

Unity Q420 and Full Year 2020 Shareholder Letter

4 February 2021

At Unity, we believe the world is a better place with more creators in it. This belief drives the four thousand people who work at Unity to deliver our powerful technologies designed to enable the success of our customers. We are driven by a recognition that when an individual becomes a creator, they become a crucial part of the vibrancy of the 21st century economy. We recognize that the world of content is in the early stages of transition from linear 2D content to real-time 3D (RT3D) content. Our mission, also the foundation of Unity's business strategy, is to unlock the power of RT3D.

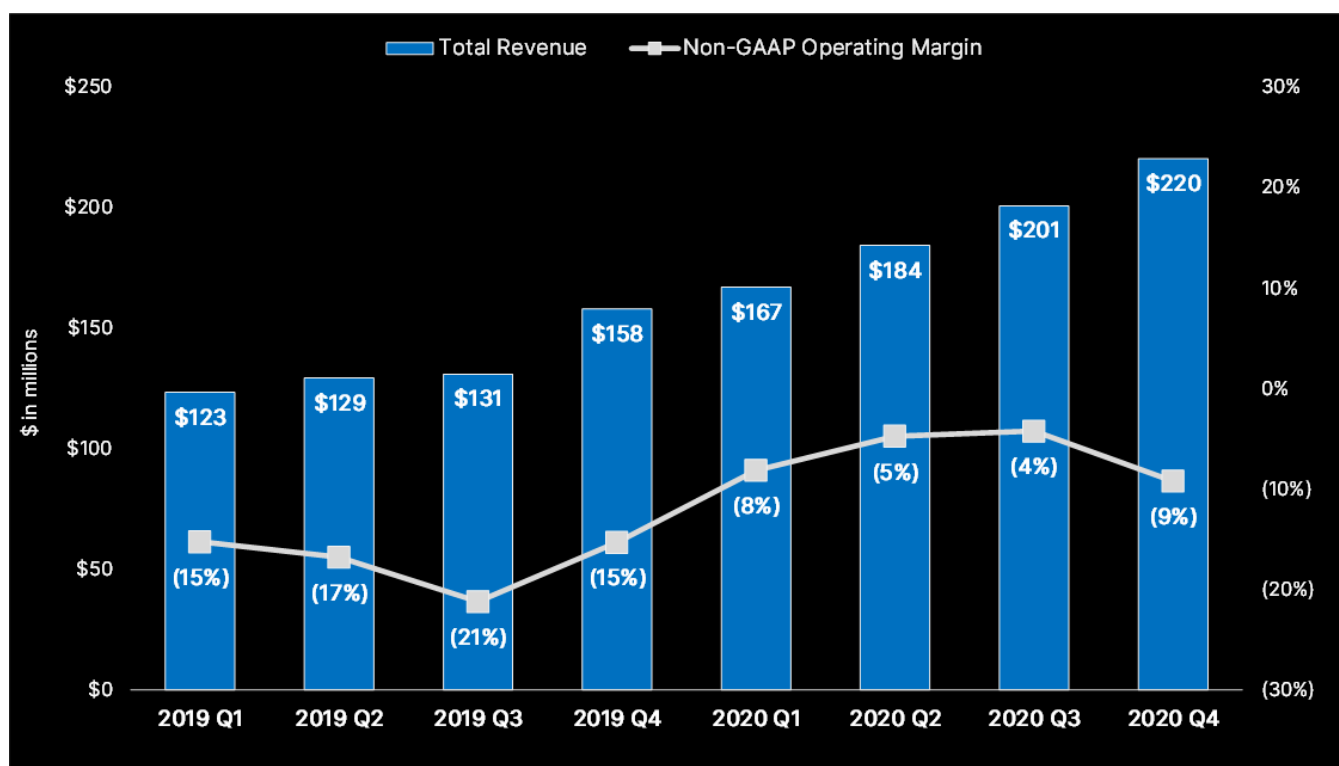
2020 was a year in which many people suffered loss and increased uncertainty. Our hearts go out to the many that experienced loss in the year. We are proud that we at Unity were able to provide some of the technologies that enabled a source of distraction and joy in such a challenging year.

The pace of change in 2020 accelerated across digital markets, whether that meant gamers looking for escape, connection and entertainment or companies digitally transforming parts of their operations with RT3D. We are at the epicenter of these trends, working to serve our customers even better in times of great change.

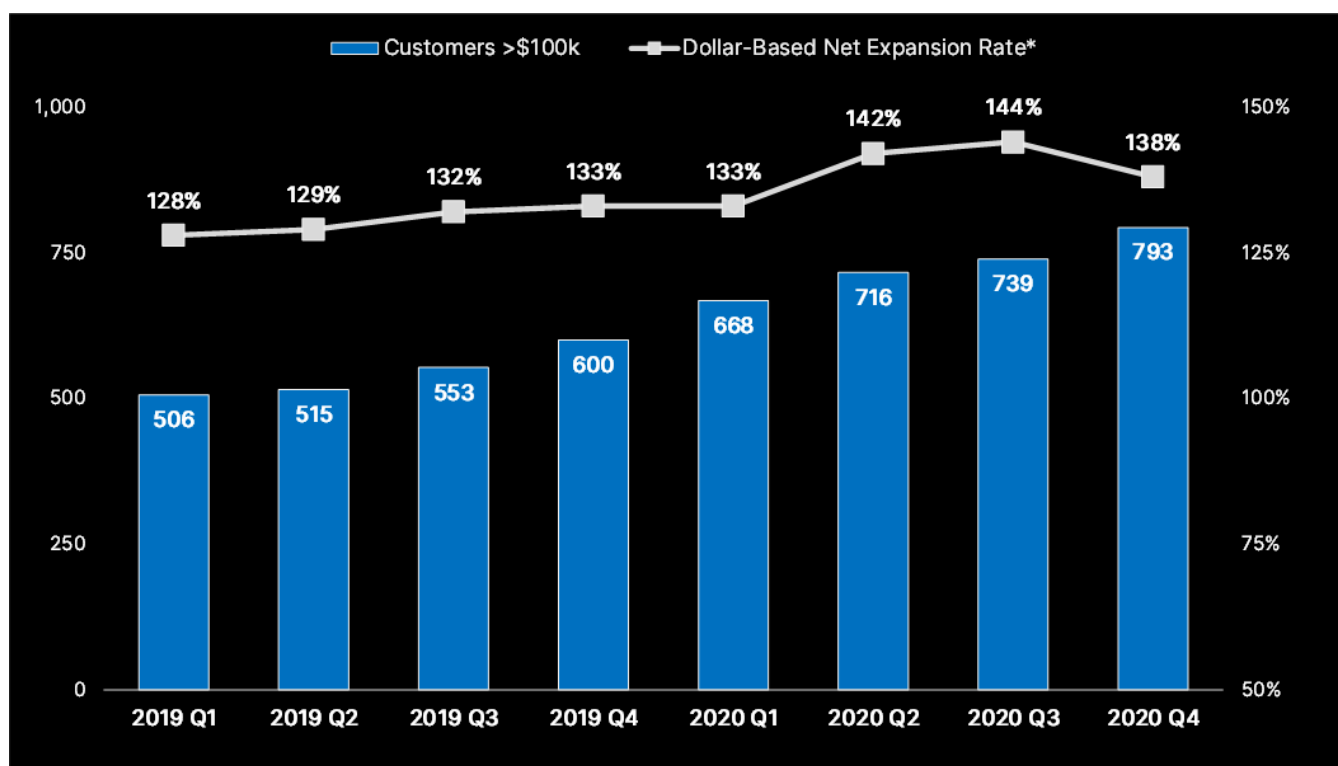
Q420 and 2020 Results¹

We are pleased to report very strong results for Q420 and for our full year, which included our first months as a public company. Total revenue for the fourth quarter and full year 2020 reached \$220 million and \$772 million, representing a 39% and 43% year-over-year increase, respectively. Additionally, non-GAAP gross margin was 79% for full year 2020. With increased scale, and meaningful operating expense savings related to COVID-19, we generated operating leverage as compared to last year as our non-GAAP operating margin improved 600 basis points in the fourth quarter to (9%) and 1000 basis points for the full year 2020 to (7%). On a per share basis our Q4 and full year 2020 non-GAAP net loss was \$0.10 and \$0.39, respectively.

¹ Refer to the accompanying financial tables for further details and a reconciliation of the non-GAAP measures presented to the most directly comparable GAAP measures.



Our Dollar-Based Net Expansion Rate (“NER”) increased from 133% in Q419 to 138% in Q420, with some moderation sequentially due to the comparison to a particularly strong Q419, where we saw more typical seasonal growth and also implemented a number of product and algorithm improvements within Operate Solutions. We expect NER to remain very healthy going forward, but will vary from quarter to quarter. For 2020, customers generating more than \$100,000 in trailing 12-month revenue totaled 793. These customers, which increased 32% from 2019, made up 77% of our total revenue. Within this cohort, 121 customers, or 15%, generated more than \$1 million in trailing 12-month revenue, an increase of 86% from 2019. Additionally, 105 of these 793 customers, or 13%, were in industries beyond gaming.



* Dollar-based net expansion rate compares our Create and Operate Solutions revenue from the same set of customers across comparable periods, calculated on a trailing 12-month basis as of the period end indicated. Note graph not to scale.

Key Drivers of Q4 and 2020 Results

- **Metrics that Matter: Engagement and Market Share Climb in 2020**
 - In 2020, we saw improvement in three interrelated and revealing metrics.
 - Games made with Unity accounted for 71% of the top 1,000 mobile games in Q4 of 2020⁽¹⁾.
 - Monthly Active Users who consumed content created or operated with Unity, reached on average 2.7 billion per month in Q4 of 2020, up 63% from a year earlier⁽²⁾.
 - Applications built with Unity were downloaded on average 5 billion times per month in Q4 of 2020, up 41% from last year.
 - All three metrics set new records for us and all of them speak to the strength of our ecosystem and the momentum in our business.

⁽¹⁾ Apptopia measures Unity's market share across the Top Grossing and Top Free games charts in the iOS App Store and the Google Play store by taking the top 1,000 games by global MAU in the quarter, and identifying the share of games that have Unity SDK installed. As of third quarter 2020, the market share measurement was expanded from 13 countries to 58 countries and weighted by country player MAU. Direct comparison to figures made in earlier disclosures is no longer possible because the data we previously used is no longer available. Therefore, a comparison with the figure we presented in our Registration Statement on Form S-1 (File No. 333-248255) (which was

an average of quarterly data calculated using our prior methodology) is no longer relevant. Calculated using our new methodology, in the fourth quarter of 2019, 65% of the top 1,000 mobile games were made with Unity.

- (2) We define monthly active end users as the number of unique devices that have started an application made with Unity, or that have requested an advertisement from Unity Ads, during the trailing 30 days from month end. Devices tracked include smartphones, tablets, PCs, Macs, and augmented and virtual reality devices, and exclude consoles and WebGL applications. This metric includes end users of both our non-paying and paying creators.

- **Create Solutions**

- In Q4, Create Solutions revenue increased 39% year-over-year to \$66.9 million. Revenue for the full year grew 37% to \$231.3 million.
 - While the first half of the year introduced some COVID-19-related headwinds as game developers adapted to work from home environments and deal cycles slowed, the recovery we saw in late Q3 continued through year end.
 - We saw growth in both gaming and new verticals. Our customers are turning to Unity to help them create and build everything in RT3D, from the next-generation of office buildings to self-driving cars to the video games enjoyed by millions of people around the world.

Games

- Ubiquity is a key driver of the success of a development platform. At Unity, we have built our platform for the widest possible audience. Experienced coders can work “close to the metal” while casual creators can build a game with our visual scripting interface.
- We have a strong and growing presence in mobile games. In Q4, games made with Unity included top selling titles such as Innersloth's *Among Us*, Voodoo's *Cube Surfer!* And *Scribble Rider* and Amanotes' *Magic Tiles 3*.
- We expanded our presence on the next generation of consoles. For example, *The Falconeer*, a game built with Unity, was a standout launch title hit for the Xbox Series X|S console. Published by Wired Productions and developed by Indie solo developer Tomas Sala, *Falconeer* delivered engaging gameplay and a 120 frame rate that took advantage of Xbox's increased processing power.
- Also in Q4, Unity worked closely with developers to bring their creations to life on Nintendo Switch. To date, over half of Switch titles are made with Unity including titles such as *KINGDOM HEARTS Melody of Memory*, *Ori and the Will of the Wisps*, and soon MiHoYo's *Genshin Impact*.

Verticals

- Our efforts beyond gaming gained momentum in 2020. In Q4 alone, we began relationships with Newell Brands, Walgreens, and Liberte Productions working for SHOWstudio and Nick Knight. We're entering 2021 with strong momentum.
- In December, we highlighted Volkswagen's innovative use of our vertical application, Forma, to build an engaging virtual e-commerce showroom.

- We continue to improve applications once they are launched. In the architecture vertical, we introduced Unity Reflect in 2019, and in Q4 2020, we extended its functionality to ingest files from Autodesk's BIM 360 so that construction engineers can access AR/VR functionality onsite on tablets, laptops and smartphones
- In December, we launched 2020.2 TECH stream, an upgrade that gives creators access to more than 400 improvements while continuing Unity's commitment to workflow, stability and performance enhancements.

- **Operate Solutions**

- In Q4, Operate Solutions revenue increased 55% to \$134.3 million. Revenue for the full year grew 61% to \$471.2 million.
- These results reflect strong execution, product improvements, and increased end user engagement with games built by our customers, partially influenced by tailwinds related to COVID-19.
- Our Operate Solutions are aligned with the success of our customers. When our customers grow their engagement with their end users, when they grow their revenues through the use of our monetization tools, when they increase their user engagement using our multiplayer services, they grow their usage of our services, and this drives our revenue growth.
- In December, Unity announced an extensive partnership with Snap Inc. that advanced the awareness of Unity Ads, and benefits developers with social discovery and reach via Snapchat.
- We combined several Operate Solutions to help propel InnerSloth's Among Us to one of the top downloaded games in 2020 according to Sensortower's Top Mobile Games Worldwide for December 2020 by Downloads listing.
- In October, we introduced the Game Growth Program. This is an early stage, but promising initiative in which we apply our experience, data depth, A.I. and analytics to help a select group of mobile free-to-play game developers optimize their lifetime customer value in an advertising and IAP revenue share model. Shark Jump Games, makers of *Castle Fusion*, and Zenith Games, creators of *Cartoon Crush*, served as early beta testers and formally joined the program at launch.
- Operate Solutions also brought technical innovation to our customers in 2020. For example, our MatchMaker beta service launched in March 2020, and is used in games like *Fall Guys: Ultimate Knockout*, *Worms Rumble* and *Medal of Honor: Above and Beyond*. MatchMaker connects game players with applicable cloud resources and is designed to ensure that players are matched appropriately for the best play experience.

- **Strategic Partnerships and Other Revenue**

- Strategic Partnerships and Other revenue declined 19% to \$19.1 million in the quarter and 12% to \$70.0 million for the full year 2020.
 - The quarter's results reflect residual effects of longer deal cycles driven by COVID-19 as well as the sunseting of certain products within our partners'

portfolios. This revenue line remains important for us, but it can be lumpy from quarter-to-quarter in terms of growth.

- 2020 demonstrated the benefits of our longstanding strategic partnerships and deep technical integrations with hardware, platform and application vendors. For example, on day one, applications built with Unity worked seamlessly on the Sony PlayStation 5, Microsoft's Xbox Series X|S, and across all of Apple's new silicon devices.
- Finally, we continue to help our partners extend the boundaries of digital visualization. Our Strategic Partnership team worked closely with Microsoft on its new mixed reality Hololens 2 Development Edition and Azure and Pixyz for rendering 3D holographic people, places, and things.

- **COVID-19 Impact**

- 2020 was a highly unusual year. As the pandemic evolved from regional to global, sales cycles elongated for our Create Solutions and Strategic Partnerships as our customers had to focus on provisioning their employees for a work-from-home operating model.
- By year-end 2020, our pipeline of customer opportunities within our Create Solutions business was largely back to normal levels. Gaming and vertical industry customers adapted to working from home and resumed their pace of development.
- Shelter-in-place orders and working from home contributed to increased player engagement from existing and new gamers, which in turn, provided a tailwind to our Operate Solutions.
- When we consider these factors, on a net basis, we estimate that our 2020 revenue experienced a net benefit to revenue of approximately \$25 million for the full year 2020, or 3% of 2020 revenue.
- COVID-19 protocols and precautions also materially reduced travel and spending on events and facilities in 2020, saving approximately \$40 million in operating expenses, net of some reinvestment. These savings are unlikely to be repeated in future years.

Q121 and 2021 Guidance

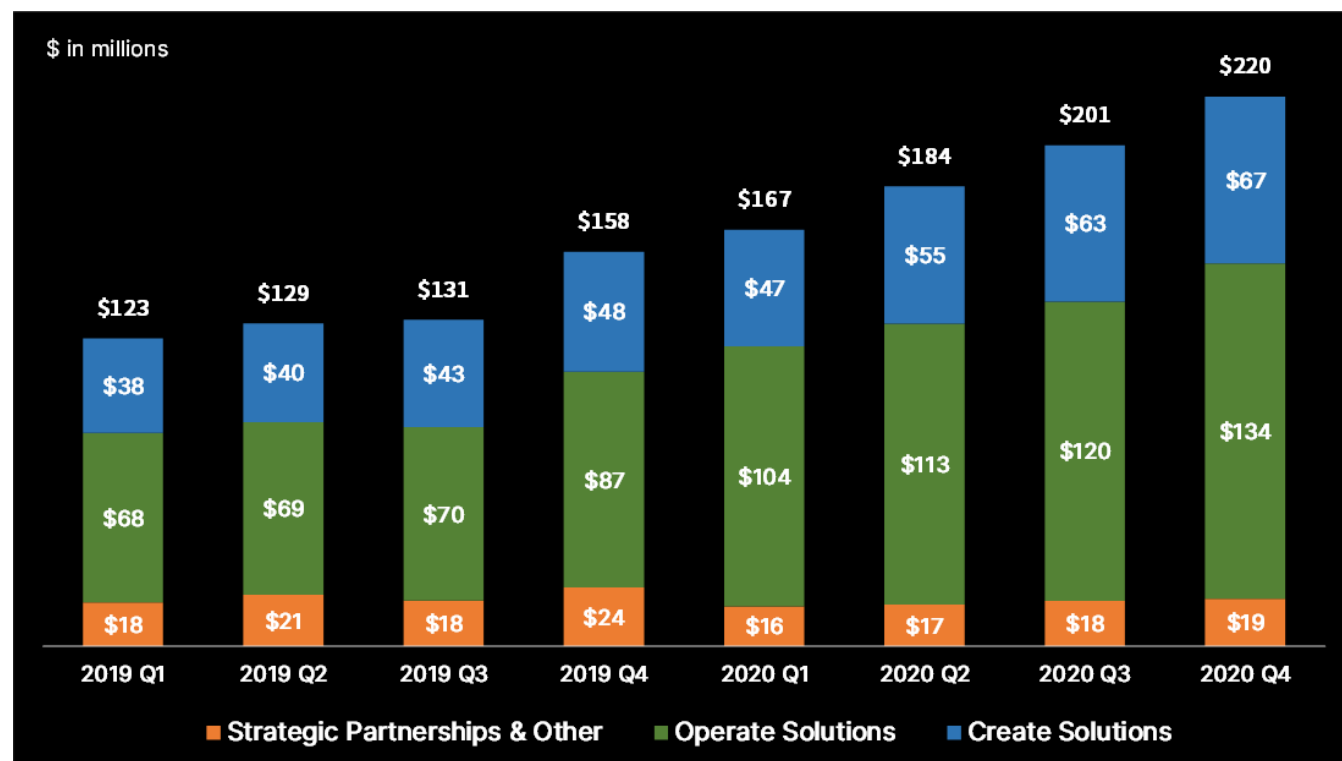
For Q1 and the 12 months of 2021 we are providing the following guidance:

	Q1 2021	FY 2021
Revenue	\$210M - \$220M	\$950M - \$970M
Year-over-year Revenue Growth (%)	26% -32%	23% - 26%
Non-GAAP Operating Loss	(\$30M) - (\$40M)	(\$90M) - (\$105M)
Non-GAAP Operating Margin	(14%) - (19%)	(9%) - (11%)
Weighted Avg. Fully Diluted Shares Outstanding	324M	

Note: Unity has not reconciled its expectations as to non-GAAP loss from operations and non-GAAP operating margin to their GAAP equivalents because stock-based compensation expense, employer tax related to employee stock transactions, and non-cash charitable contribution expense cannot be reasonably determined or predicted at this time. Accordingly, a reconciliation is not available, although it is important to note that these factors could be material to Unity's results computed in accordance with GAAP.

- **Our goal is to build a company that delivers revenue growth of approximately 30% over the long run.** Of course, business, like life, is not linear, so it is likely that some quarters and years will be higher or lower than we expect, but even so, we believe the opportunities in front of us make such a goal achievable.
- **We believe COVID-19, shelter in place and work from home will prove to have durable effects on society, the way people work, and how they enjoy entertainment.** For Unity, this means that gaming engagement is likely to remain elevated, and for organizations outside of gaming, the imperative to digitally transform, including adoption of real-time 3D, will continue at an accelerated pace.
- When thinking about 2021 guidance, we want to level set on where we are starting the year revenue-wise on a normalized basis. Our best estimate is that netted across our lines of business, COVID-19 **boosted our revenue by approximately \$25 million, or 3% of revenue, in 2020.**
- We expect the arrival of Apple's iOS14's privacy modifications on IDFA will affect the way mobile game developers acquire customers and how they optimize lifetime customer value. **Although it's difficult to estimate, our guidance assumes IDFA changes begin in the spring and will reduce our revenue by approximately \$30 million, or 3% of revenue, in 2021.**
- We have long anticipated IDFA changes. We have deepened our data, analytics and A.I. capabilities and we have begun testing several new, innovative ways to help our customers optimize the effectiveness of their marketing spend while complying with the changes from the iOS 14 IDFA changes. **To the extent we successfully help existing and new customers successfully navigate and thrive in this new environment, we believe we could gain market share over time.**
- When we combine these factors **we are guiding full year 2021 revenue of \$950 - 970 million and first quarter revenue of \$210 - 220 million.**
- We are **forecasting a non-GAAP operating loss of \$30 - 40 million for our first quarter and \$90 - 105 million for the full year. This would represent a non-GAAP operating loss of 14-19% and 9-11%, respectively, of forecasted revenues.**
- We plan to continue to invest against what we believe are tremendous opportunities ahead while also remaining on a path to free cash flow break-even by the end of 2023.

Financial Results Overview



Note: Numbers are rounded for presentation purposes.

Fourth Quarter 2020 Financial Highlights

- Revenue was \$220.3 million, an increase of 39% from the fourth quarter of 2019.
- Create Solutions, Operate Solutions, and Strategic Partnerships and Other revenue was \$66.9 million, \$134.3 million, and \$19.1 million, respectively, an increase (decrease) of 39%, 55%, and (19)%, respectively, from the fourth quarter of 2019.
- Loss from operations was \$80.8 million, or 37% of revenue, compared to loss from operations of \$48.6 million, or 31% of revenue, in the fourth quarter of 2019. Our fourth quarter 2020 results were impacted by an increase in stock-based compensation expense.
- Non-GAAP loss from operations was \$20.1 million, or 9% of revenue, compared to a non-GAAP loss from operations of \$23.9 million, or 15% of revenue, in the fourth quarter of 2019.
- Basic and diluted net loss per share was \$0.31, compared to basic and diluted net loss per share of \$0.97 in the fourth quarter of 2019.
- Basic and diluted non-GAAP net loss per share was \$0.10, compared to basic and diluted non-GAAP net loss per share of \$0.79 in the fourth quarter of 2019.
- 793 customers each generated more than \$100,000 of revenue in the trailing 12 months as of December 31, 2020, compared to 600 as of December 31, 2019.
- Dollar-based net expansion rate as of December 31, 2020 was 138% compared to 133% as of December 31, 2019.
- Net cash provided by operating activities was \$14.8 million for the fourth quarter of 2020, compared to net cash provided by operating activities of \$0.9 million for the same period

last year. Free cash flow in the fourth quarter of 2020 was \$3.6 million, compared to \$(9.7) million for the same period last year. Cash, cash equivalents, and restricted cash were \$1.3 billion as of December 31, 2020 compared to \$0.1 billion as of December 31, 2019.

Full Year 2020 Financial Highlights

- Revenue was \$772.4 million, an increase of 43% from 2019.
- Create Solutions, Operate Solutions, and Strategic Partnerships and Other revenue was \$231.3 million, \$471.2 million, and \$70.0 million, respectively, an increase (decrease) of 37%, 61%, and (12)%, respectively, from 2019.
- Loss from operations was \$274.8 million, or 36% of revenue, compared to loss from operations of \$150.7 million, or 28% of revenue, in 2019. Our 2020 full year GAAP results were impacted by an increase in stock-based compensation expense, including a one-time charge of \$47.8 million associated with the recognition of restricted stock unit expense in connection with our initial public offering ("IPO"), as well as a charge of \$63.6 million related to the donation of 750,000 shares of our common stock to a charitable foundation after the closing of our IPO in our third quarter.
- Non-GAAP loss from operations was \$50.6 million, or 7% of revenue, compared to a non-GAAP loss from operations of \$91.8 million, or 17% of revenue, in 2019.
- Basic and diluted net loss per share was \$1.66, compared to basic and diluted net loss per share of \$2.39 in 2019.
- Basic and diluted non-GAAP net loss per share was \$0.39, compared to basic and diluted non-GAAP net loss per share of \$1.95 in 2019.
- Net cash provided by operating activities was \$19.9 million for 2020, compared to net cash used in operating activities of \$67.9 million in the prior year. Free cash flow in 2020 was \$(20.2) million, compared to \$(95.0) million in 2019.

GAAP to Non-GAAP Reconciliations

	2019				2020			
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Revenue	\$ 123,392	\$ 129,373	\$ 130,943	\$ 158,071	\$ 166,994	\$ 184,331	\$ 200,784	\$ 220,335
Loss from operations	\$ (27,684)	\$ (32,673)	\$ (41,732)	\$ (48,580)	\$ (27,437)	\$ (24,845)	\$ (141,683)	\$ (80,847)
Add back:								
Stock-based compensation expense	6,549	8,226	9,102	20,603	9,691	11,963	61,806	51,169
Employer tax related to employee stock transactions	69	293	2,110	336	155	75	3,070	4,876
Amortization of intangible assets expense	2,317	2,731	2,742	3,780	4,144	4,150	4,751	4,710
Charitable contribution to donor-advised fund expense	-	-	-	-	-	-	63,615	-
Non-GAAP loss from operations	\$ (18,749)	\$ (21,423)	\$ (27,778)	\$ (23,861)	\$ (13,447)	\$ (8,657)	\$ (8,441)	\$ (20,092)
Operating margin	(22%)	(25%)	(32%)	(31%)	(16%)	(13%)	(71%)	(37%)
Non-GAAP operating margin	(15%)	(17%)	(21%)	(15%)	(8%)	(5%)	(4%)	(9%)

	\$ in thousands					
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FY 2020	
Revenue	\$ 166,994	\$ 184,331	\$ 200,784	\$ 220,335	\$ 772,444	
Gross profit	135,126	143,899	153,244	167,829	600,098	
Add:						
Stock-based compensation expense	557	690	5,072	4,307	10,626	
Employer tax-related to employee stock transactions	9	2	629	477	1,117	
Non-GAAP gross profit	135,692	144,591	158,945	172,613	611,841	
Gross margin	81%	78%	76%	76%	78%	
Non-GAAP gross margin	81%	78%	79%	78%	79%	
Research and development expense	81,751	85,108	116,648	120,008	403,515	
Add:						
Stock-based compensation expense	(4,789)	(5,990)	(31,334)	(23,925)	(66,038)	
Employer tax-related to employee stock transactions	(130)	(35)	(2,033)	(2,936)	(5,134)	
Amortization of intangible assets expense	(3,126)	(2,827)	(3,083)	(3,106)	(12,142)	
Non-GAAP research and development expense	73,706	76,256	80,198	90,041	320,201	
Sales and marketing expense	43,259	43,716	60,764	68,677	216,416	
Add:						
Stock-based compensation expense	(1,847)	(2,277)	(10,722)	(8,923)	(23,769)	
Employer tax-related to employee stock transactions	(12)	(6)	(315)	(555)	(888)	
Amortization of intangible assets expense	(1,018)	(1,323)	(1,668)	(1,604)	(5,613)	
Non-GAAP research and development expense	40,382	40,110	48,059	57,595	186,146	
General and administrative expense	37,553	39,920	117,515	59,991	254,979	
Add:						
Stock-based compensation expense	(2,498)	(3,006)	(14,678)	(14,014)	(34,196)	
Employer tax-related to employee stock transactions	(4)	(32)	(93)	(908)	(1,037)	
Charitable contribution to donor-advised fund expense	-	-	(63,615)	-	(63,615)	
Non-GAAP general and administrative expense	35,051	36,882	39,129	45,069	156,131	
Loss from operations	\$ (27,437)	\$ (24,845)	\$ (141,683)	\$ (80,847)	\$ (274,812)	
Operating margin	(16%)	(13%)	(71%)	(37%)	(36%)	
Non-GAAP loss from operations	\$ (13,447)	\$ (8,657)	\$ (8,441)	\$ (20,092)	\$ (50,637)	
Non-GAAP operating margin	(8%)	(5%)	(4%)	(9%)	(7%)	

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	As of	
	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,272,578	\$ 129,959
Marketable securities	479,406	—
Accounts receivable, net of allowances of \$2,714 and \$9,052 as of December 31, 2020 and 2019, respectively	274,255	204,898
Prepaid expenses	32,025	23,142
Other current assets	22,396	9,418
Total current assets	2,080,660	367,417
Property and equipment, net	95,544	78,976
Operating lease right-of-use assets	103,609	—
Goodwill	286,251	218,305
Intangible assets, net	57,459	62,034
Restricted cash	21,369	17,137
Other assets	26,333	18,991
Total assets	\$ 2,671,225	\$ 762,860
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 11,303	\$ 10,706
Accrued expenses and other current liabilities	106,306	66,463
Publisher payables	182,269	137,664
Income and other taxes payable	64,116	35,715
Deferred revenue	113,853	85,980
Operating lease liabilities	25,375	—
Total current liabilities	503,222	336,528
Long-term deferred revenue	20,523	10,596
Long-term operating lease liabilities	98,532	—
Other long-term liabilities	11,805	21,825
Total liabilities	634,082	368,949
Commitments and contingencies		
Stockholders' equity:		

Convertible preferred stock, \$0.000005 par value; no shares authorized, issued, and outstanding as of December 31, 2020; 102,674 shares authorized, and 95,899 shares issued and outstanding as of December 31, 2019	—	686,559
Preferred stock, \$0.000005 par value; 100,000 shares authorized, and no shares issued and outstanding as of December 31, 2020; no shares authorized, issued, and outstanding as of December 31, 2019	—	—
Common stock, \$0.000005 par value; 1,000,000 and 300,000 shares authorized as of December 31, 2020 and 2019, respectively; 273,537 and 123,261 shares issued and outstanding as of December 31, 2020 and 2019, respectively	2	1
Additional paid-in capital	2,838,057	226,173
Accumulated other comprehensive loss	(3,418)	(3,632)
Accumulated deficit	(797,498)	(515,190)
Total stockholders' equity	2,037,143	393,911
Total liabilities and stockholders' equity	\$ 2,671,225	\$ 762,860

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2020	2019	2020	2019
Revenue	\$ 220,336	\$ 158,071	\$ 772,445	\$ 541,779
Cost of revenue	52,507	29,995	172,347	118,597
Gross profit	167,829	128,076	600,098	423,182
Operating expenses				
Research and development	120,008	73,096	403,515	255,928
Sales and marketing	68,677	48,813	216,416	174,135
General and administrative	59,991	54,747	254,979	143,788
Total operating expenses	248,676	176,656	874,910	573,851
Loss from operations	(80,847)	(48,580)	(274,812)	(150,669)
Interest expense	(117)	—	(1,520)	—
Interest income and other expense, net	(3,056)	(79)	(3,885)	(2,573)
Loss before provision for income taxes	(84,020)	(48,659)	(280,217)	(153,242)
Provision for income taxes	(518)	1,920	2,091	9,948
Net loss	(83,502)	(50,579)	(282,308)	(163,190)
Other comprehensive income (loss), net of taxes:				
Change in foreign currency translation adjustment	29	136	161	(155)
Change in unrealized gains (losses) on investments	53	—	53	—
Comprehensive loss	\$ (83,420)	\$ (50,443)	\$ (282,094)	\$ (163,345)
Basic and diluted net loss per share:				
Net loss per share attributable to our common stockholders, basic and diluted	\$ (0.31)	\$ (0.97)	\$ (1.66)	\$ (2.39)
Weighted-average shares used in per share calculation attributable to our common stockholders, basic and diluted	272,134	122,363	169,973	114,442

UNITY SOFTWARE INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2020	2019	2020	2019
Operating activities				
Net loss	\$ (83,502)	\$ (50,579)	\$ (282,308)	\$ (163,190)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	11,690	9,816	42,974	31,113
Common stock charitable donation expense	—	—	63,615	—
Stock-based compensation expense	51,102	7,082	134,554	30,959
Stock-based compensation expense in connection with modified awards for certain employees	67	13,521	75	13,521
Other	1,728	(24)	3,246	133
Changes in assets and liabilities, net of effects of acquisitions:				
Accounts receivable, net	(48,576)	(41,398)	(63,294)	(49,420)
Prepaid expenses	(5,958)	366	(9,131)	(9,269)
Other current assets	(2,902)	2,084	(12,985)	4,457
Operating lease right-of-use assets	5,665	—	23,923	—
Deferred tax, net	(1,922)	2,996	(213)	(4,466)
Other assets	(1,724)	(2,524)	(1,867)	(7,657)
Accounts payable	1,632	(414)	(2,526)	473
Accrued expenses and other current liabilities	21,935	9,695	41,618	12,432
Publisher payables	31,126	33,143	44,605	20,174
Income and other taxes payable	21,763	(2,752)	19,525	13,166
Operating lease liabilities	(2,724)	—	(20,204)	—
Other long-term liabilities	(4,449)	1,839	898	8,587
Deferred revenue	19,814	18,041	37,408	31,051
Net cash provided by (used in) operating activities	14,765	892	19,913	(67,936)
Investing activities				
Purchases of marketable securities	(482,453)	—	(482,453)	—
Proceeds from principal repayments on marketable securities	1,644	—	1,644	—

Purchase of non-marketable investments	(1,000)	—	(1,000)	—
Purchase of property and equipment	(11,200)	(10,593)	(40,156)	(27,035)
Acquisition of intangible assets	—	—	(750)	—
Business acquisitions, net of cash acquired	(17,507)	(38,475)	(52,475)	(192,506)
Net cash used in investing activities	(510,516)	(49,068)	(575,190)	(219,541)
Financing activities				
Proceeds from revolving credit facility	—	—	125,000	—
Payment of principal related to revolving credit facility	—	—	(125,000)	—
Payment of debt issuance costs	—	(370)	(247)	(370)
Proceeds from initial public offering, net of underwriting discounts, commissions, and offering costs	(2,563)	—	1,417,582	—
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	—	149,970	124,918
Proceeds from issuance of common stock	—	104,318	100,000	460,200
Repurchase and extinguishment of convertible preferred stock	—	(100,000)	—	(148,714)
Purchase and retirement of treasury stock	—	(4,208)	(110)	(286,375)
Proceeds from exercise of stock options	9,945	931	25,404	11,813
Proceeds from exercise of stock options in connection with nonrecourse promissory note	—	—	8,856	—
Net cash provided by financing activities	7,382	671	1,701,455	161,472
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	492	155	673	(172)
Increase (decrease) in cash, cash equivalents, and restricted cash	(487,877)	(47,350)	1,146,851	(126,177)
Cash and restricted cash, beginning of period	1,781,824	194,446	147,096	273,273
Cash, cash equivalents, and restricted cash, end of period	\$ 1,293,947	\$ 147,096	\$ 1,293,947	\$ 147,096

UNITY SOFTWARE INC.
RECONCILIATION BETWEEN GAAP AND NON-GAAP FINANCIAL MEASURES
(In thousands, except percentages and per share data)
(Unaudited)

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2020	2019	2020	2019
Gross profit reconciliation				
GAAP gross profit	\$ 167,829	\$ 128,076	\$ 600,098	\$ 423,182
Add:				
Stock-based compensation expense	4,307	645	10,626	3,198
Employer tax related to employee stock transactions	477	2	1,117	193
Non-GAAP gross profit	\$ 172,613	\$ 128,723	\$ 611,841	\$ 426,573
GAAP gross margin	76 %	81 %	78 %	78
Non-GAAP gross margin	78 %	81 %	79 %	79
Operating expenses reconciliation				
<i>Research and development</i>				
GAAP research and development expense	\$ 120,008	\$ 73,096	\$ 403,515	\$ 255,928
Add:				
Stock-based compensation expense	(23,925)	(4,171)	(66,038)	(13,521)
Employer tax related to employee stock transactions	(2,936)	(321)	(5,134)	(1,643)
Amortization of intangible assets expense	(3,106)	(2,756)	(12,142)	(8,495)
Non-GAAP research and development expense	\$ 90,041	\$ 65,848	\$ 320,201	\$ 232,269
GAAP research and development expense as a percentage of revenue	54 %	46 %	52 %	47
Non-GAAP research and development expense as a percentage of revenue	41 %	42 %	41 %	43
<i>Sales and marketing</i>				
GAAP sales and marketing expense	\$ 68,677	\$ 48,813	\$ 216,416	\$ 174,135
Add:				
Stock-based compensation expense	(8,923)	(1,858)	(23,769)	(6,124)

Employer tax related to employee stock transactions	(555)	(8)	(888)	(490)
Amortization of intangible assets expense	(1,604)	(1,024)	(5,613)	(3,075)
Non-GAAP sales and marketing expense	\$ 57,595	\$ 45,923	\$ 186,146	\$ 164,446
GAAP sales and marketing expense as a percentage of revenue	31 %	31 %	28 %	32
Non-GAAP sales and marketing expense as a percentage of revenue	26 %	29 %	24 %	30

General and administrative

GAAP general and administrative expense	\$ 59,991	\$ 54,747	\$ 254,979	\$ 143,788
Add:				
Stock-based compensation expense	(14,014)	(13,929)	(34,196)	(21,637)
Employer tax related to employee stock transactions	(908)	(5)	(1,037)	(482)
Charitable contribution to donor-advised fund	—	—	(63,615)	—
Non-GAAP general and administrative expense	\$ 45,069	\$ 40,813	\$ 156,131	\$ 121,669
GAAP general and administrative expense as a percentage of revenue	27 %	35 %	33 %	27
Non-GAAP general and administrative expense as a percentage of revenue	20 %	26 %	20 %	22

Loss from operations reconciliation

GAAP loss from operations	\$ (80,847)	\$ (48,580)	\$ (274,812)	\$ (150,669)
Add:				
Stock-based compensation expense	51,169	20,603	134,629	44,480
Employer tax related to employee stock transactions	4,876	336	8,176	2,808
Amortization of intangible assets expense	4,710	3,780	17,755	11,570
Charitable contribution to donor-advised fund	—	—	63,615	—
Non-GAAP loss from operations	\$ (20,092)	\$ (23,861)	\$ (50,637)	\$ (91,811)
GAAP operating margin	(37) %	(31) %	(36) %	(28)
Non-GAAP operating margin	(9) %	(15) %	(7) %	(17)

Net loss and net loss per share reconciliation

GAAP net loss	\$	(83,502)	\$	(50,579)	\$	(282,308)	\$	(163,190)
Add:								
Stock-based compensation expense		51,169		20,603		134,629		44,480
Employer tax related to employee stock transactions		4,876		336		8,176		2,808
Amortization of intangible assets expense		4,710		3,780		17,755		11,570
Charitable contribution to donor-advised fund		—		—		63,615		—
Income tax effect of non-GAAP adjustments		(4,474)		(2,803)		(7,437)		(8,671)
Non-GAAP net loss	\$	(27,221)	\$	(28,663)	\$	(65,570)	\$	(113,003)
GAAP net loss per share attributable to our common stockholders, basic and diluted								
	\$	(0.31)	\$	(0.97)	\$	(1.66)	\$	(2.39)
Total impact on net loss per share, basic and diluted, from non-GAAP adjustments		0.21		0.18		1.27		0.44
Non-GAAP net loss per share attributable to our common stockholders, basic and diluted								
	\$	(0.10)	\$	(0.79)	\$	(0.39)	\$	(1.95)
Weighted-average common shares used in GAAP net loss per share computation, basic and diluted								
		272,134		122,363		169,973		114,442
Weighted-average common shares used in non-GAAP net loss per share computation, basic and diluted								
		272,134		122,363		169,973		114,442
Free cash flow reconciliation								
Net cash provided by (used in) operating activities	\$	14,765	\$	892	\$	19,913	\$	(67,936)
Less:								
Purchase of property and equipment		(11,200)		(10,593)		(40,156)		(27,035)
Free cash flow	\$	3,565	\$	(9,701)	\$	(20,243)	\$	(94,971)
Net cash used in investing activities	\$	(510,516)	\$	(49,068)	\$	(575,190)	\$	(219,541)
Net cash provided by financing activities	\$	7,382	\$	671	\$	1,701,455	\$	161,472

SAFE HARBOR STATEMENT

FORWARD-LOOKING STATEMENTS

This letter contains “forward-looking statements,” as that term is defined under federal securities laws, including, but not limited to, statements regarding Unity’s first quarter and full year 2021 outlook and future financial performance, including Unity’s dedication to a path to free cash flow break-even; strategies, business plans, priorities and objectives, potential market and growth opportunities, including Unity’s goal to be a company that delivers revenue growth of approximately 30% over the long run and the achievability of that goal; product features, functionality, and expected benefits to the business and our customers; competitive position; product strategies and future product and platform features; technological or market trends; and industry environment. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “seek,” “plan,” “project,” “looking ahead,” “look to,” “move into,” and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and assumptions. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Risks include, but are not limited to: (i) the impact of the ongoing COVID-19 pandemic on our business, as well as our customers, prospects, partners, and service providers; (ii) our ability to achieve profitability and the timing for any such achievement; (iii) our ability to retain existing customers and expand the use of our platform; (iv) our ability to further expand into new industries and attract new customers; (v) the impact of any changes of terms of service, policies or technical requirements from operating system platform providers or application stores which may result in changes to our or our customers’ business practices; (vi) our ability to maintain favorable relationships with hardware, operating system, device, game console and other technology providers; (vii) our ability to compete effectively in the markets in which we participate; (viii) breaches in our security measures, unauthorized access to our platform, our data, or our customers’ or other users’ personal data; (ix) our ability to manage growth effectively; and (x) the rapidly changing and increasingly stringent laws, contractual obligations and industry standards that relate to privacy, data security and the protection of children. Further information on these and additional risks that could affect Unity’s results is included in our filings with the Securities and Exchange Commission (“SEC”), including our Quarterly Report on Form 10-Q filed with the SEC on November 13, 2020, and our future reports that we may file with the SEC from time to time, which could cause actual results to vary from expectations. Unity assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this letter.

Any unreleased services, features, or functions referenced in this document, our website, or other press releases or public statements that are not currently available are subject to change at Unity’s discretion and may not be delivered as planned or at all. Customers who purchase Unity services should make their purchase decisions based upon services, features, and functions that are currently available.

NON-GAAP FINANCIAL MEASURES

This letter includes non-GAAP financial measures. These non-GAAP financial measures are in addition to, and should not be considered in isolation or as a substitute for or superior to measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures. For example, other companies may calculate similarly-titled non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. Please

refer to our February 4, 2021 press release for additional information as to why we believe these non-GAAP financial measures are useful to investors and others in assessing our operating performance. Also refer to the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures in the section entitled “RECONCILIATION BETWEEN GAAP AND NON-GAAP FINANCIAL MEASURES” above.

*MARKET, INDUSTRY AND OTHER DATA

This presentation contains data, estimates and forecasts that are based on independent industry publications or other publicly available information, as well as other information based on our internal sources and you are cautioned not to give undue weight to these estimates.

**DOLLAR-BASED NET EXPANSION RATE

Dollar-based net expansion rate as of a period end is calculated as current period revenue divided by prior period revenue. Prior period revenue is the trailing 12-month revenue measured as of such prior period end and includes revenue from all customers that contributed revenue during such trailing 12-month period. Current period revenue is the trailing 12-month revenue from these same customers as of the current period end. Our dollar-based net expansion rate includes the effect of any customer renewals, expansion, contraction and churn but excludes revenue from new customers in the current period.

EARNINGS CALL DETAILS

We will host our fourth quarter and full year 2020 financial results call today, Thursday, February 4, 2021 at 2 p.m. PT (5:00 p.m. ET). You can join the webcast by visiting investor.unity.com.

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