

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

# Finance Board Presentation

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January 2020



# 2018 – 2019 Consolidated Financials – Actual

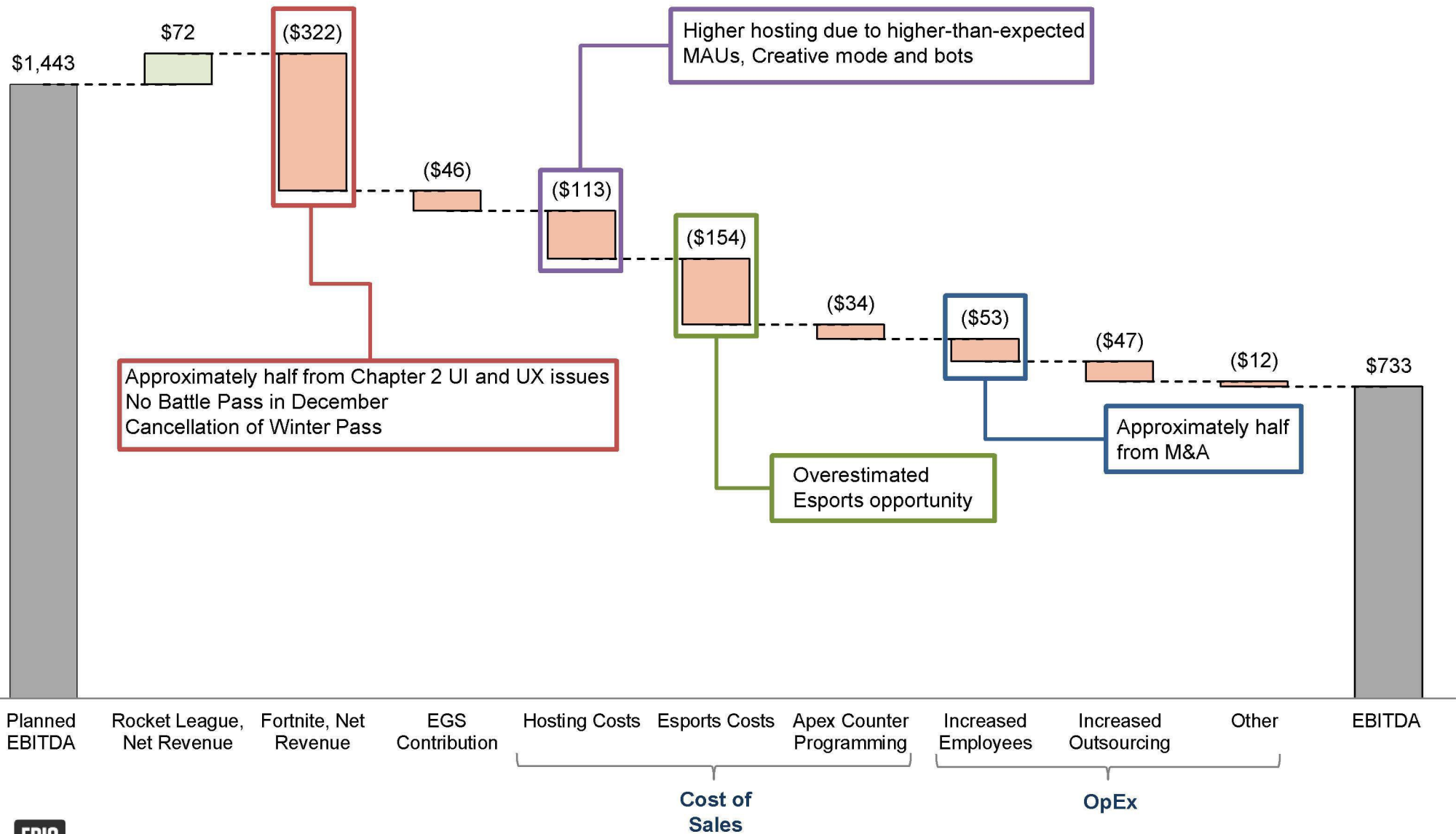
Preliminary, Non-GAAP  
(\$ in millions)

Annual View					Commentary
	2018A	2019A	\$ Diff	% Diff	
Fortnite	\$5,477	\$3,709	(\$1,767)	-48%	Other game revenue is primarily Rocket League and Battle Breakers
Other	8	100	93	92%	
<b>Game Revenue</b>	<b>\$5,484</b>	<b>\$3,810</b>	<b>(\$1,675)</b>	<b>-44%</b>	
Game License & Royalties	\$109	\$79	(\$30)	-37%	
Enterprise	9	10	1	5%	
UE Asset Marketplace	6	8	2	22%	
<b>Engine Revenue</b>	<b>\$124</b>	<b>\$97</b>	<b>(\$27)</b>	<b>-28%</b>	
<b>Epic Games Store</b>	<b>\$2</b>	<b>\$233</b>	<b>\$231</b>	<b>99%</b>	
<b>Merchandise/Other</b>	<b>\$18</b>	<b>\$82</b>	<b>\$64</b>	<b>78%</b>	
<b>Total Gross Revenue</b>	<b>\$5,628</b>	<b>\$4,221</b>	<b>(\$1,406)</b>	<b>-33%</b>	
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%	EGS launched in December 2018, minimum guarantees
Esports Costs	18	214	196	92%	2019 Esports event costs of \$107M, and prize pool costs of \$107M
<b>Cost of Sales</b>	<b>\$1,882</b>	<b>\$2,390</b>	<b>\$508</b>	<b>21%</b>	
<b>Gross Income</b>	<b>\$3,746</b>	<b>\$1,831</b>	<b>(\$1,915)</b>	<b>-105%</b>	
<i>Gross Margin</i>	<i>66.6%</i>	<i>43.4%</i>			
People	\$150	\$275	\$125	46%	People cost has increase in proportion to new hires, of which 36% are M&A related
Outsourcing	42	110	68	62%	\$68M related to Fortnite, \$16M related to Engine, \$14M related to Team Online, \$4M related to other games
Marketing	82	59	(22)	-38%	Marketing spend focused towards Esports verses other industry events
IT	24	39	15	38%	
Consulting	8	14	5	40%	
Legal & Accounting	39	30	(9)	-31%	2018 includes \$15M in legal settlements
Travel & Entertainment	10	18	7	43%	
Facilities	8	17	9	54%	
Other	13	27	15	53%	
<b>Total Operating Expense</b>	<b>\$376</b>	<b>\$588</b>	<b>\$212</b>	<b>36%</b>	
<b>EBIT excl. Bonus</b>	<b>\$3,370</b>	<b>\$1,243</b>	<b>(\$2,127)</b>	<b>-171%</b>	
<i>EBIT excl. Bonus Margin</i>	<i>59.9%</i>	<i>29.4%</i>			
Bonus	\$482	\$523	\$41	8%	Due to monthly timing 4 bonus payments in 2019, vs 3 in 2018
<b>EBIT</b>	<b>\$2,888</b>	<b>\$720</b>	<b>(\$2,168)</b>	<b>-301%</b>	
<i>EBIT Margin</i>	<i>51.3%</i>	<i>17.1%</i>			
<b>EBITDA</b>	<b>\$2,895</b>	<b>\$733</b>	<b>(\$2,162)</b>	<b>-295%</b>	
<i>EBITDA Margin</i>	<i>51.4%</i>	<i>17.4%</i>			
<b>Employees</b>	<b>1,063</b>	<b>1,932</b>	<b>869</b>	<b>45%</b>	Includes 313 employees from acquisition in 2019

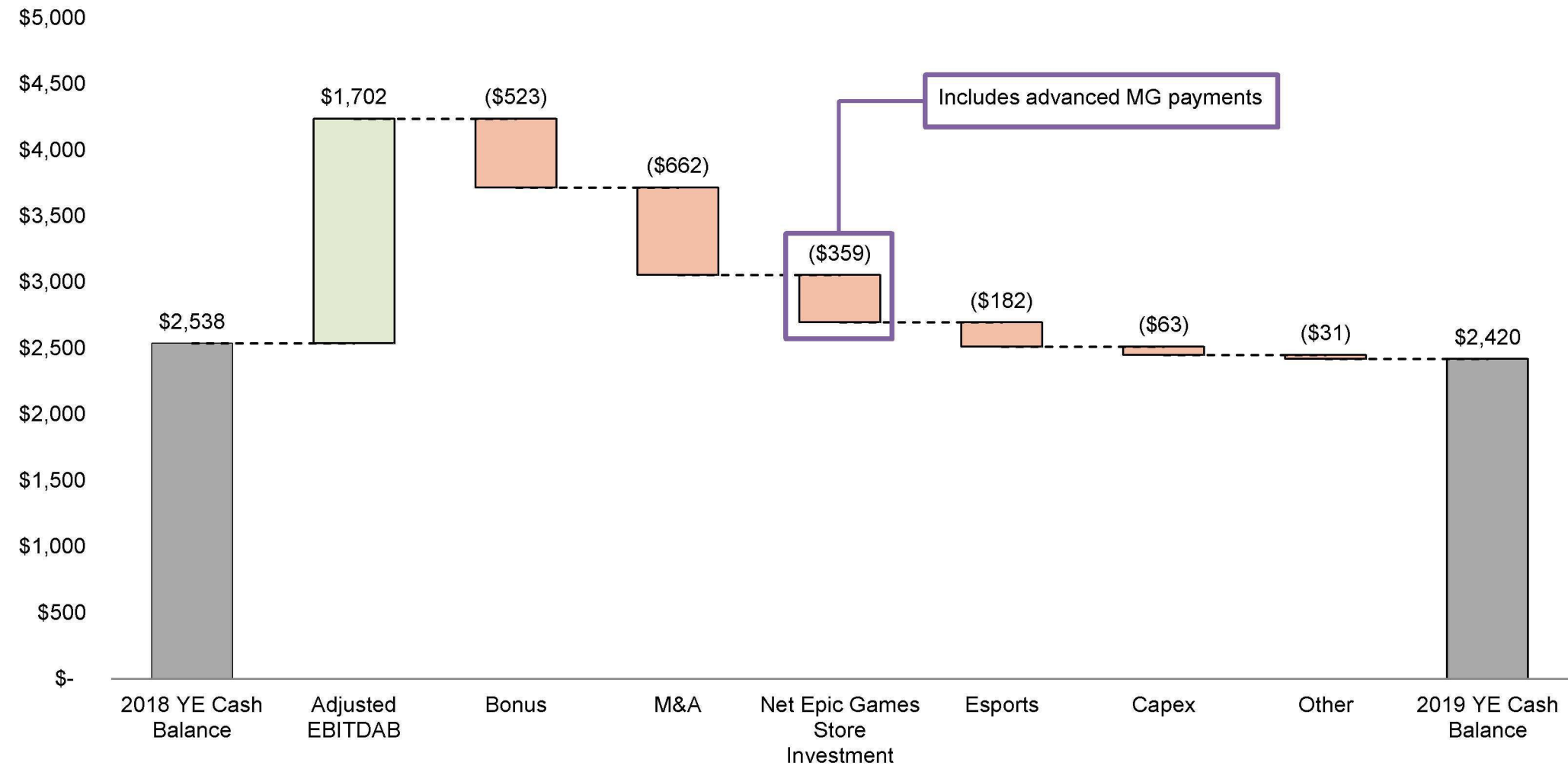


# 2019 EBITDA Bridge – Plan vs. Actual

\$ in Millions



## 2018 – 2019 Cash Flow Bridge



Note: Adjusted EBITDAB does not include EGS investments and Esports

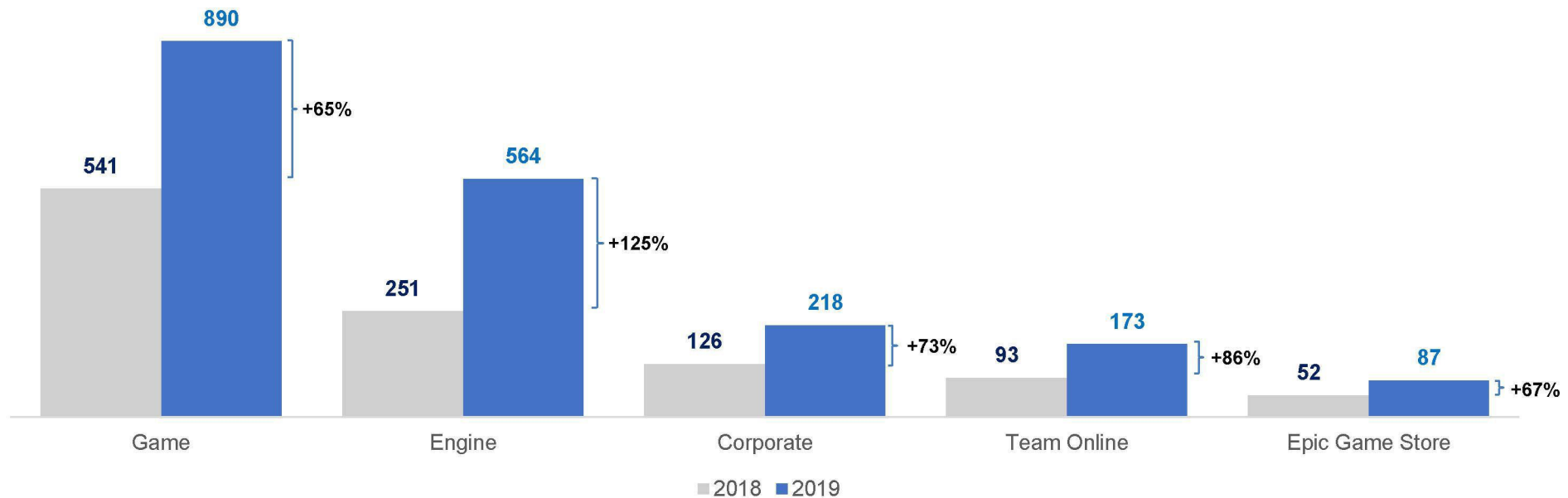
# Employee Summary

	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%
<b>Total</b>	<b>1,063</b>	<b>1,932</b>	<b>869</b>	<b>+82%</b>	<b>100%</b>

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%
	<b>1,063</b>	<b>1,932</b>	<b>869</b>	<b>+82%</b>	<b>100%</b>

## 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
<b>ASSETS</b>						
<b>Current Assets</b>						
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
<b>Total Current Assets</b>	<b>3,351</b>	<b>3,536</b>	<b>3,181</b>	<b>3,086</b>	<b>3,170</b>	
<b>Non-Current Assets</b>						
Property and equipment, net	61	74	93	109	112	
Goodwill	41	148	780	767	666	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	
<b>Total Non-Current Assets</b>	<b>184</b>	<b>303</b>	<b>911</b>	<b>920</b>	<b>853</b>	
<b>TOTAL ASSETS</b>	<b>3,536</b>	<b>3,839</b>	<b>4,093</b>	<b>4,006</b>	<b>4,023</b>	
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
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	
<b>Total Current Liabilities</b>	<b>208</b>	<b>288</b>	<b>379</b>	<b>459</b>	<b>364</b>	
<b>Long Term Liabilities</b>						
Deferred revenue, less current	21	21	54	52	19	
Loan payable, long-term	4	4	4	11	11	
Other liabilities	-	-	7	-	-	
<b>Total Long Term Liabilities</b>	<b>24</b>	<b>24</b>	<b>65</b>	<b>63</b>	<b>30</b>	
<b>TOTAL LIABILITIES</b>	<b>232</b>	<b>312</b>	<b>443</b>	<b>522</b>	<b>394</b>	
<b>EQUITY</b>						
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	
<b>Total Equity</b>	<b>3,304</b>	<b>3,526</b>	<b>3,650</b>	<b>3,484</b>	<b>3,629</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,536</b>	<b>3,839</b>	<b>4,093</b>	<b>4,006</b>	<b>4,023</b>	





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

## Epic 2020 P&L

(\$ in millions, except for per MARPPU)

	2018A	2019A	2020F
1 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
2 Other Games	8	100	250
<b>Game Revenue</b>	<b>\$5,484</b>	<b>\$3,809</b>	<b>\$3,021</b>
Engine Revenue	124	97	100
Store Revenue	2	233	401
Other Revenue	18	82	59
<b>Gross Revenue</b>	<b>\$5,628</b>	<b>\$4,221</b>	<b>\$3,582</b>
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
4 EGS/Marketplace Royalties	14	465	663
Esports Cost	18	214	85
<b>Cost of Sales</b>	<b>\$1,882</b>	<b>\$2,390</b>	<b>\$2,162</b>
<b>Gross Profit</b>	<b>\$3,746</b>	<b>\$1,831</b>	<b>\$1,420</b>
% Margin	68%	48%	47%
People	\$150	\$275	\$365
Outsourcing	42	110	153
Marketing	82	59	53
Other	102	144	159
<b>Operating Expenses</b>	<b>369</b>	<b>576</b>	<b>718</b>
<b>EBITDA (excl. Bonus)</b>	<b>\$3,377</b>	<b>\$1,255</b>	<b>\$701</b>
% Margin	60%	30%	20%
5 Bonus	\$482	\$523	\$171
<b>EBITDA</b>	<b>\$2,895</b>	<b>\$733</b>	<b>\$531</b>
% Margin	51%	17%	15%
6 Employees	1,063	1,932	2,232



## Commentary

- 1 **Fortnite revenue** in 2020 down 25% from 2019
  - **MAUs** expected to decline 7% year over year given saturation in core markets and platforms
  - **Conversion** to continue declining to 14% which leads to a decline in MAPs to ~9mm from 11mm in 2019
  - **Monetization** expected to decline ~5% to \$26.75 as demand for cosmetic content weakens
- 2 **Other games** comprises of Psyonix, Battle Breakers and SpyJinx
- 3 **Hosting** cost does not decline at same rate as revenue as MAU remains more stable and increased cost from Creative mode and Mods
- 4 **No Esports** world cup in 2020
- 5 ~30% of **Bonus** in 2020 is related to M&A
- 6 **Employee** expected to grow by 300 in 2020

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

## Epic 2018A - 2020E Profit and Loss

	Actuals		Original 2020 Forecast <sup>1</sup>		Current 2020 Forecast <sup>2</sup>
	2018A	2019A	Base	Low	2020E
(\$ in millions, except for per MARPPU)					
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
<b>Total Game Revenue</b>	<b>\$5,513</b>	<b>\$3,810</b>	<b>\$3,815</b>	<b>\$3,065</b>	<b>\$3,021</b>
Engine Revenue	124	97	125	125	100
Epic Game Store Revenue	2	233	401	401	401
Merchandising	16	82	50	40	59
<b>Gross Revenue</b>	<b>\$5,654</b>	<b>\$4,221</b>	<b>\$4,392</b>	<b>\$3,631</b>	<b>\$3,582</b>
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
<b>Cost of Sales</b>	<b>\$1,917</b>	<b>\$2,390</b>	<b>\$2,355</b>	<b>\$2,101</b>	<b>\$2,162</b>
<b>Gross Profit</b>	<b>\$3,737</b>	<b>\$1,831</b>	<b>\$2,037</b>	<b>\$1,531</b>	<b>\$1,420</b>
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
<b>Operating Expenses</b>	<b>\$375</b>	<b>\$588</b>	<b>\$734</b>	<b>\$734</b>	<b>\$730</b>
% of Gross Revenue	7%	14%	17%	20%	20%
<b>EBIT (excl. Bonus)</b>	<b>\$3,363</b>	<b>\$1,243</b>	<b>\$1,302</b>	<b>\$796</b>	<b>\$689</b>
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

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# 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
<b>Game Revenue</b>	<b>\$790</b>	<b>\$1,473</b>	<b>\$1,620</b>	<b>\$1,601</b>	<b>\$1,109</b>	<b>\$1,027</b>	<b>\$825</b>	<b>\$849</b>
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
<b>Engine Revenue</b>	<b>\$34</b>	<b>\$34</b>	<b>\$19</b>	<b>\$37</b>	<b>\$16</b>	<b>\$25</b>	<b>\$20</b>	<b>\$36</b>
<b>Epic Games Store</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$2</b>	<b>\$27</b>	<b>\$35</b>	<b>\$96</b>	<b>\$76</b>
<b>Merchandise/Other</b>	<b>\$0</b>	<b>\$1</b>	<b>\$0</b>	<b>\$17</b>	<b>\$10</b>	<b>\$15</b>	<b>\$20</b>	<b>\$38</b>
<b>Total Gross Revenue</b>	<b>\$824</b>	<b>\$1,508</b>	<b>\$1,639</b>	<b>\$1,656</b>	<b>\$1,161</b>	<b>\$1,102</b>	<b>\$960</b>	<b>\$998</b>
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
<b>Cost of Sales</b>	<b>\$264</b>	<b>\$484</b>	<b>\$572</b>	<b>\$562</b>	<b>\$549</b>	<b>\$521</b>	<b>\$690</b>	<b>\$630</b>
<b>Gross Income</b>	<b>\$560</b>	<b>\$1,024</b>	<b>\$1,067</b>	<b>\$1,094</b>	<b>\$612</b>	<b>\$581</b>	<b>\$270</b>	<b>\$368</b>
<i>Gross Margin</i>	<i>68.0%</i>	<i>67.9%</i>	<i>65.1%</i>	<i>66.1%</i>	<i>52.7%</i>	<i>52.7%</i>	<i>28.1%</i>	<i>36.9%</i>
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
<b>Total Operating Expense</b>	<b>\$59</b>	<b>\$98</b>	<b>\$96</b>	<b>\$123</b>	<b>\$115</b>	<b>\$137</b>	<b>\$158</b>	<b>\$178</b>
<b>EBIT excl. Bonus</b>	<b>\$501</b>	<b>\$926</b>	<b>\$971</b>	<b>\$972</b>	<b>\$497</b>	<b>\$444</b>	<b>\$112</b>	<b>\$190</b>
<i>EBIT excl. Bonus Margin</i>	<i>60.8%</i>	<i>61.4%</i>	<i>59.2%</i>	<i>58.7%</i>	<i>42.8%</i>	<i>40.3%</i>	<i>11.6%</i>	<i>19.1%</i>
Bonus	\$2	\$135	\$144	\$202	\$180	\$143	\$103	\$96
<b>EBIT</b>	<b>\$500</b>	<b>\$791</b>	<b>\$827</b>	<b>\$770</b>	<b>\$317</b>	<b>\$301</b>	<b>\$9</b>	<b>\$94</b>
<i>EBIT Margin</i>	<i>60.6%</i>	<i>52.5%</i>	<i>50.5%</i>	<i>46.5%</i>	<i>27.3%</i>	<i>27.3%</i>	<i>0.9%</i>	<i>9.4%</i>
<b>EBITDA</b>	<b>\$500</b>	<b>\$792</b>	<b>\$828</b>	<b>\$774</b>	<b>\$318</b>	<b>\$302</b>	<b>\$10</b>	<b>\$102</b>
<i>EBITDA Margin</i>	<i>60.7%</i>	<i>52.5%</i>	<i>50.5%</i>	<i>46.7%</i>	<i>27.4%</i>	<i>27.5%</i>	<i>1.1%</i>	<i>10.2%</i>
<b>Employees</b>	<b>756</b>	<b>853</b>	<b>936</b>	<b>1,063</b>	<b>1,312</b>	<b>1,666</b>	<b>1,817</b>	<b>1,932</b>



# 2019 P&L – Plan vs. Actual

## Epic 2019 P&L

(\$ in millions, except for per MARPPU)

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

## Commentary

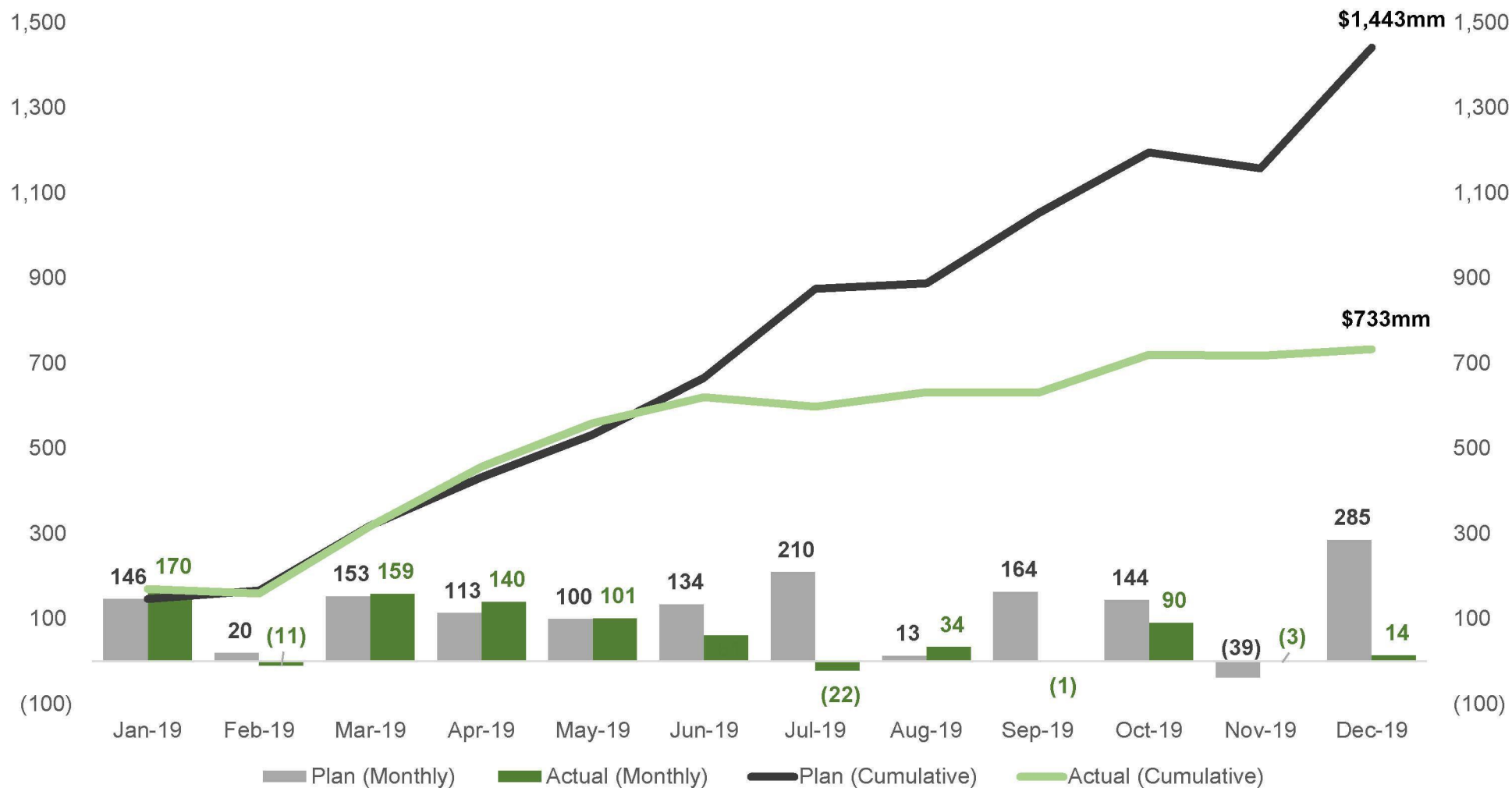
- Fortnite revenue** ~30% off peak year of 2018 consistent with large gaming IPs
  - **MAUs** slight decline year over year given saturation in core markets and platforms
  - **Conversion** stabilized to 16.8% which leads to a decline in MAPs to ~11mm from 14mm in 2018
  - **Monetization** declined ~11% to \$28.33 as demand for cosmetic content weakens
- Other games** comprises of Psyonix (consolidated financials as of July 2019) and Battle Breakers
- No **Esports** revenue (\$150mm)
- 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

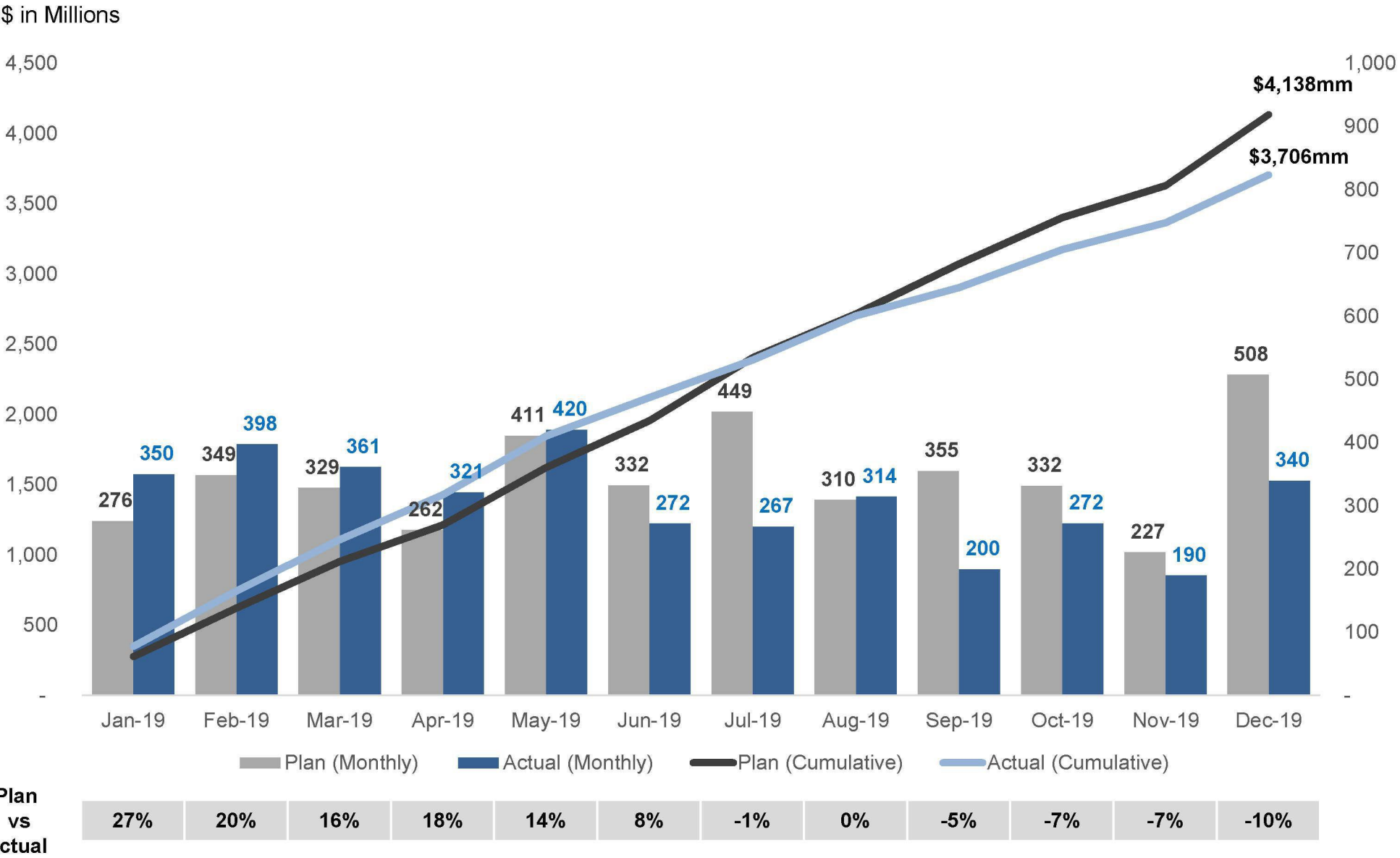


Plan  
vs  
Actual

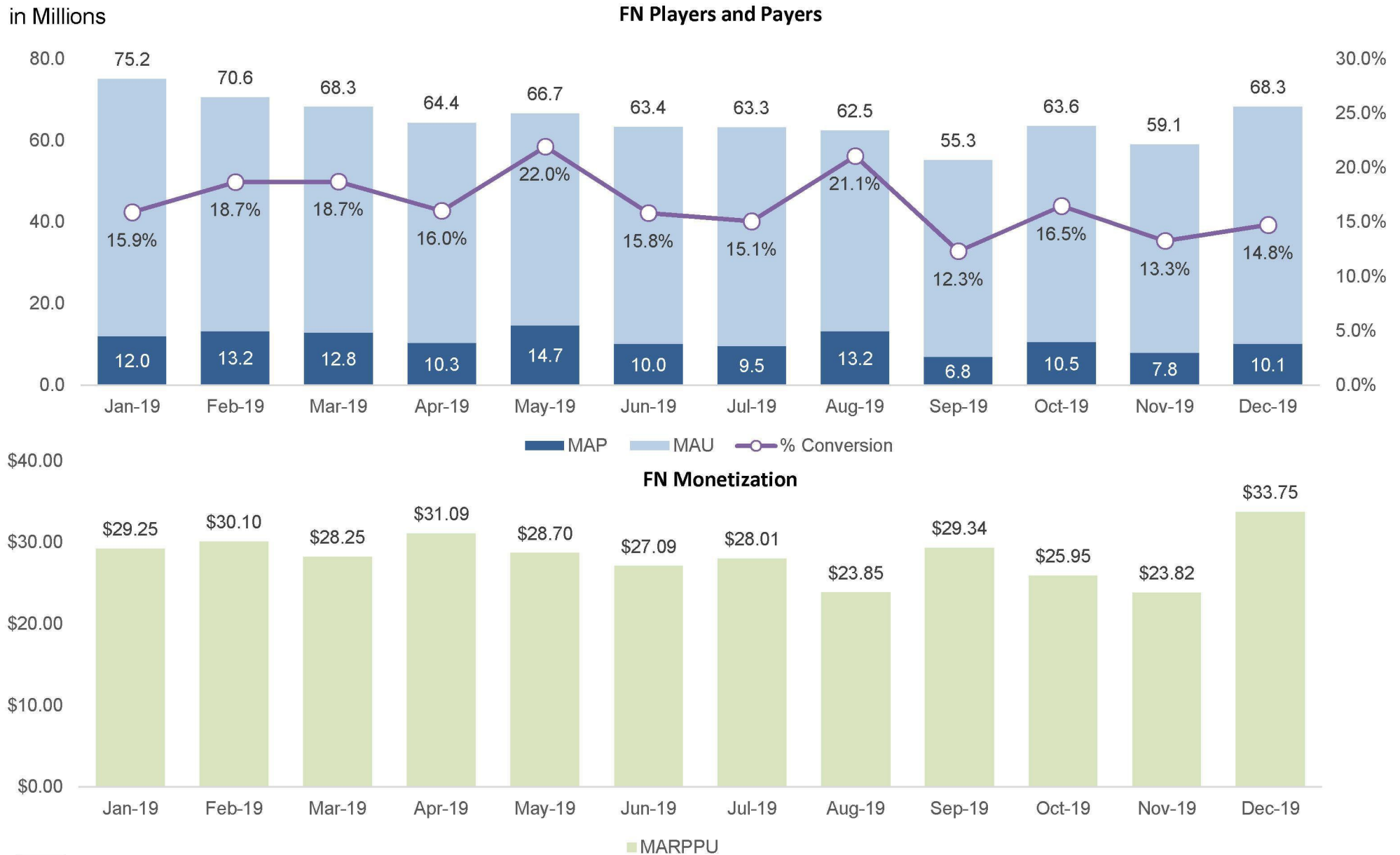
16%	-4%	0%	6%	5%	-7%	-32%	-29%	-40%	-40%	-38%	-49%
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# 2019 Fortnite Gross Revenue – Plan vs. Actual



# 2019 Fortnite Monthly KPIs



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
<b>Cash flows from operating activities</b>		
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	2,221	875
<b>Cash flows from investing activities</b>		
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	(70)	(734)
<b>Cash Flows from financing activities</b>		
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	291	(261)
Exchange differences on cash and cash equivalents	(0)	2
Net change in cash and cash equivalents	2,442	(118)
<b>Cash and cash equivalents (inclusive of marketable securities)</b>		
Beginning of period	97	2,538
End of period	2,538	2,420

