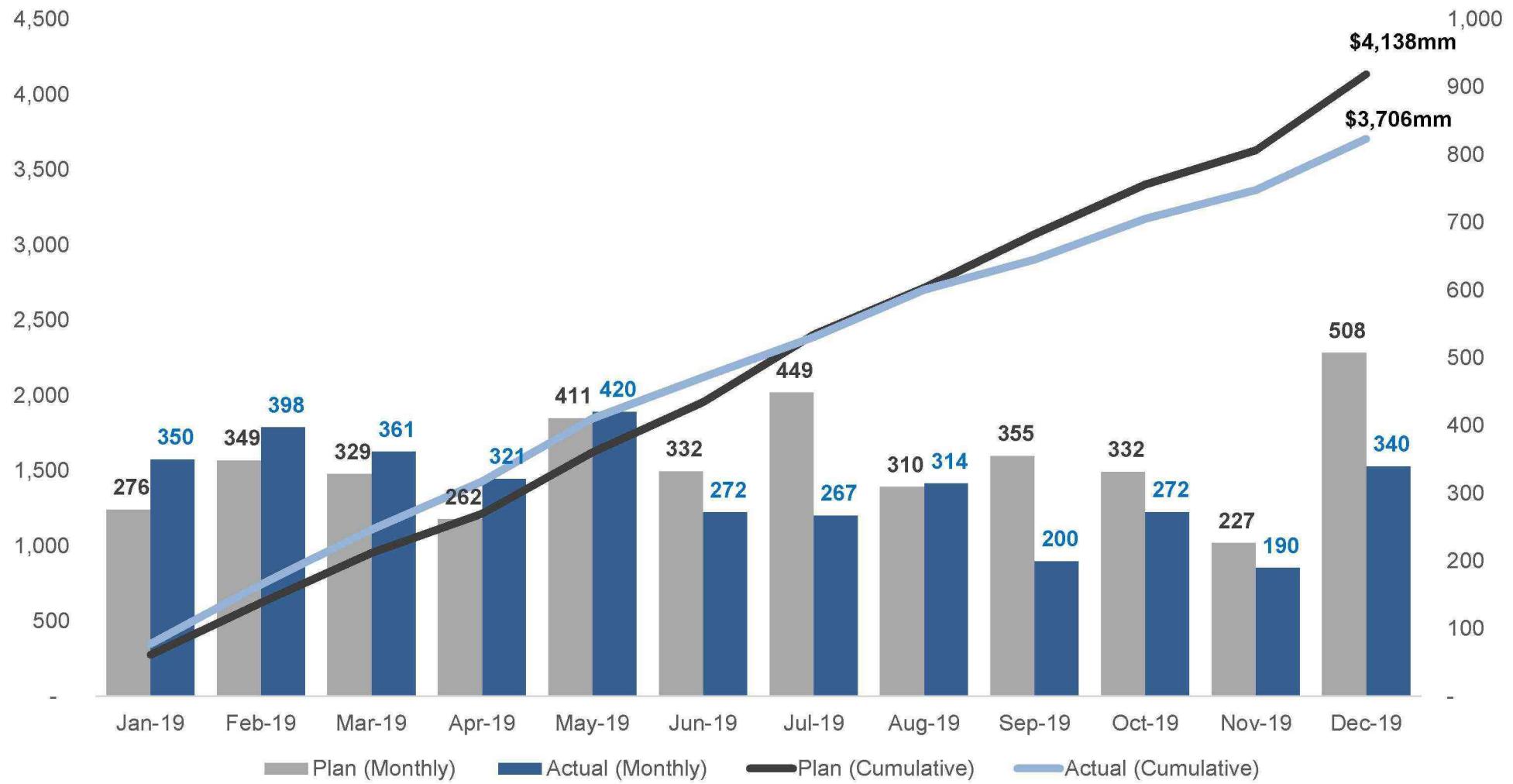
Plan
vs
Actual

16%	-4%	0%	6%	5%	-7%	-32%	-29%	-40%	-40%	-38%	-49%
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2019 Fortnite Gross Revenue – Plan vs. Actual

\$ in Millions



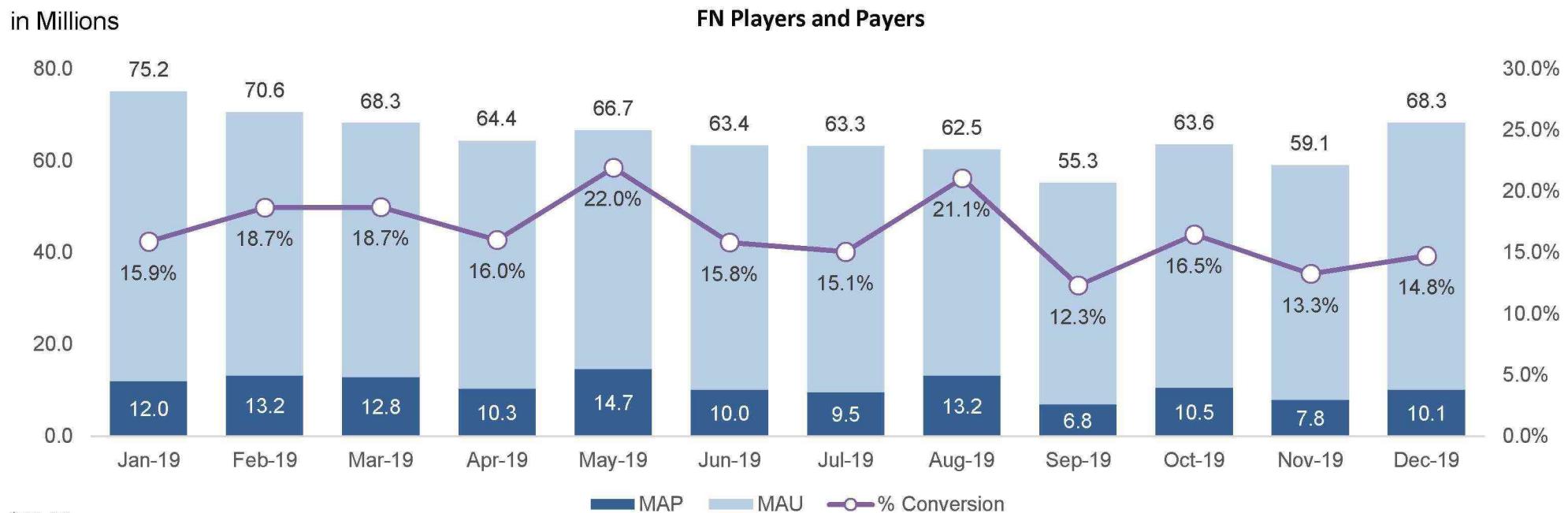
Plan
vs
Actual

27% 20% 16% 18% 14% 8% -1% 0% -5% -7% -7% -10%



2019 Fortnite Monthly KPIs

in Millions



MAP: Monthly Active Payers, MAU: Monthly Active Users, MARPPU: Monthly Average Revenue Per Paying User

2018 – 2019 Cash Flow Statement

Preliminary, Non-GAAP
(\$ in millions)

	12 Months ended 12/31/2018	12 Months ended 12/31/2019
Cash flows from operating activities		
Net income	2,843	642
Non-cash flow adjustments	20	43
Net changes in working capital	(642)	190
Net cash provided by (used in) operating activities	<u>2,221</u>	<u>875</u>
Cash flows from investing activities		
Purchase of property and equipment	(36)	(63)
Investment in affiliate	-	(10)
Business acquisitions, net of cash acquired	(34)	(661)
Net cash (used in) investing activities	<u>(70)</u>	<u>(734)</u>
Cash Flows from financing activities		
Proceeds from line of credit	(15)	-
Distribution of dividends	(173)	-
Share buyback	(1,096)	(261)
Proceeds from stock issuance	1,574	-
Proceeds from exercise of stock options	1	-
Net cash provided by (used in) financing activities	<u>291</u>	<u>(261)</u>
Exchange differences on cash and cash equivalents	(0)	2
Net change in cash and cash equivalents	<u>2,442</u>	<u>(118)</u>
Cash and cash equivalents (inclusive of marketable securities)		
Beginning of period	97	2,538
End of period	<u>2,538</u>	<u>2,420</u>

