

DEFENDANT	United States District Court Northern District of California
	Case No. 4:20-cv-05640-YGR
	Case Title <i>Epic Games, Inc. v. Apple, Inc.</i>
	Exhibit No. DX-4018
	Date Entered _____
	Susan Y. Soong, Clerk
	By: _____, Deputy Clerk

Project Liberty Update

May 13, 2020

Project Liberty Update

Plan of Record

- Players will have the option to use **Epic Direct Payment** to purchase V-Bucks at a discounted rate (~20%) versus Apple and Google payment options.
- Payment on console (PlayStation, Xbox, Switch) and Samsung Pay devices would be at the **same discounted rate** used by Epic.

Development Update

- Total remaining development time is two calendar weeks. UI design 90% complete and not a limiter.
- Due to Fortnite season launch and company vacation planning, however, expected go-live date is **June 29**.

Legal Update

REDACTED FOR PRIVILEGE

Speaker Notes for Slide 2

REDACTED FOR PRIVILEGE

1

Communications Scenarios - Hotfix Update

Phase 1-3	Reaction	Proposed Messaging
1) Launch of Epic Direct Payment	<ul style="list-style-type: none"> Sentiment will be largely positive. Players and press will highlight 20% savings. Sentiment will be negative in certain regions where Epic Direct Payment is unavailable. 	<ul style="list-style-type: none"> Lean into player savings as the primary benefit and secondarily payment choice. Need to avoid exposing ourselves to hypocrisy comments with regard to our position on Epic Games Store exclusives. Must be clear that console savings are automatically applied to all players.
2) Build Updates Blocked	<ul style="list-style-type: none"> Sentiment will be positive to neutral as long as players can continue to play on their devices. Press will begin speculating around the potential legal battle that looms. 	<ul style="list-style-type: none"> Emphasize that Epic Direct Payment offers players greater savings and choice in how Fortnite content is purchased. As we enter a public legal battle, state that we believe Apple/Google do not have the legal right to deny players these savings.
3) Game Fully Blocked or Stale From No Updates	<ul style="list-style-type: none"> Free players (55% on iOS) will react negatively to being blocked from the game (no benefit). Paid players (45% on iOS) may understand the benefit to the battle (20% savings), but will also be blocked from playing something they love, creating mixed sentiment. 	<ul style="list-style-type: none"> Emphasize that savings from the new payment system would have gone direct to the player but Google and Apple have blocked this. If we are entering a protracted battle, we will enter into a Paragon situation: need to offer refunds for all Apple/Google users as they can no longer play the game.

Full proposed blog messaging can be found [here](#).

Slide 4

1

[REDACTED] [REDACTED]
Where in the doc should we show that about 75% of mobile players have cross platformed played on a non-mobile devices? Note we don't know if they did this at a friend's house.

Reassigned to Matt Weissinger

Ed Zobrist, 5/13/2020

1

Maybe [REDACTED] can pull together a quick slide that outlines play patterns on mobile among paid, free, and cross-play players?

Matt Weissinger, 5/13/2020

Speaker Notes for Slide 3

- Could be seen as a capricious change

- **REDACTED FOR PRIVILEGE**

Press and Player Narratives if the Game is Blocked

2 In this scenario, players on Apple/Google are blocked from the app. Examples of **pro-Epic** messaging will be:

- **Epic Fights for the Players and Developers:** Epic's battle against store monopolies means greater savings for players via Epic Direct Payment and greater rewards for developers with the Epic Games Store.
- **The App Store, Google Play and Steam are Anti-Consumer Monopolies:** Epic has proven that a better model exists that removes the middle man and creates a more fair ecosystem for players and developers.
- **Saving Money is Good:** Epic's actions have a clear player benefit. Google and Apple's stance does not.

Examples of **anti-Epic** messaging will be:

- **Epic Thinks they are Special:** Players and gaming press will point out that Epic thinks the rules should not apply to us. [Does Epic really think they're special?](#)
- **Epic is Greedy:** Some players will think that Epic only seeks to profit off of Epic Direct Payment. Why else would we be implementing a new payment system? [Why does Epic need more money?](#)
- **Players are Pawns in Epic's Battles:** Any new negative consequences for players (e.g. no longer able to play, or additional friction in their experience) will be seen as Epic's fault for pushing this cause and they were given no choice in the matter.
- **Apple/Google Own the Platform:** "We welcome any developer that recognizes the value of Google Play and expect them to participate ***under the same terms as other developers.***" (Google's December 2019 response to press)

Slide 6

2

[REDACTED], [REDACTED]

Example of tiny edits I made here and prior slide, mostly to tweak up the danger level.

Assigned to Nick Chester

Ed Zobrist, 5/13/2020

Speaker Notes for Slide 4

Nick C

Alternative Scenario Summary

	Outcome	Legal POV	Marketing POV
Hotfix price-changes on all platforms (6/29)	<ul style="list-style-type: none"> Fortnite removed from App Store + GP. Revenue damage from price-reduction across all other platforms (apx 20%) REDACTED FOR PRIVILEGE 	REDACTED FOR PRIVILEGE	<ul style="list-style-type: none"> Mixed sentiment between paid (some benefit) and free (no benefit) players. If players are blocked from the game for any time, they will require compensation. Potential for "Paragon Scenario" where Epic is forced to issue refunds due to protracted downtime.
Submit special Google build; after rejection, issue public statement (6/29)	<ul style="list-style-type: none"> Fortnite continues with current approach to pricing. Fortnite issues statement to press with screenshot of multiple payment choices. 		<ul style="list-style-type: none"> Avoiding the scenario of the app being blocked is a major positive advantage. Helps win the sentiment battle for "Epic Fights for Players and Developers". Allows the press to write the monopoly story on their own.
REDACTED FOR PRIVILEGE	REDACTED FOR PRIVILEGE		<ul style="list-style-type: none"> Potentially decreased player counts could hurt our leverage vs faster scenarios. Avoids potential negative sentiment during elevated Fortnite play rates.

Speaker Notes for Slide 5

Nate A

2020 Fortnite Revenue

- Latest projection is \$2.5bn Net compared to original Board-approved plan of \$2.2bn
- iOS and Google Play are projected to account for 6.5% of net revenue in 2020 and 6.8% (\$114M) for June-Dec.
- Console / PC net losses expected to range from \$125M-\$200M for 2020, \$210M-\$350M annualized
- Total net losses expected to range from \$190M to \$272M (2020), or \$322M-\$465M annualized (12.9%-18.6% ongoing)

2020 Fortnite Baseline Revenue (Updated Projections and Plan)						~20% Price Discount Cases			
Platform	Jan-May 2020	Jun-Dec 2020	2020 Total	2020 Plan	Projected % of Total	Purchase Frequency	+5%	+10%	+5%
						iOS / GP	Shut down	Shut down	Stay live
						iOS / GP rev transfer	30%	30%	--
PS4	\$440.2M	\$595.0M	\$1035.2M	\$903.1M	41.3%		-\$76.0M	-\$51.9M	-\$89.0M
Xbox One	\$246.3M	\$353.8M	\$600.1M	\$530.4M	24.0%		-\$45.2M	-\$30.8M	-\$52.9M
Switch	\$152.2M	\$226.6M	\$378.8M	\$339.4M	15.1%		-\$28.9M	-\$19.8M	-\$33.9M
PC	\$124.7M	\$184.2M	\$308.9M	\$286.0M	12.3%		-\$21.9M	-\$21.9M	-\$27.5M
Android	\$10.7M	\$7.2M	\$17.9M	\$14.7M	0.7%		-\$0.9M	-\$0.9M	-\$1.1M
iOS	\$63.7M	\$82.6M	\$146.2M	\$125.9M	5.8%		-\$82.6M	-\$82.6M	\$12.7M
Google	\$0.3M	\$16.8M	\$17.1M	\$10.8M	0.7%		-\$16.8M	-\$16.8M	\$2.6M
Total	\$1.038B	\$1.466B	\$2.504B	\$2.210B	100.0%	2020 Impact	-\$272.2M	-\$224.6M	-\$189.0M
						Annualized (12mo)	-\$464.9M	-\$383.6M	-\$322.8M
						Ongoing %	-18.6%	-15.3%	-12.9%
							Base w/o iOS + GP	High case w/o iOS + GP	Base w/ iOS + GP

↑
Latest
Projections

↑
2020
Plan

Speaker Notes for Slide 6

Projections assume gross GP revenue has a 3x relative increase from current levels

Purchase Frequency -- (i.e., elasticity). How does purchase frequency change in response to a 20% discount? 100% elasticity (~24% purchase frequency increase) needed to fully counteract price reduction. We currently observe fairly low price-elasticity

iOS / GP transfer -- this refers to the amount of iOS and Google Play gross revenue that would transfer onto other platforms, if iOS and GP were shut down. This is based on analysis that ~44% of iOS and GP revenue in April came from cross-players, and that a majority of this would move to other platforms.

APPENDIX

Case Study: Google Play Sentiment

Incident	Sentiment	Sample Reactions
Fortnite will Bypass Google Play for Android (8/3/18)	<ul style="list-style-type: none"> SpikeTrap Sentiment: 44/100 [MIXED] Heavy debate on whether or not Epic can be successful on Android without the support of the Play Store. 	<ul style="list-style-type: none"> The Verge: "...the announcement marks a bold departure from the widespread industry practice of using mobile operating system makers like Apple and Google for app distribution." Anti-Epic: "This is literally the worst possible solution, forcing customers to allow installation of APKs from unknown sources." Pro-Epic: "Wait, so you think that one of the biggest games in history, at the height of its popularity, and likely the single most anticipated Android game launch, will be a flop because it isn't on Google Play?"
Google Denies Fortnite an Exemption to 30% policy (12/9/19)	<ul style="list-style-type: none"> SpikeTrap Sentiment: 9/100 [NEGATIVE] High negativity and cynicism directed towards Epic. 	<ul style="list-style-type: none"> The Verge: "Epic and Google are in a standoff over Fortnite" Anti-Epic: "So basically Epic discovered the cost/benefit of requiring Android users to sideload their game wasn't working out as planned versus having it in the store, but they still don't want to play by the same rules that everyone else has to." Pro-Epic: "Epic doesn't get to bully every company they want into giving them more money. I'm all for them having their own store. Go for it! But beyond that, meh."
Fortnite Releases on Google Play (4/21/20)	<ul style="list-style-type: none"> SpikeTrap Sentiment: 50/100 [MIXED] Mixed sentiment that Epic "gave up" begrudgingly in their fight against Google. Full sentiment report here. 	<ul style="list-style-type: none"> The Verge: "Epic says it's doing so because Google puts third-party software at a disadvantage by warning users of potential security issues..." Anti-Epic: "I've been on Epic's side in this little tiff, but to brush off security measures designed to prevent people from installing any old malicious APK they get from Totally-Legit-Cracked-APKs-123.cc so flippantly is extremely irresponsible." Pro-Epic: "Epic giving up after 18 months tell me less about Google's anti-competitive practices and more about how difficult it is to build an ecosystem."

Speaker Notes for Slide 8

- Could be seen as a capricious change
- **REDACTED FOR PRIVILEGE**

Current Plan of Record | Potential Outcomes

	Best Case	Middle Case	Worst Case
Mobile Platform Reaction	<ul style="list-style-type: none"> Google Play and iOS allow all apps to bring in their own payment solution with no fee Reduce their own platform fees to 12% Significant Fortnite growth on mobile 	<ul style="list-style-type: none"> No reaction from Google Play and iOS All mobile payments move to Epic payments 	<ul style="list-style-type: none"> Google Play and iOS remove Fortnite
Console Platform Reaction	<ul style="list-style-type: none"> Playstation, Xbox etc have neutral economics but greater frequency of spend Driving increased active users onto their platform 	<ul style="list-style-type: none"> Reduction in platform fee revenue Sony and MSFT question Epic's long term intention with differentiated pricing 	<ul style="list-style-type: none"> ~20% reduction in platform fee revenue Strained relationship given revenue impact Question of Epic's long term intention with differentiated pricing
Player Price Elasticity	<ul style="list-style-type: none"> 100% price elasticity Players <i>increase</i> spending frequency as new "low" payers enter the funnel and existing payers spend more 	<ul style="list-style-type: none"> Partial player price elasticity Demand increases by 25% of price drop 	<ul style="list-style-type: none"> No player price elasticity (i.e. revenue) drops ~20% across the board Inability to raise V-Buck prices in the future
Player Experience	<ul style="list-style-type: none"> Love the cheaper v-bucks Plays more than ever 	<ul style="list-style-type: none"> Confusing interface Choice in payments and pricing discounts 	<ul style="list-style-type: none"> Inability to play on mobile
Public Relations	<ul style="list-style-type: none"> Positive press about Epic breaking down another walled garden and monopoly 	<ul style="list-style-type: none"> No reaction from Apple and Google Player complaints on confusing interface 	<ul style="list-style-type: none"> Apple and Google crushes Epic with their PR machine and hurting player sentiment
Strategic Implications for Epic	<ul style="list-style-type: none"> Break monopolies/stop unfair practices Google Play and iOS allow all apps to bring in their own payment solution with no fee Epic Game Store to expand onto mobile digital storefront 	<ul style="list-style-type: none"> -\$148mm of EBITDA impact with [2.5] years of cash on balance sheet Need to disclose to current and potential investors limiting ability to raise capital 	<ul style="list-style-type: none"> -\$326mm of EBITDA impact with [2] years of cash on balance sheet Limited ability to do more M&A Limiting ability to raise capital Potential for multi-year legal battle
EBITDA Impact	<ul style="list-style-type: none"> +5% impact: \$733mm 2020 EBITDA 	<ul style="list-style-type: none"> -24% impact: \$533mm 2020 EBITDA 	<ul style="list-style-type: none"> -53% impact: \$375mm 2020 EBITDA

We Do Not Have Full Price Elasticity in Fortnite Today

To get a sense of price-elasticity in the current FN economy, we can examine purchase-likelihood among players with varying V-Buck balances compared to the cost of a given outfit in the Shop.

What happens when the difference between players' VB balance and an outfit's price moves to within 1000 VB? (i.e., the out-of-pocket cost lowers from \$24.99 to \$9.99).

Conversion increases 30-35%, on a 60% reduction in out-of-pocket costs.

(i.e., conversion does not shift up to the same magnitude that cost goes down).

We expect, at best, a similar effect (i.e., only partial elasticity) on the proposed 18-20% price reduction of VB SKUs.

S12 Outfit Conversion by Balance-Price Delta

Balance-Price Delta (group)	price			
	800	1200	1500	2000
Sufficient Balance	2.28%	2.30%	3.18%	2.04%
-100	1.00%	0.75%	1.17%	0.64%
-200	0.42%	0.35%	0.69%	0.35%
-300	0.33%	0.30%	0.55%	0.29%
-400	0.32%	0.28%	0.53%	0.25%
-500	0.32%	0.29%	0.49%	0.22%
-600	0.30%	0.29%	0.44%	0.22%
-700	0.33%	0.27%	0.40%	0.20%
-800	0.46%	0.28%	0.43%	0.19%
-900		0.26%	0.44%	0.20%
-1000		0.26%	0.44%	0.19%
-1100		0.20%	0.33%	0.14%
-1200		0.26%	0.29%	0.13%
-1300			0.27%	0.13%
-1400			0.29%	0.13%
-1500			0.40%	0.13%
-1600				0.13%
-1700				0.12%
-1800				0.12%
-1900				0.13%
-2000				0.19%

Transition from \$24.99 to \$9.99 out-of-pocket cost

\$24.99 out-of-pocket

\$9.99 out-of-pocket

2020 EBITDA (Latest Fortnite Projections)

\$700mm re-forecasted EBITDA down to \$375mm EBITDA (no price elasticity) implies ~\$6bn of forgone enterprise value

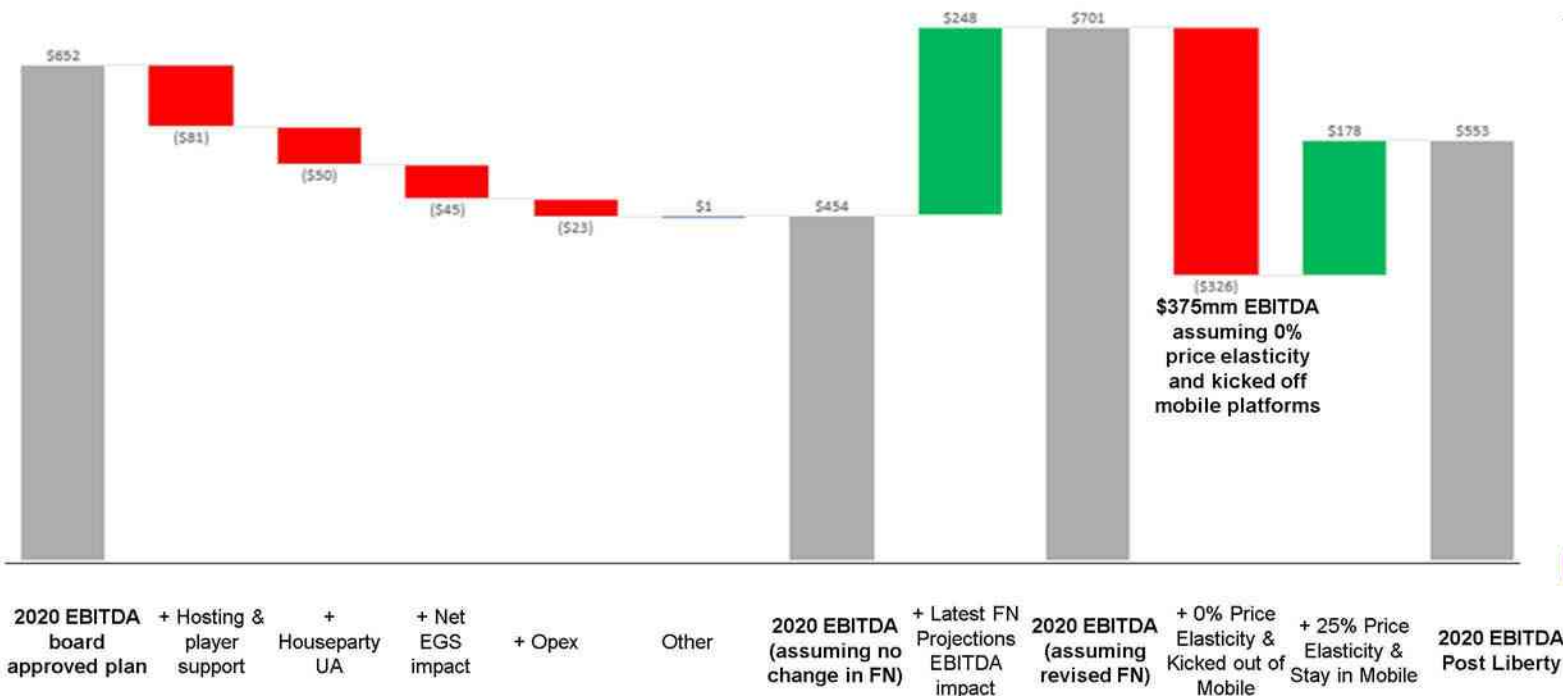
Assumes no change in Fortnite Forecast (Fortnite holds at \$2.2bn net)

Revised FN to
\$2.5bn net

Project Liberty Impact

Enterprise Value Implications

\$ in millions



2020 EBITDA	TEV / EBITDA Multiple			
	5.7x	10.0x	15.0x	19.3x
\$200	\$1,140	\$2,000	\$3,000	\$3,860
\$350	\$1,995	\$3,500	\$5,250	\$6,755
\$500	\$2,850	\$5,000	\$7,500	\$9,650
\$650	\$3,705	\$6,500	\$9,750	\$12,545
\$800	\$4,560	\$8,000	\$12,000	\$15,440
\$950	\$5,415	\$9,500	\$14,250	\$18,335
\$1,100	\$6,270	\$11,000	\$16,500	\$21,230
\$1,250	\$7,125	\$12,500	\$18,750	\$24,125
\$1,400	\$7,980	\$14,000	\$21,000	\$27,020
\$1,550	\$8,835	\$15,500	\$23,250	\$29,915
\$1,700	\$9,690	\$17,000	\$25,500	\$32,810
\$1,850	\$10,545	\$18,500	\$27,750	\$35,705
\$2,200	\$12,540	\$22,000	\$33,000	\$42,460
\$2,400	\$13,680	\$24,000	\$36,000	\$46,320

We are currently asking for a ~19x multiple on 2020 EBITDA to hold flat to our 2018 valuation

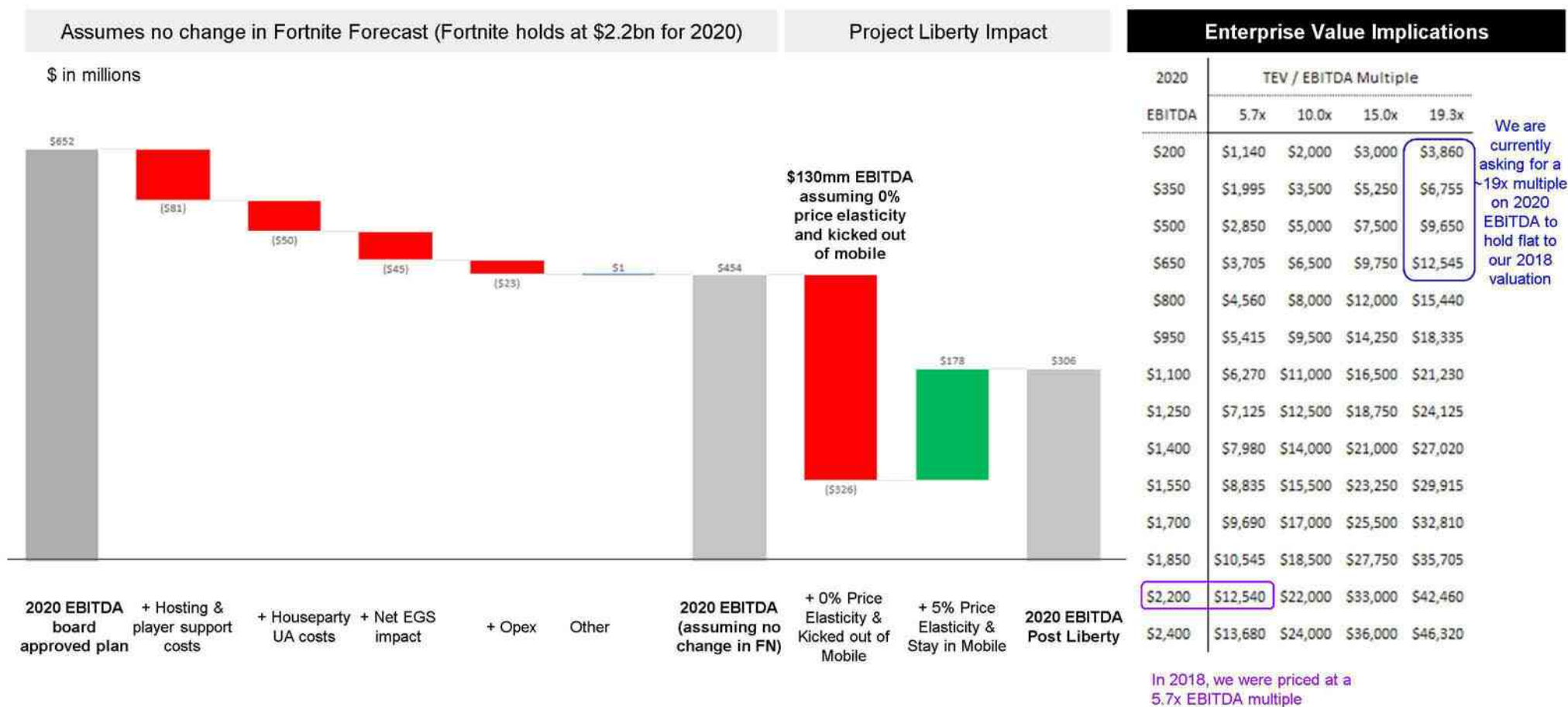
In 2018, we were priced at a 5.7x EBITDA multiple

Speaker Notes for Slide 11

Dara

2020 EBITDA (Fortnite 2020 Plan)

\$454mm EBITDA down to \$130mm EBITDA (no price elasticity) implies ~\$6bn of valuation at risk



Speaker Notes for Slide 12

Dara

Revenue Implications of Price-changes

Impact on Net Revenue will be determined mainly by:

- Purchase frequency changes
 - i.e., elasticity -- responsiveness of demand to lower price
 - Purchase frequency increase of ~20% (complete elasticity) required to offset losses
- iOS and Google scenarios (stability, growth, or shutdown)



Complete non-elasticity

Partial elasticity



Complete elasticity

2020 Net Revenue (Price-change on all platforms, starting June 2020)		Purchase Frequency Change (How often are players spending money?)						
		-5%	0%	5%	10%	15%	20%	25%
iOS + GP Scenarios (What happens to these platforms after price-changes?)	No iOS / GP	\$2.090B	\$2.145B	\$2.201B	\$2.256B	\$2.311B	\$2.367B	\$2.422B
	Current Projections	\$2.194B	\$2.254B	\$2.315B	\$2.376B	\$2.437B	\$2.498B	\$2.559B
	iOS +50%	\$2.237B	\$2.300B	\$2.363B	\$2.426B	\$2.489B	\$2.552B	\$2.615B
	Google Play 10x	\$2.235B	\$2.298B	\$2.361B	\$2.424B	\$2.487B	\$2.549B	\$2.612B
	iOS + 50% and GP 10x	\$2.278B	\$2.343B	\$2.408B	\$2.473B	\$2.539B	\$2.604B	\$2.669B
Current 2020 Projection Net:		\$2.504B		2020 Plan Net:			\$2.206B	

Speaker Notes for Slide 13

Nate A

Revenue Implications of Price-changes

- While we lack a perfect proxy for assessing price-elasticity in response to a permanent price-change, wallet-sensitivity analysis suggests that purchase-frequency would not increase at a magnitude that offsets discounts.
- Assuming current trends for iOS and GP continue, a purchase-frequency increase of 5-10% would produce 2020 revenue losses of:
 - Ongoing losses: 8.7% - 12.9%
 - Annual losses (at current run-rate): \$220M-\$320M
 - 2020 losses: \$130M-\$190M
- A purchase-frequency increase of 10% represents ~50% price-elasticity (against 18-20% price reduction). This is the expected upper bound of purchase-frequency increase, with 5% being a base case.
- Additional views in appendix (annualized, % impact, etc.)

Expected bounds of price-elasticity for 20% discount

2020 Net Revenue (Price-change on all platforms, starting June 2020)		Purchase Frequency Change (How often are players spending money?)						
		-5%	0%	5%	10%	15%	20%	25%
iOS + GP Scenarios (What happens to these platforms after price-changes?)	No iOS / GP	\$2.090B	\$2.145B	\$2.201B	\$2.256B	\$2.311B	\$2.367B	\$2.422B
	Current Projections	\$2.194B	\$2.254B	\$2.315B	\$2.376B	\$2.437B	\$2.498B	\$2.559B
	iOS +50%	\$2.237B	\$2.300B	\$2.363B	\$2.426B	\$2.489B	\$2.552B	\$2.615B
	Google Play 10x	\$2.235B	\$2.298B	\$2.361B	\$2.424B	\$2.487B	\$2.549B	\$2.612B
	iOS + 50% and GP 10x	\$2.278B	\$2.343B	\$2.408B	\$2.473B	\$2.539B	\$2.604B	\$2.669B
		Current 2020 Projection Net:		\$2.504B	2020 Plan Net:		\$2.206B	

Speaker Notes for Slide 14

Nate A

Revenue Implications of Price-changes

- While we lack a perfect proxy for assessing price-elasticity in response to a permanent price-change, wallet-sensitivity analysis suggests that purchase-frequency would not increase at a magnitude that offsets discounts.
- Assuming current trends for iOS and GP continue, a purchase-frequency increase of 5-10% would produce 2020 revenue losses of:
 - Ongoing losses: 8.7% - 12.9%
 - Annual losses (at current run-rate): \$220M-\$320M
 - 2020 losses: \$130M-\$190M
- A purchase-frequency increase of 10% represents ~50% price-elasticity (against 18-20% price reduction). This is the expected upper bound of purchase-frequency increase, with 5% being a base case.

Expected bounds of price-elasticity for 20% discount

Ongoing Net Revenue vs Baseline (%)		Purchase Frequency Change						
		-5%	0%	5%	10%	15%	20%	25%
iOS + GP Scenarios	No iOS / GP	-28.3%	-24.5%	-20.7%	-16.9%	-13.2%	-9.4%	-5.6%
	Current Projections	-21.2%	-17.0%	-12.9%	-8.7%	-4.6%	-0.4%	3.7%
	iOS +50%	-18.2%	-13.9%	-9.6%	-5.3%	-1.0%	3.3%	7.6%
	Google Play 10x	-18.4%	-14.1%	-9.8%	-5.5%	-1.2%	3.1%	7.4%
	Both	-15.4%	-11.0%	-6.5%	-2.1%	2.4%	6.8%	11.3%

Speaker Notes for Slide 15

Nate A

Revenue Implications of Price-changes

- While we lack a perfect proxy for assessing price-elasticity in response to a permanent price-change, wallet-sensitivity analysis suggests that purchase-frequency would not increase at a magnitude that offsets discounts.
- Assuming current trends for iOS and GP continue, a purchase-frequency increase of 5-10% would produce 2020 revenue losses of:
 - Ongoing losses: 8.7% - 12.9%
 - Annual losses (at current run-rate): \$220M-\$320M
 - 2020 losses: \$130M-\$190M
- A purchase-frequency increase of 10% represents ~50% price-elasticity (against 18-20% price reduction). This is the expected upper bound of purchase-frequency increase, with 5% being a base case.

Expected bounds of price-elasticity for 20% discount

2020 Net Revenue (Delta from Proj.) (Price-change on all platforms, starting June 2020)		Purchase Frequency Change						
		-5%	0%	5%	10%	15%	20%	25%
iOS + GP Scenarios	No iOS / GP	-\$414.4M	-\$359.1M	-\$303.7M	-\$248.4M	-\$193.0M	-\$137.7M	-\$82.3M
	Current Projections	-\$310.6M	-\$249.8M	-\$189.0M	-\$128.2M	-\$67.4M	-\$6.5M	\$54.3M
	iOS +50%	-\$267.5M	-\$204.4M	-\$141.3M	-\$78.3M	-\$15.2M	\$47.9M	\$111.0M
	Google Play 10x	-\$269.6M	-\$206.7M	-\$143.7M	-\$80.7M	-\$17.7M	\$45.2M	\$108.2M
	iOS +50% and GP 10x	-\$226.5M	-\$161.3M	-\$96.0M	-\$30.8M	\$34.5M	\$99.7M	\$164.9M
		Current 2020 Projection Net:		\$2.504B	2020 Plan Net:		\$2.206B	

Speaker Notes for Slide 16

Nate A

Revenue Implications of Price-changes

- While we lack a perfect proxy for assessing price-elasticity in response to a permanent price-change, wallet-sensitivity analysis suggests that purchase-frequency would not increase at a magnitude that offsets discounts.
- Assuming current trends for iOS and GP continue, a purchase-frequency increase of 5-10% would produce 2020 revenue losses of:
 - Ongoing losses: 8.7% - 12.9%
 - Annual losses (at current run-rate): \$220M-\$320M
 - 2020 losses: \$130M-\$190M
- A purchase-frequency increase of 10% represents ~50% price-elasticity (against 18-20% price reduction). This is the expected upper bound of purchase-frequency increase, with 5% being a base case.

Expected bounds of price-elasticity for 20% discount

Annualized Revenue Impact (Net delta at \$2.5B run-rate)		Purchase Frequency Change						
		-5%	0%	5%	10%	15%	20%	25%
iOS + GP Scenarios	No iOS / GP	-\$707.9M	-\$613.3M	-\$518.8M	-\$424.2M	-\$329.7M	-\$235.1M	-\$140.6M
	Current Projections	-\$530.6M	-\$426.7M	-\$322.8M	-\$218.9M	-\$115.1M	-\$11.2M	\$92.7M
	iOS +50%	-\$456.9M	-\$349.2M	-\$241.4M	-\$133.7M	-\$25.9M	\$81.8M	\$189.6M
	Google Play 10x	-\$460.6M	-\$353.0M	-\$245.4M	-\$137.9M	-\$30.3M	\$77.3M	\$184.8M
	iOS +50% and GP 10x	-\$386.9M	-\$275.5M	-\$164.0M	-\$52.6M	\$58.9M	\$170.3M	\$281.7M
		Current 2020 Projection Net:		\$2.504B	2020 Plan Net:		\$2.206B	

Speaker Notes for Slide 17

Nate A

Revenue Implications of Price-changes

- While we lack a perfect proxy for assessing price-elasticity in response to a permanent price-change, wallet-sensitivity analysis suggests that purchase-frequency would not increase at a magnitude that offsets discounts.
- Assuming current trends for iOS and GP continue, a purchase-frequency increase of 5-10% would produce 2020 revenue losses of:
 - Ongoing losses: 8.7% - 12.9%
 - Annual losses (at current run-rate): \$220M-\$320M
 - 2020 losses: \$130M-\$190M
- A purchase-frequency increase of 10% represents ~50% price-elasticity (against 18-20% price reduction). This is the expected upper bound of purchase-frequency increase, with 5% being a base case.

Expected bounds of price-elasticity for 20% discount

Annualized Revenue Impact (Net total vs \$2.5B run-rate)		Purchase Frequency Change						
		-5%	0%	5%	10%	15%	20%	25%
iOS + GP Scenarios	No iOS / GP	\$1.796B	\$1.891B	\$1.985B	\$2.080B	\$2.175B	\$2.269B	\$2.364B
	Current Projections	\$1.974B	\$2.078B	\$2.181B	\$2.285B	\$2.389B	\$2.493B	\$2.597B
	iOS +50%	\$2.047B	\$2.155B	\$2.263B	\$2.371B	\$2.478B	\$2.586B	\$2.694B
	Google Play 10x	\$2.044B	\$2.151B	\$2.259B	\$2.366B	\$2.474B	\$2.582B	\$2.689B
	iOS +50% and GP 10x	\$2.117B	\$2.229B	\$2.340B	\$2.452B	\$2.563B	\$2.675B	\$2.786B
		Current 2020 Projection Net:		\$2.504B	2020 Plan Net:		\$2.206B	

Speaker Notes for Slide 18

Nate A

Proposed Pricing Structure

	1,000 V-Bucks	2,800 V-Bucks	5,000 V-Bucks	13,500 V-Bucks
1st Party Pricing	\$9.99	\$24.99	\$39.99	\$99.99
Epic Pricing on Mobile/PC	\$7.99	\$19.99	\$32.99	\$81.99
%Epic Discount	20%	20%	18%	18%
Net Revenue on First Party	\$6.99	\$17.49	\$27.99	\$69.99
Implied Net Revenue*	\$7.03	\$17.59	\$29.03	\$72.15

* Implied Net revenue equivalent to charging a 12% platform fee on Epic at current mobile pricing

* Assume pricing discount applies to mobile **and** PC

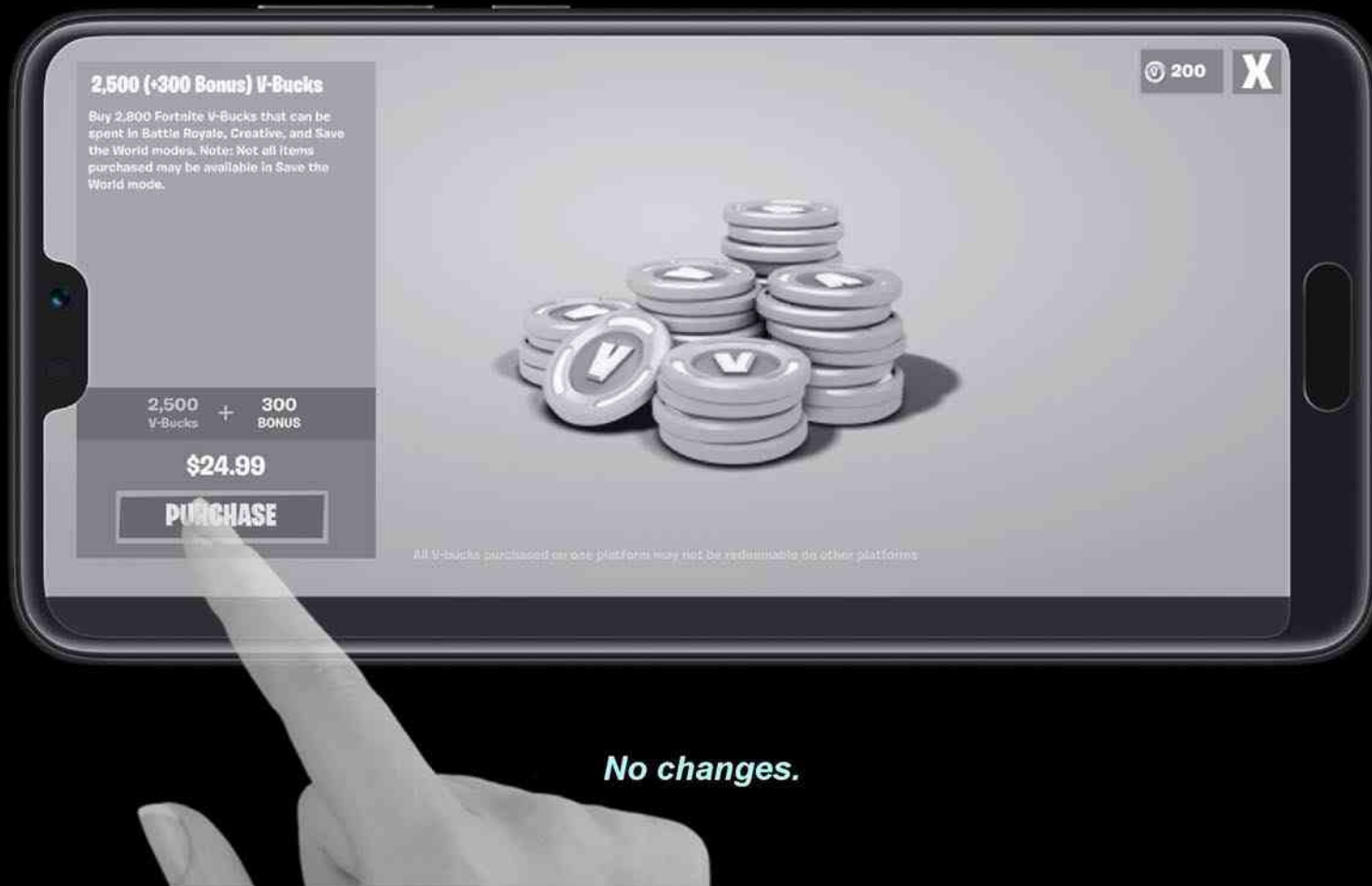
Speaker Notes for Slide 19

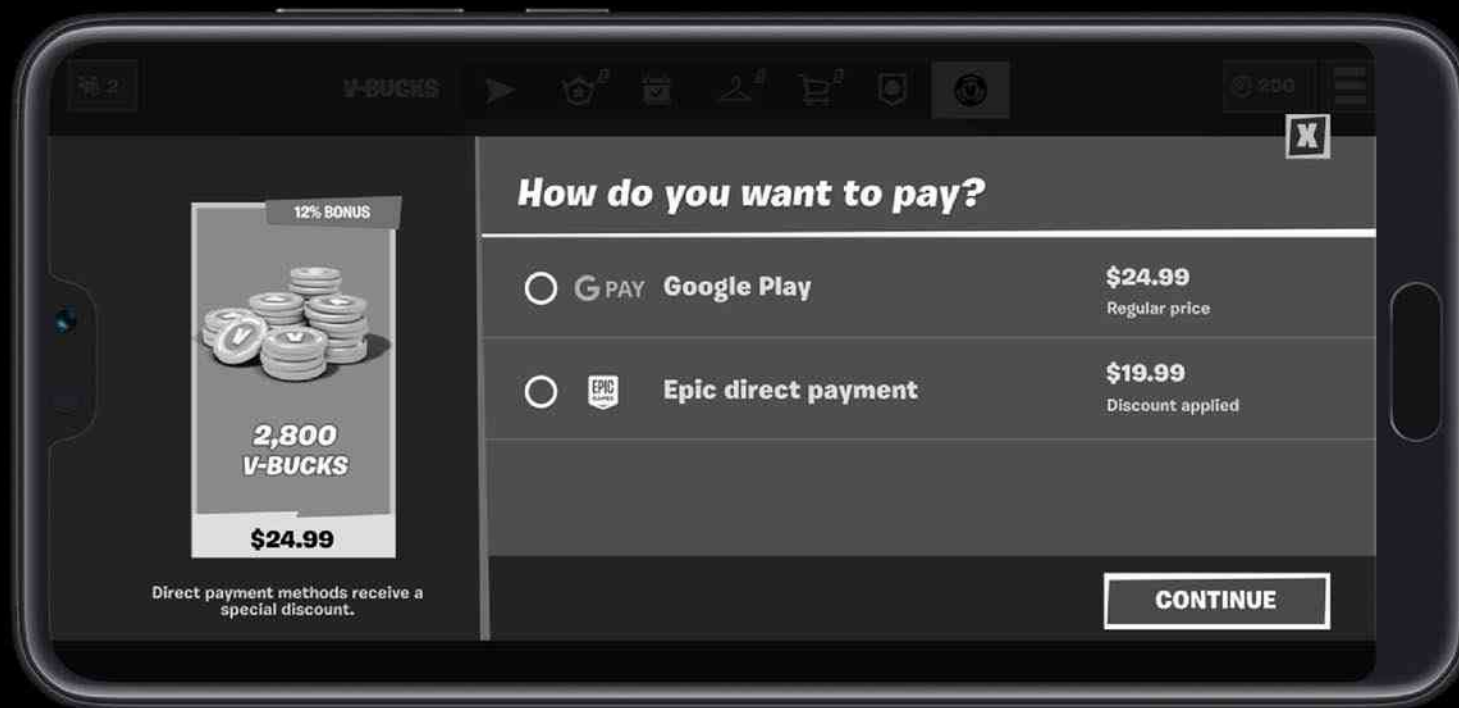
Nate A, Dave N., Brian C

Redo the analysis based on the intent to pass payment-processing savings on to consumers. The savings is roughly 18%.

UX FLOW



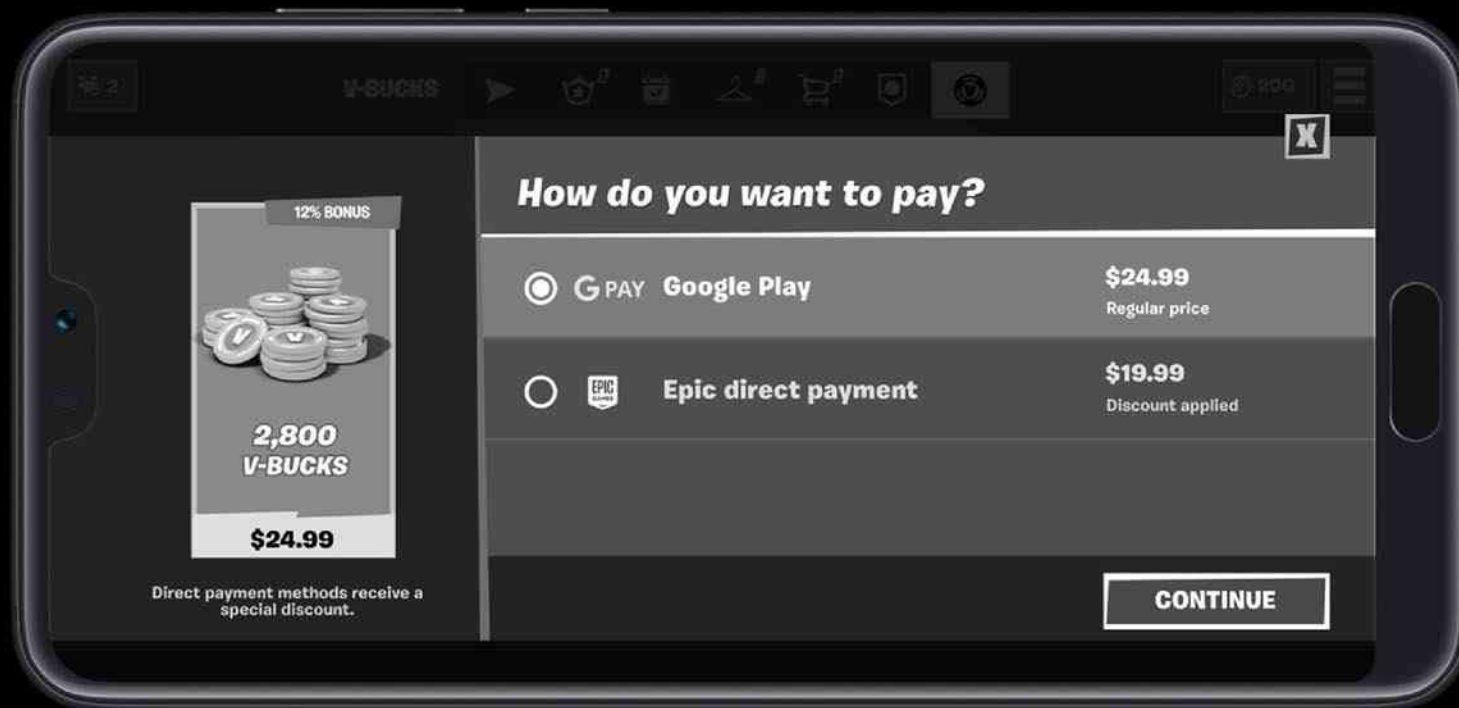




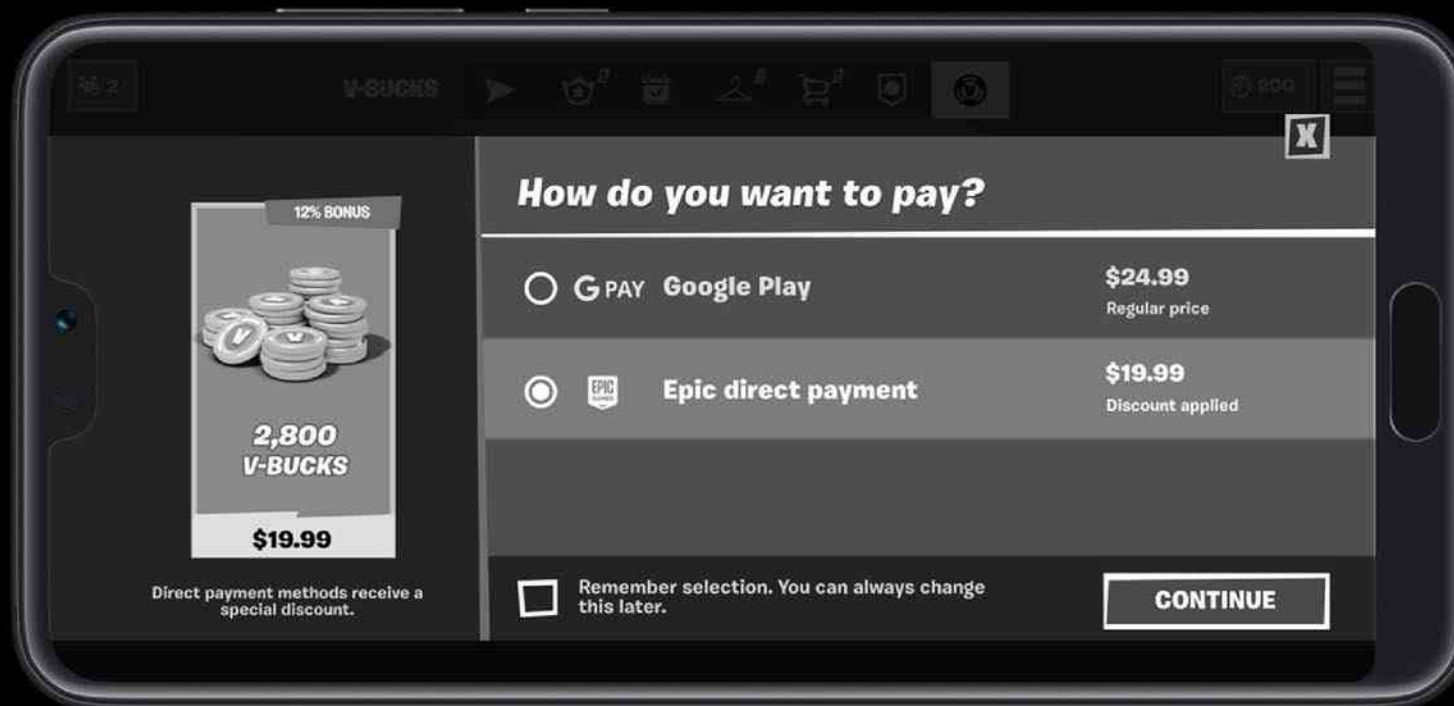
- **Nothing selected by default.**
- **"Epic direct payment" is not written in title case.**
- **Stacking order puts Epic at the bottom.**

Speaker Notes for Slide 22

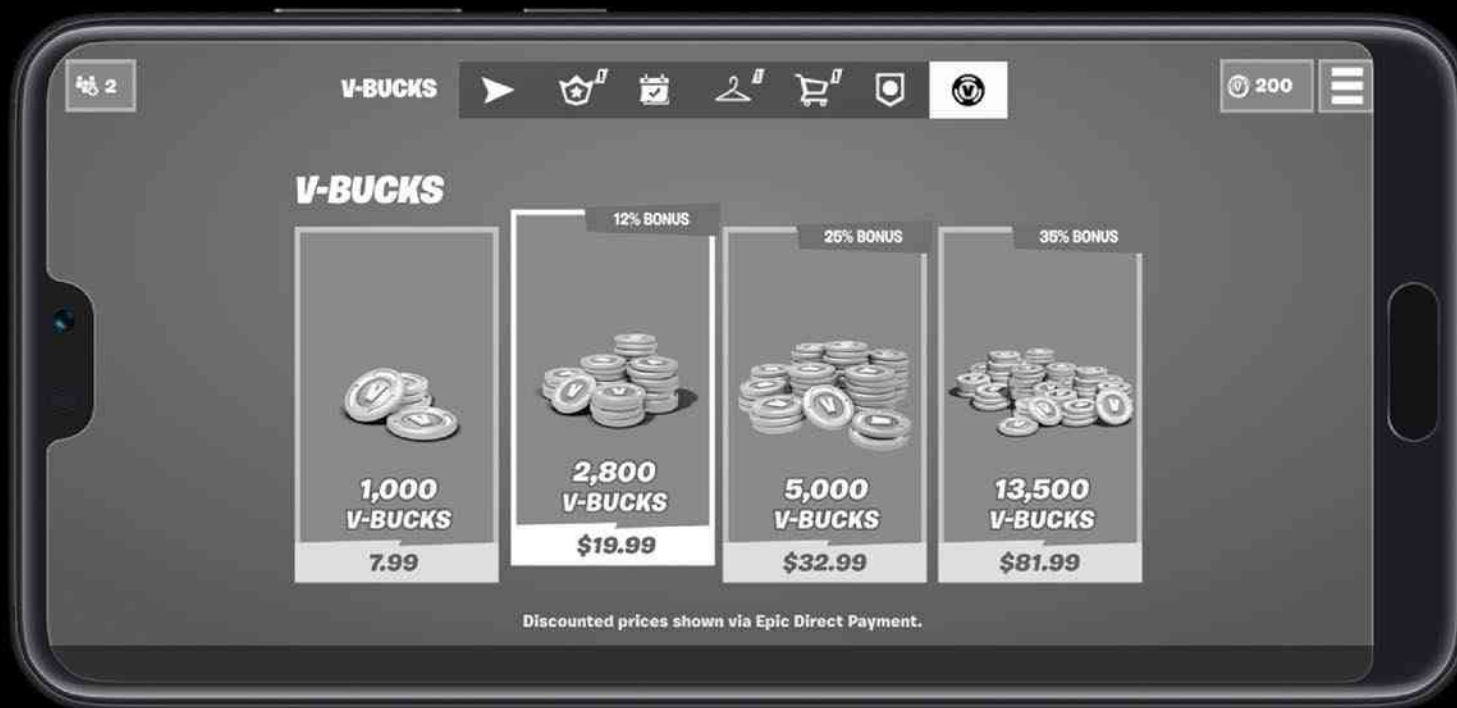
Specific platform first
Then google
Epic last



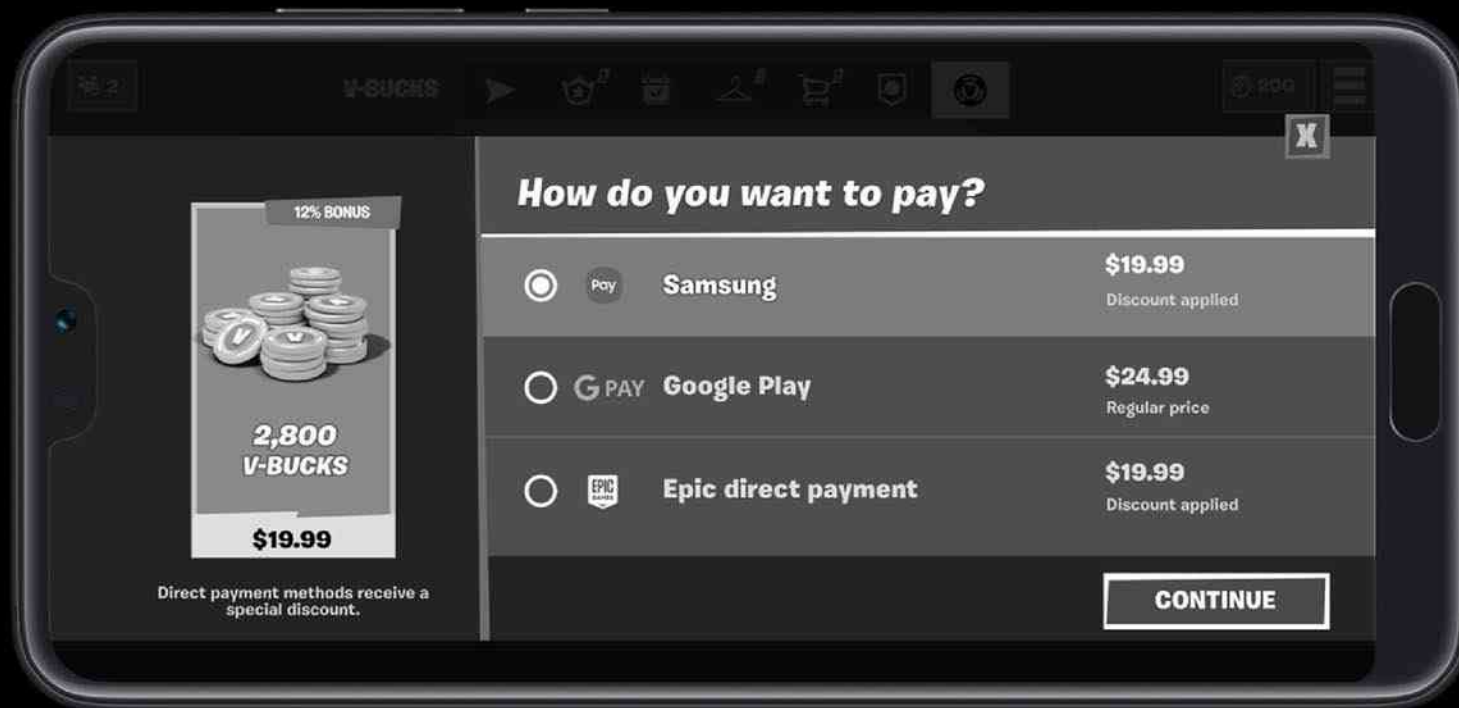
Google Play is selected.



***"Remember selection" checkbox is available
for the Epic direct payment option (not marked by default).***



V-Bucks screen shows discounted prices after the player has opted to use Epic and marked the checkbox.



*An example including Samsung,
placed at the top of the stacking order.*



Console V-Bucks screen showing discounted prices.

Speaker Notes for Slide 27

How to make players aware that they are getting the discounted price?



ALTERNATIVE:
Use strikethrough pricing to better show the discount.

Speaker Notes for Slide 28

How to make players aware that they are getting the discounted price?



RMT offer that includes multiple items.

Strike Team Leads & Discussion on Next Steps

- **Overall Program Management:** Ed Z
- **Legal:** Gena F/Kayla P
- **Strategy / Finance:** Randy G / Dara L / Nate A
- **Communications:** Matt W
- **Development:** Phil B (Jeremy A producing)
- **1st Party:** Nate N
- **Partnerships:** Nate N with Thomas K (Samsung)

Speaker Notes for Slide 30

Ed Z

Currency Support - Current Market

Region	Supported Currencies
North America	USD, CAD
LATAM	BRL MXN (Mexico), ARS (Argentina), COP (Columbia), CRC (Costa Rica), PEN (Peru), UYU (Uruguay), CLP(Chile) BOB (Bolivia), PYG (Paraguay)
Europe, Russia / Central Asia	EUR, GBP, SEK, DKK, NOK, PLN, RUB, UAH CHF (Swiss) BGN (Bulgaria), CZK (Czech), HUF (Hungary), RON (Romania), RSD (Serbia), HRK (Croatia)
Asia Pacific	AUD, JPY, KRW CNY(China), HKD (Hongkong), IDR (Indonesia), INR (India), MYR (Malaysia), NZD (New Zealand), PHP (Philippine), SGD (Singapore), THB (Thailand), TWD (Taiwan), VND (Vietnam) BDT (Bangladesh), LKR (Sri Lanka), MMK (Myanmar), MOP (Macau)
Africa & Middle East	TRY SAR (Saudi Arabia), AED(United Arab Emirates), ZAR (South Africa), ILS (Israel), KWD (Kuwait), KZT (Kazakhstan), QAR (Qatar) KZT (Kazakhstan), PKR (Pakistan), EGP (Egypt), MAD (Morocco), GEL (Georgia), JOD (Jordan), IQD (Iraq), LBP (Lebanon), DZD (Algeria), KES (Kenya), TZS (Tanzania), GHS (Ghana), NGN (Nigeria),

*Black ones are supported by **Epic Games** (15 currencies)*

Blue ones are additional currencies [Steam](#) supports (39 currencies)

Green ones are additional currencies [Google Store](#) supports (62 currencies)

Slide 50

3

[REDACTED]

REDACTED FOR PRIVILEGE

Assigned to Thomas Ko

Ed Zobrist, 5/10/2020

Communications Scenario: Game Blocked

In this scenario, players on Apple/Google will be blocked from accessing the app. Sentiment will trend **negative towards Epic**. As players are no longer able to access Fortnite on their preferred platform, Epic will be seen as the instigator of a series of events that led to the title being blocked. Examples of anti-Epic messaging will be:

- **Epic thinks they are Special:** Players and gaming press will point out that Epic thinks the rules should not apply to us. [Does Epic really think they're special?](#)
- **Epic is Greedy:** Some players will think that Epic only seeks to profit off of Epic Direct Payment. Why else would we be implementing a new payment system? [Why does Epic need more money?](#)
- **Apple/Google Own the Platform:** "We welcome any developer that recognizes the value of Google Play and expect them to participate ***under the same terms as other developers***." (Google's December 2019 response to press)

How We Combat this Sentiment

- Emphasize that savings from the new payment system are going **direct to the player**.
- Provide a compelling **free incentive to all players** as an Epic "thank you" due to the downtime (free Battle Pass?).
- This is a step removed from the more directed nuclear alternative: **accepting refunds** for all Apple/Google users.
- Focus attention on the fact that we think Apple/Google **legally do not have the right** to deny players these savings.

Speaker Notes for Slide 32

Nick C

Communications Scenario: Launch

Expected Community Reaction at Launch:

Sentiment will be **largely positive** among the community at launch, as nearly all players will have a path to discounted prices. In regions where Epic Pay is unavailable, the community response will be negative. Smaller communities (r/fuckepic) will remain cynical, but will not have ammo to fight.

Expected Press Reaction at Launch:

Press headlines will lead with the **up to 20% savings**, with more technical outlets highlighting the obvious payment conflicts with Apple and Google. Initial articles will paint a picture of an impending battle between Epic and Apple/Google regarding payment policies.

Proposed Epic Communications:

Our initial comm's will lean into **player savings** first, with a secondary highlight on **payment choice** as being pro-consumer. Leaning into choice too heavily, though, will expose us to **hypocrisy** comments with regard to our position on Epic Games Store exclusives. Proposed announce blog copy can be found [here](#).

Speaker Notes for Slide 33

Nick C

Communications Scenario: Updates Blocked

In this scenario, all players can still access their content and friends on their preferred platform of choice. **Overall sentiment will be positive to neutral** until a build update arrives that would split the community, with two core messaging camps arising among core gamers:

- **Pro-Epic:** This group supports Epic's payment position as being pro-consumer, as they benefit directly from the passed-on savings. Nobody is denied access yet, and (almost) everyone is receiving the savings benefit.
- **Anti-Epic:** This group is skeptical of Epic's position. They will begin to push the perspective that Epic is not the "little guy," that they should play by the same rules as everyone else, and that they are greedy.

Proposed Epic Communications:

Emphasize that Epic Direct Payment offers **players greater savings and choice** in how Fortnite content is purchased, and that we believe Apple/Google **do not have the legal right** to deny players these savings. Proposed messaging [here](#).

Speaker Notes for Slide 34

Nick C

Partner Update

Affected Partners

- Samsung is the only current mobile partner with its own storefront and IAP solution
- Direct Carrier Billing partners (current and future candidates), use the Epic Games Store as their billing platform, so this move will not directly affect them

Addressing Samsung

- Samsung is already requesting a renegotiation on the rev split for both Fortnite and all other game titles including Spyjinx (percentages have not yet been broached)
- Until we are able to share more detail regarding our broader strategy and plans, Samsung's interest in renegotiating the financial terms likely will not change

Speaker Notes for Slide 35

Nate N/Thomas K

Public Perception

- Epic is not seen as the “little guy”; we are seen as being largely and extremely successful working within the current model. Why do we need more money?
- This “fight” is seen only for the benefit of “large corporations who want to pocket more money.”
 - Outside of abstract concepts, they have not seen how this can benefit them, therefore they’re not inclined to or have any desire to take our side.
- Epic is not unique; we should have to play by the same rules everyone else does. We should not get an exception. We are not special.
 - Example: r/fuckepic - [“Do they really think they’re special?”](#)
 - “We welcome any developer that recognizes the value of Google Play and expect them to participate ***under the same terms as other developers.***” (Google’s December 2019 response to press)
- Players do not want to get caught “in the middle” of this battle. Any negative consequences for them (i.e. them no longer having the ability to play the game or friction in their experience) will be Epic’s fault for pushing this cause.

2020 Fortnite Revenue

2020 Net Revenue by Platform

- Latest projection is \$2.5bn Net compared to original Board-approved plan of \$2.2bn
- iOS and Google Play are projected to account for 6.5% of net revenue in 2020 and 6.8% (\$114M) for June-Dec.



Ed Zobrist 7:37 PM

Aaron, can you help Matt/me understand how to read this table? For ever crossplay to a non-mobile platform and of those 439K 8% were pa

Image.png

New Labels	Mobile Only		Crossprogressed	
	Players	Players	Players	Players
ANDROID	435,207	8.2%	711,835	73.3%
GOOGLE	282,775	3.5%	436,005	66.5%
iOS	1,305,211	25.1%	1,197,761	80.8%



Aaron Medvick 7:38 PM

yes

what you described is 100% accurate

Crossprogressers are nice payers!



Ed Zobrist 7:40 PM

So about half of the mobile players could migrate to non-mobile platfor

2020 Fortnite Baseline Revenue (Updated Projections and Plan)

4

~20% Price Discount

Platform	Jan-May 2020	Jun-Dec 2020	2020 Total	2020 Plan	Projected % of Total	0% Elasticity No Mobile	25% Elasticity With Mobile	100% Elasticity With Mobile
PS4	\$440.2M	\$595.0M	\$1035.2M	\$903.1M	41.3%	\$922.2M	\$946.3M	\$1035.2M
Xbox One	\$246.3M	\$353.8M	\$600.1M	\$530.4M	24.0%	\$532.9M	\$547.2M	\$600.1M
Switch	\$152.2M	\$226.6M	\$378.8M	\$339.4M	15.1%	\$335.7M	\$344.9M	\$378.8M
PC	\$124.7M	\$184.2M	\$308.9M	\$286.0M	12.3%	\$273.9M	\$281.3M	\$308.9M
Android	\$10.7M	\$7.2M	\$17.9M	\$14.7M	0.7%	\$16.5M	\$16.8M	\$17.9M
iOS	\$63.7M	\$82.6M	\$146.2M	\$125.9M	5.8%	\$63.7M	\$159.0M	\$175.7M
Google	\$0.3M	\$16.8M	\$17.1M	\$10.8M	0.7%	\$0.3M	\$19.7M	\$23.1M
Total	\$1.038B	\$1.466B	\$2.504B	\$2.210B	100.0%	\$2.145B	\$2.315B	\$2.540B



Updated Projections: 2020 Plan:
given YTD performance board approved plan



Worse Case
Scenario



Medium Case
Scenario



Best Case
Scenario


Slide 60

- 1 Sure thing. Price elasticity will be the predominant determinant of outcome, so that should remain at the core of assumptions we make. I can present it in a different way though, combined with iOS/GP outcomes and referenced against platforms. Revenue change (not total) is how I originally presented these outcomes -- feedback was to show totals. That's on 17-19. I'll pivot back.

I'll have this for you tomorrow.

Nate Adams, 5/13/2020

4

 Hey Nate, Adam would like another pass at estimated impact. Rather than give ranges of possible elasticity, can you show here, or on another page, a bunch of assumptions (ones you feel a most likely) and resulting change (not new forecast, what is the delta) to revs by platform. He'd also like you to take the image I'll paste here into account.

Reassigned to Nate Adams

Ed Zobrist, 5/13/2020

Speaker Notes for Slide 37

This assumes gross GP revenue has a 3x relative increase from current levels