



EQUITY RESEARCH

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Epic Games

TEAM

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Epic Games

Game engine, app store, and metaverse hub powering Fortnite and Unreal-based experiences

#gaming

[Visit Website](#)

Details

HEADQUARTERS

Cary, NC

CEO

Tim Sweeney



REVENUE

\$4,426,500,000

2023

VALUATION

\$22,500,000,000

2024

FUNDING

\$6,400,000,000

2023

Revenue

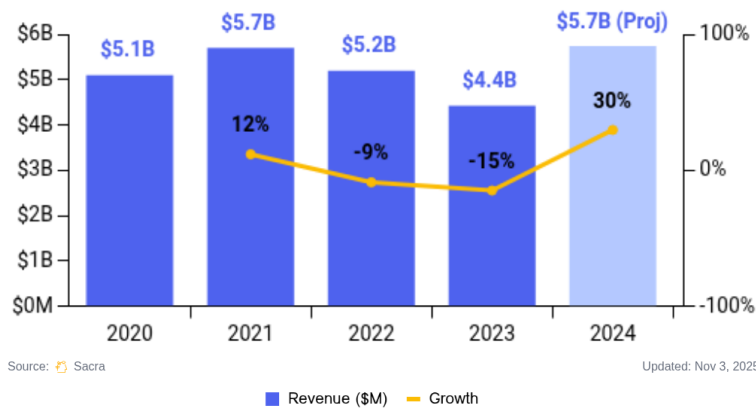


Epic Games

Revenue & Revenue Growth Rate

\$5.7B

↑ 29.7% YoY



Sacra estimates that Epic Games generated \$5.7B in revenue in 2024, up roughly 30% from \$5.2B in 2023, as Fortnite re-accelerated at the end of 2023 and into 2024.

This followed a multi-year decline from a 2021 peak of \$5.7B, with revenue falling 9% to \$5.2B in 2022 and another 15% in 2023 amid saturation in core markets and waning demand for in-game cosmetic upgrades.

Revenue had previously dropped from \$5.6B in 2018 to \$4.2B in 2019 (-25% YoY), before rebounding to \$5.1B in 2020 as COVID lockdowns boosted Fortnite usage and in-game purchases.

Fortnite remained the company's primary revenue driver, but Epic also expanded its other businesses: the Epic Games Store generated \$285M in 2023, up slightly from \$281M in 2022, while Unreal Engine revenue reached \$275M in 2023, up from \$225M in 2022 and \$150M in 2021.

Valuation & Funding

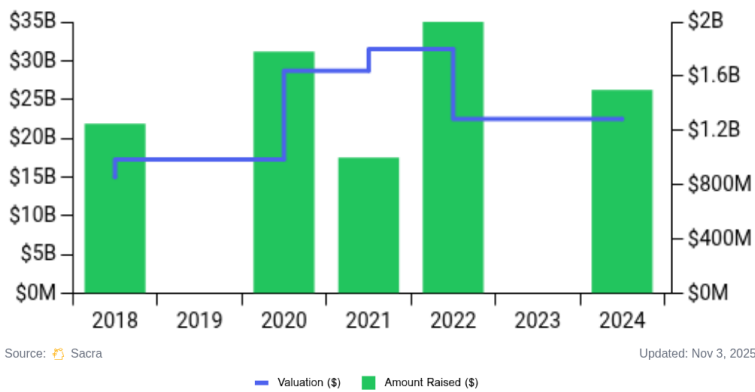


Epic Games

Valuation & Amount Raised

\$22.5B

↑ \$7.5B Total Raised



In February 2024, Disney acquired a \$1.5B equity stake in Epic Games at a \$22.5B post-money valuation. This marked Epic's first outside funding since its \$31.5B round in 2022 and was part of a broader partnership to build a persistent Disney universe inside Fortnite and Unreal Engine.

Previously, Epic Games was valued at \$31.5 billion in April 2022, following a \$2 billion funding round. The company has raised a total of \$8.127 billion across 15 funding rounds, with the most recent being a \$1.5 billion investment in February 2024.

Key investors include Sony Group Corporation and KIRKBI, who each contributed \$1 billion during the 2022 funding round. The company, founded in 1991, has established itself as a major player in the gaming industry through its Unreal Engine technology and games like Fortnite.

Product

Epic Games is a vertically integrated game developer and publisher—they built their own game engine, they create their own games, and they distribute them via their own games store ala Valve's Steam.

Unreal Engine

At the same time, they license their game engine out to other game developers, and they allow other developers to distribute through their game store ("Epic Games Store").



Unreal Engine is a 3D computer graphics engine used for building games and other types of immersive experiences.

Epic Games first showed off the technology behind Unreal Engine with the launch of their 1998 first-person shooter Unreal—which competed with id’s Quake II.

After early beta testing of Unreal for other game developers, a few asked to license the Unreal Engine for use in their own games.

Since then, it’s become one of the dominant game engines used in the industry (alongside Unity, from Unity Technologies), especially for technically sophisticated, processor-intensive, visual games.

The key product focus for Unreal, from the beginning, has been about building frameworks and scaffolding for game programming so that artists and designers have an easier time translating their vision into a game.

By Unreal Engine 3 (2004), the tool was sufficiently plug-and-play that the team at Chair Entertainment was able to build the award-winning game Undertow with only one full-time programmer.

As of today, more than 50% of all next-gen console and PC games that have been announced are being built on Unreal Engine 5.

Fortnite

But Unreal Engine is also increasingly being used in film/TV—500+ projects to date have used UE for pre-visualization, special effects, and CG animations, and usage in film/TV grew 41% in 2022.



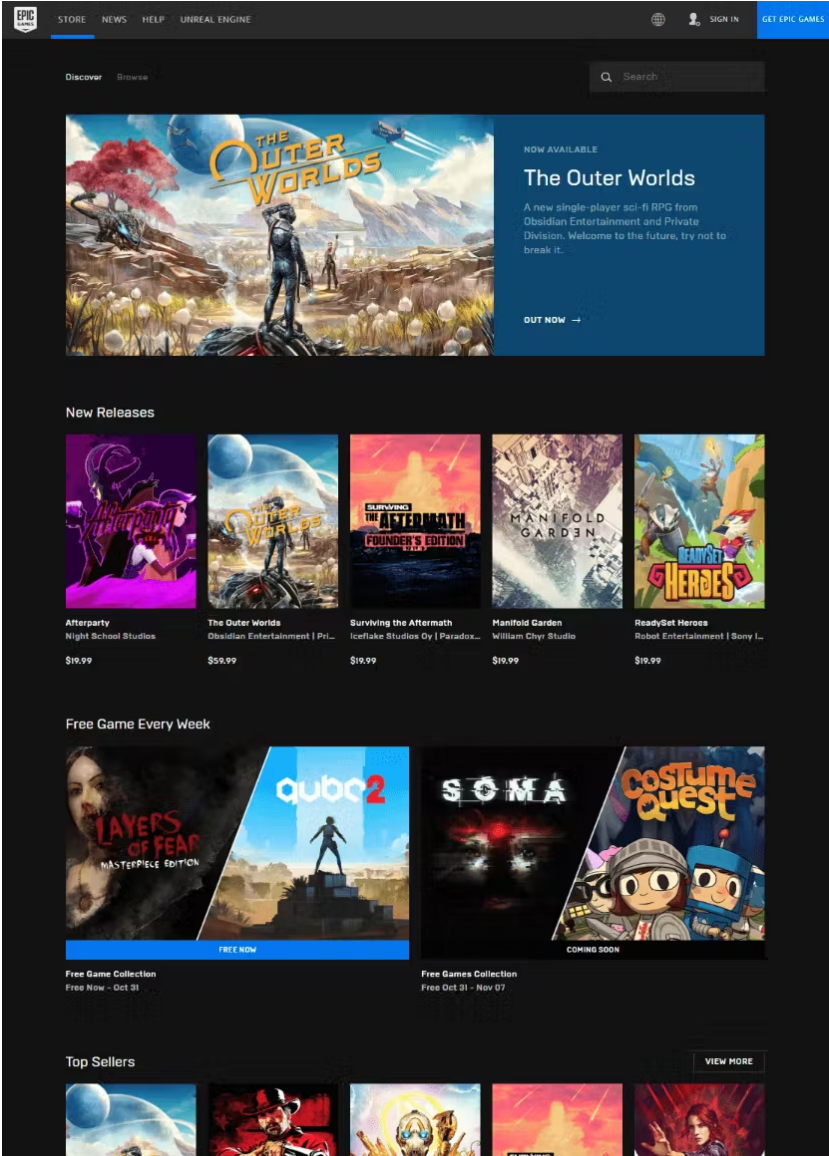
Epic has produced several popular video games using their internally-developed Unreal Engine—Gears of War, Unreal itself, Infinity Blade—but the most popular and lucrative by far has been Fortnite.

Fortnite is free to play and cross-platform—with the exception of iPadOS and iOS since a judge decided for Apple in Epic Games v. Apple.

That accessibility allowed it to grow fast and capture gamers’ networks, creating stronger retention and lock-in as players met up with their real-life friends in-game (particularly valuable during COVID lockdowns in 2020).

Epic Games Store

Epic built more features for this ‘social networking’ dimension of Fortnite, including hosting concerts with artists like Katy Perry and Travis Scott that players virtually attended.



Valve built a behemoth game store with Steam, which launched in 2003 as a way for Valve to send automatic software updates for its games to users, and a few years later, became a marketplace for first and third-party game titles.

Steam grew to a reported \$2B a year in profit by the year 2015 as it became the largest digital distribution platform for PC/Mac games in the world.

Where Steam ran into frustrations was with developers, who rankled at the store’s 30% cut of all game revenues. Steam gave developers access to virtually the entire PC gaming market, but the 30% rate was considered to be too high.

Companies like EA and Activision built their own game stores—Origin and Battle.net respectively—but none of them succeeded in getting substantial traction because they largely lacked the lighthouse games to make their platforms essential.

Epic Games, however, had Fortnite—and in 2018, it launched the Epic Games Store, their Steam-killer, with Fortnite as the key centerpiece and a lower 12% take rate as the main differentiator to attract developers from Steam.

Business Model

Epic Games makes money in a few core ways.

Unreal Engine

After building Unreal Engine for internal use, Epic Games began licensing it out to other developers to use to build their own games.

Initially, developers who wanted to build games with Unreal Engine paid 25% royalties on their game sales plus a \$99 upfront fee.

In 2011, Epic waived royalties on a developer's first \$50,000 in sales, and in 2020, they extended that to the first \$1M in sales. Today, developers keep their first \$1M in sales and then pay a reduced 5% fee after that.

Fortnite

Fortnite is a free-to-play, cross-platform game. It makes money by allowing players to purchase cosmetic perks such as outfits, vehicles, and "emotes", or various dance moves players can use in-game. Users buy cosmetics by first purchasing V-Bucks from the Fortnite Item Shop which they can then spend in-game. None of these buyables items give users any competitive advantage in-game.

Roughly 70% of all Fortnite players have spent some amount of money on in-game purchases, with the average spend among them being around \$85.

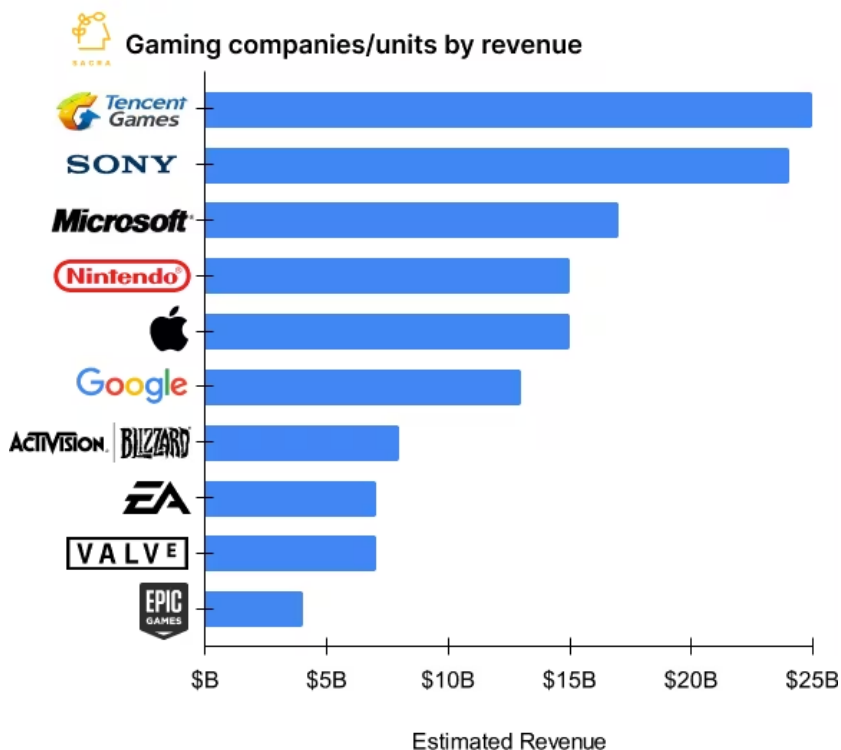
Epic Games Store

Epic launched its digital storefront and distribution channel Epic Games Store in 2018, with the core differentiator from other storefronts like Valve's Steam store being the lower take rate—where Valve takes 30% of the revenues of any game sold through Steam, Epic set its Game Store to take just 12%.

Additionally, developers who built games with Unreal Engine and distributed them through the Epic Games Store would not have to pay the 5% of royalties that they would normally pay for using Unreal Engine.

Epic's decision to take a 12% take rate has led to the Games Store reporting a lack of profits in every year for which we have public filing—the Games Store lost \$181M in 2019 and \$273M in 2020, largely due to the cost of bandwidth and hosting games.

Competition



For all of Fortnite's success, and the success of Epic's Unreal Engine, Epic Games remains a mid-size player in the gaming space.

That could put Epic at a disadvantage given the way that dynamics are currently shifting in the gaming space. One big factor is how expensive it is to make games today.

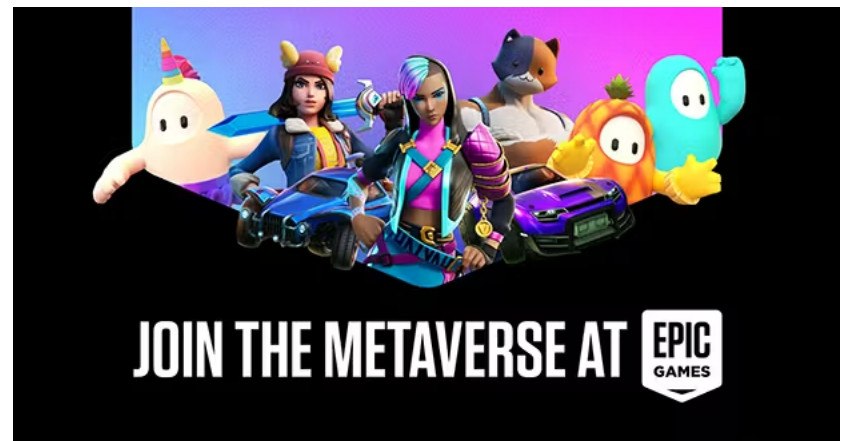
The rise in expectations around graphics and high definition has sent the cost of developing AAA games—from Cyberpunk 2077 (\$316M) to Destiny (\$140M)—skyrocketing.

That's driving the bigger studios to diversify, buying smaller game development studios as a more cost-effective approach to growth than continually churning out their own AAA games year after year.

Gaming is also a hit-driven industry, which has been a boon for Epic—given the success of Fortnite—but could also be a problem in the years ahead.

Fortnite's decline from its 2020-1 heights began last year and has continued into 2023. That's fully within expectations for Epic Games based on saturation in their core markets, conversion to paid declining over time, and the natural decline in monetization as demand for cosmetic content goes down—but it raises the question of what comes next for the company with no other large IPs currently succeeding on the scale of Fortnite.

TAM Expansion



Epic Games's long-term vision is about growing the GDP of the gaming industry.

If all of the roughly \$120B of videogames sold per year were built with Unreal Engine, Epic would make just \$6B per year in revenue from royalties.

The reason that they license out Unreal Engine and operate their Games Store at a loss in an attempt to aggregate games onto their platform is that they are looking to play a central role in enabling the next million game developers to build new virtual experiences.

Metaverse

The metaverse is a key part of Epic's vision.

With Fortnite alone, Epic has built a social network of more than 400M lifetime players and 2B+ social connections between them.

Because Fortnite is completely cross-platform, friends can play with friends no matter what console or PC they might be playing on, and that's allowed it to become a social experience unlike any game before—and it's why Fortnite has been able to seamlessly transition from gaming to concerts to events during its lifetime.

With Unreal, Epic has one of the leading game engines in the world that it now hopes can become the core game engine for the metaverse, and with their recent launch of the Unreal Editor for Fortnite, they're taking a big step in that direction.

Unreal Editor for Fortnite is a PC application that allows creators to build unique experiences for the Fortnite platform, using a modified set of tools from the core Unreal Engine and making them more accessible for a wider audience.

There are a few reasons to be optimistic about Epic's odds of being an important contributor and company at the center of this metaverse vision.

Fortnite became one of the most popular games ever on the strength of its cross-platform play and ability to bring together social networks to play together. It has since evolved into more than a gaming platform, and could persist in being a popular virtual platform—bucking the trend where big IP games irreversibly decline after their popularity peaks—by entering its next phase as a metaverse playground.

For one, Unreal Engine has spent the last several years evolving beyond gaming—it is now being used in concerts, films, and TV, positioning Epic well to influence how virtual experiences are built in all of these mediums. Unreal has become a key skill for visual effects artists, animators, and designers, and that could give it sticking power much in the same way that Photoshop did for graphic designers in the 2000's.

The Epic Games Store, then, is looking to be the backbone for all of these kinds of online services that exist across multiple virtual worlds and experiences, serving as both a home base and a distribution channel—from which Epic can profit.

That said, the hype around the metaverse that began in 2020-1 has largely not panned out as expected for Epic—who predicted that within a few years we would regularly be engaging in AR/VR experiences using wearables.

There are technological challenges that still need to be solved in serving up virtual experiences using existing hardware and software—for example, Fortnite's concerts with Travis Scott and Katy Perry were attended by "millions", but only about 50 people at a time synchronously could experience the concerts together.

It's unclear how far we are from thousands of people being able to synchronously experience a Fortnite concert while sitting at their computer behind a virtual avatar, much less when thousands of people will be able to do the same with a AR/VR headset within a compelling metaverse experience.

Lastly, there's the influence of the big walled gardens of computing and gaming—Apple's App Store and Google's Play Store—which are the biggest distribution channels for software today, and which are unlikely to openly embrace Epic's vision for cross-platform play that doesn't flow through their monopolies.

In December 2023, a federal jury found that Google's app store practices violated US antitrust law, ruling in favor of Epic Games and setting up a permanent injunction that would force Google to allow alternative payment methods and app downloads on Android.

In November 2025, Google and Epic Games reached a proposed US court settlement that would reform Android app distribution and payments—allowing third-party app stores that meet new security standards and permitting alternative payment methods with a capped service fee of 9% or 20%—with Judge James Donato set to review modifications to his existing injunction.

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