



# Q1 2013 Earnings

April 24, 2013

zynga

## Forward-Looking Statements

This presentation contains, and our call will contain, forward-looking statements relating to, among other things, our outlook for second quarter 2013 revenue, net loss, EPS, weighted average diluted share count, bookings, adjusted EBITDA, non-GAAP EPS and non-GAAP weighted average diluted share count; our outlook for full year 2013 adjusted EBITDA margin; our ability to remain profitable on an adjusted EBITDA basis; our future game launches; our ability to grow our franchises on mobile and web and the success of our games and network generally; our ability to build and expand our network, including creating and building a mobile network and the success of that network; our ability to successfully launch, promote and monetize games on our network; our ability to transition our web audience and the network effect we see from our web audience to our network; our ability to successfully launch and promote games by third party developers on our network; our ability to successfully launch offerings in real money gaming on multiple platforms in available markets; our ability to transition our web franchises to mobile and create new multiplatform franchises; our ability to launch successful new multiplatform games and hit games for web and mobile generally; our plans to enter into new game categories and the success of new games in these categories; the profitability of the mid-core segment and our ability to launch games in this segment that monetize successfully; our ability to rationalize our product pipeline and reduce the cost of operating live games; our ability to reduce indirect costs; our ability to manage new IP costs; our proposed share repurchase program; market opportunity in the social games market, including the mobile market and the advertising market; and our future operational plans, strategies, prospects and opportunities to expand our business. Forward-looking statements often include words such as "outlook," "projected," "intends," "will," "anticipate," "believe," "target," "expect," and statements in the future tense are generally forward-looking statements. The achievement or success of the matters covered by such forward-looking statements involves significant risks, uncertainties and assumptions. Our actual results could differ materially from those predicted or implied, and reported results should not be considered as an indication of our future performance. Factors that could cause or contribute to such differences include, but are not limited to, our relationship with Facebook or changes in the Facebook platform, our relationship with and/or agreements with iOS and or Android platform providers and/or changes to the Android or iOS platforms, our ability to launch new games in a timely manner and monetize these games effectively on the web and on mobile, our ability to launch successful games in new game categories, our ability to launch games that are successful across platforms, our ability to continue to maintain bookings for franchise games, despite increasing decay rates for games generally, our ability to control and reduce expenses, our ability to anticipate and address technical challenges that may arise, competition, changing interests of players, our relationship with bwin.party, our ability to enter the real money gaming market and monetize opportunities in the real money gaming category, our exposure to illegitimate credit card activity and other security risks, regulatory, gaming or licensing issues, intellectual property disputes or other litigation, asset impairment charges, our ability to retain key employees, acquisitions by us and changes in corporate strategy or management.

More information about factors that could affect our operating results is included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2012, copies of which may be obtained by visiting our Investor Relations web site at <http://investor.zynga.com> or the SEC's web site at [www.sec.gov](http://www.sec.gov). Undue reliance should not be placed on the forward-looking statements in this presentation, which are based on information available to us on the date hereof. There is no guarantee that the circumstances described in our forward-looking statements will occur. We assume no obligation to update such statements. The results we report in our Form 10-Q for the three months ended March 31, 2013 could differ from the preliminary results we have announced in this presentation.

## Non-GAAP Financial Measures:

We have provided in this presentation non-GAAP financial information including bookings, adjusted EBITDA, non-GAAP net income, non-GAAP EPS, free cash flow and adjusted EBITDA margin, as a supplement to the consolidated financial statements, which are prepared in accordance with generally accepted accounting principles (“GAAP”). Management uses these non-GAAP financial measures internally in analyzing our financial results to assess operational performance and liquidity. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared in accordance with GAAP. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe these non-GAAP financial measures are useful to investors because they allow for greater transparency with respect to key financial metrics we use in making operating decisions and because our investors and analysts use them to help assess the health of our business. We have provided reconciliations between our historical and second quarter 2013 outlook for non-GAAP financial measures to the most directly comparable GAAP financial measures. However, we have not provided reconciliation of our adjusted EBITDA margin (adjusted EBITDA as a percentage of bookings) outlook to a comparable operating income (loss) margin (operating income (loss) as a percentage of revenues) for full year 2013 because certain inputs necessary to accurately project revenue (including the projected mix of virtual goods sold in our games, the projected estimated average lives of durable virtual goods for our games and visibility into projected bookings) are not in our control and cannot be reasonably projected due to variability from period to period caused by changes in player behavior and other factors. As revenue is a necessary input to determine this comparable GAAP metric, we are not able to provide the reconciliation.

Some limitations of bookings, adjusted EBITDA, non-GAAP net income (loss), non-GAAP EPS, free cash flow and adjusted EBITDA margin are:

- Adjusted EBITDA and non-GAAP net income (loss) do not include the impact of stock-based expense and restructuring expense;
- Bookings, adjusted EBITDA and non-GAAP net income (loss) do not reflect that we defer and recognize online game revenue and revenue from certain advertising transactions over the estimated average life of virtual goods or as virtual goods are consumed;
- Adjusted EBITDA does not reflect income tax expense;
- Adjusted EBITDA does not include other income and expense, which includes foreign exchange gains and losses and interest income;
- Adjusted EBITDA excludes both depreciation and amortization of intangible assets, while non-GAAP net income (loss) excludes amortization of intangible assets from acquisitions. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Adjusted EBITDA and non-GAAP net income (loss) do not include gains and losses associated with legal settlements;
- Non-GAAP EPS gives effect to all dilutive awards based on the treasury stock method;
- Free cash flow is derived from net cash provided by operating activities less cash spent on capital expenditures, and removing the excess income tax benefits or costs associated with stock-based awards; and
- Other companies, including companies in our industry, may calculate bookings, adjusted EBITDA, non-GAAP net income (loss), non-GAAP EPS and free cash flow differently or not at all, which will reduce their usefulness as a comparative measure.

Because of these limitations, you should consider bookings, adjusted EBITDA, non-GAAP net income, non-GAAP EPS, free cash flow and adjusted EBITDA margin, along with other financial performance measures, including revenue, net income (loss) and our other financial results presented in accordance with GAAP. See the GAAP to non-GAAP reconciliations below for further details.



# Management Team



**Mark Pincus**

Founder, Chief Executive Officer  
and Chief Product Officer



**Mark Vranesh**

Chief Financial Officer  
and Chief Accounting Officer



**Dave Ko**

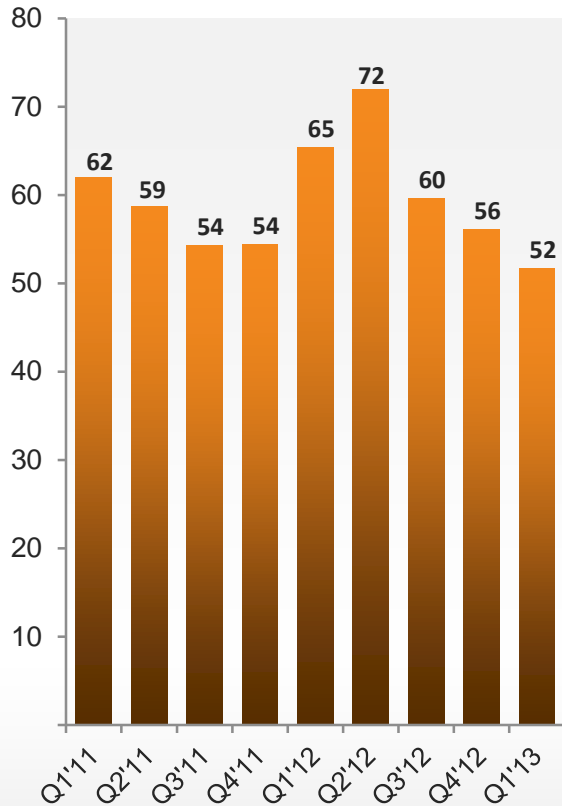
Chief Operations Officer



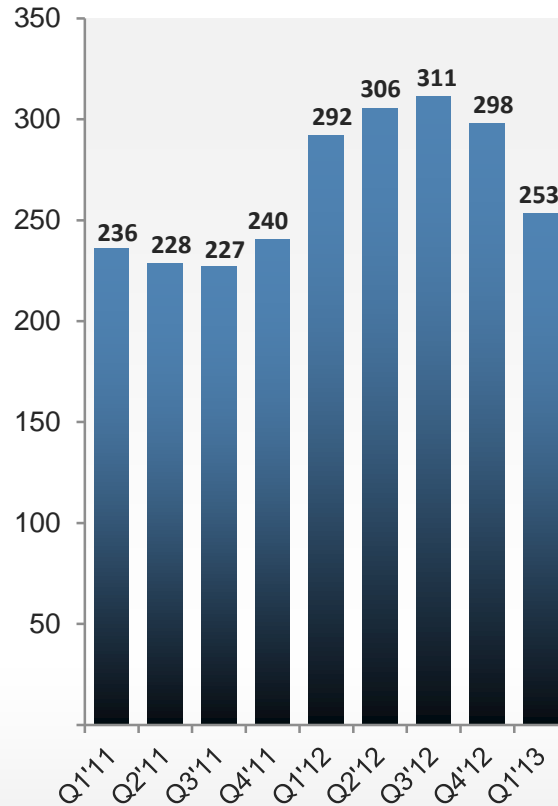
# Audience Metrics

In millions

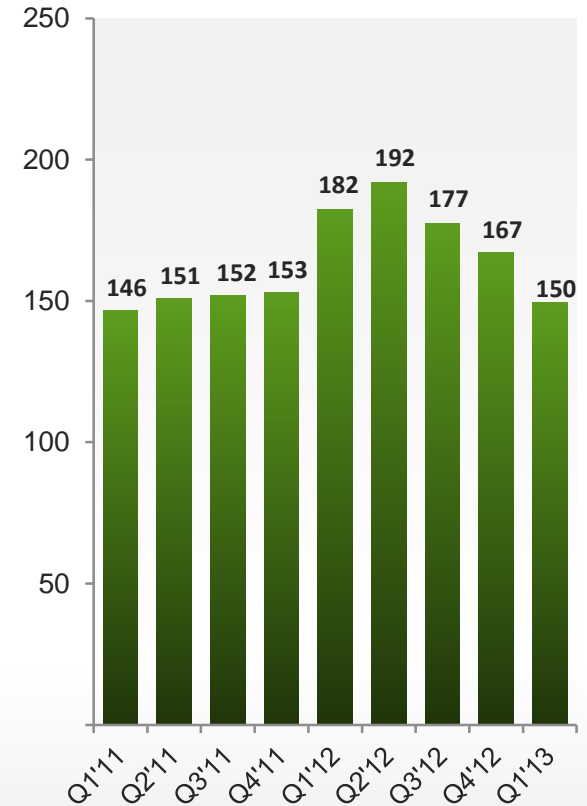
## DAU



## MAU



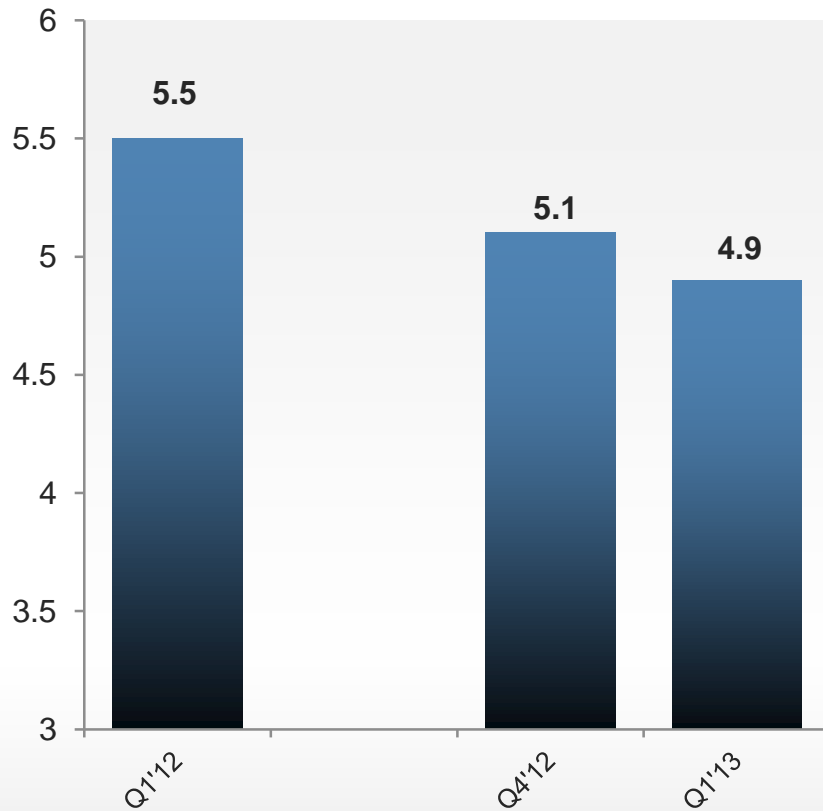
## MUU



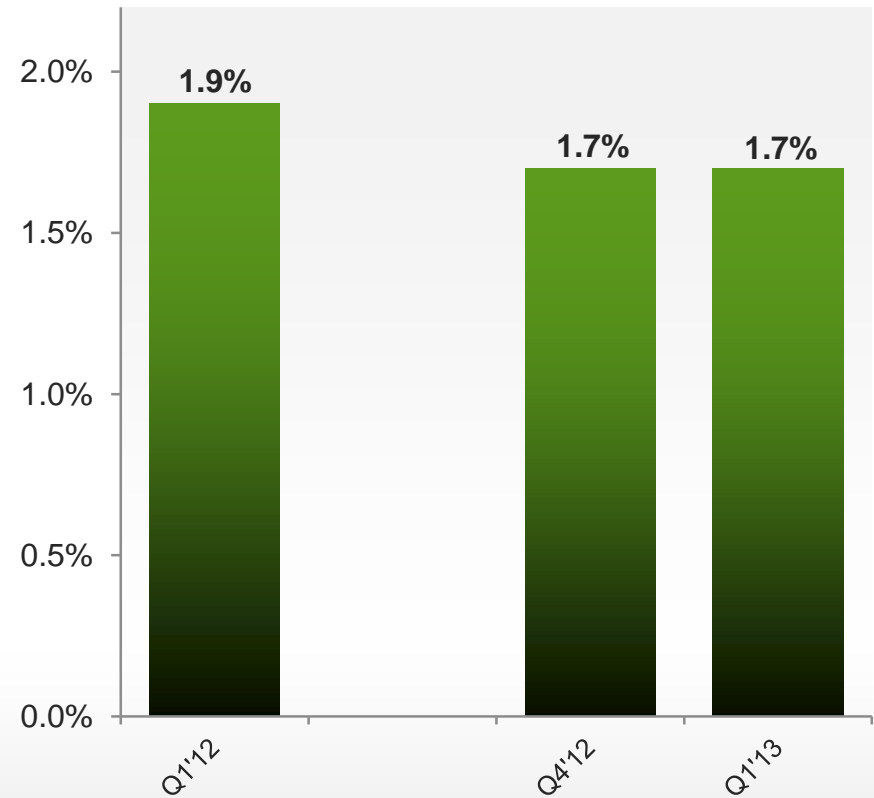


# Monetization

## ABPU (US Cents)



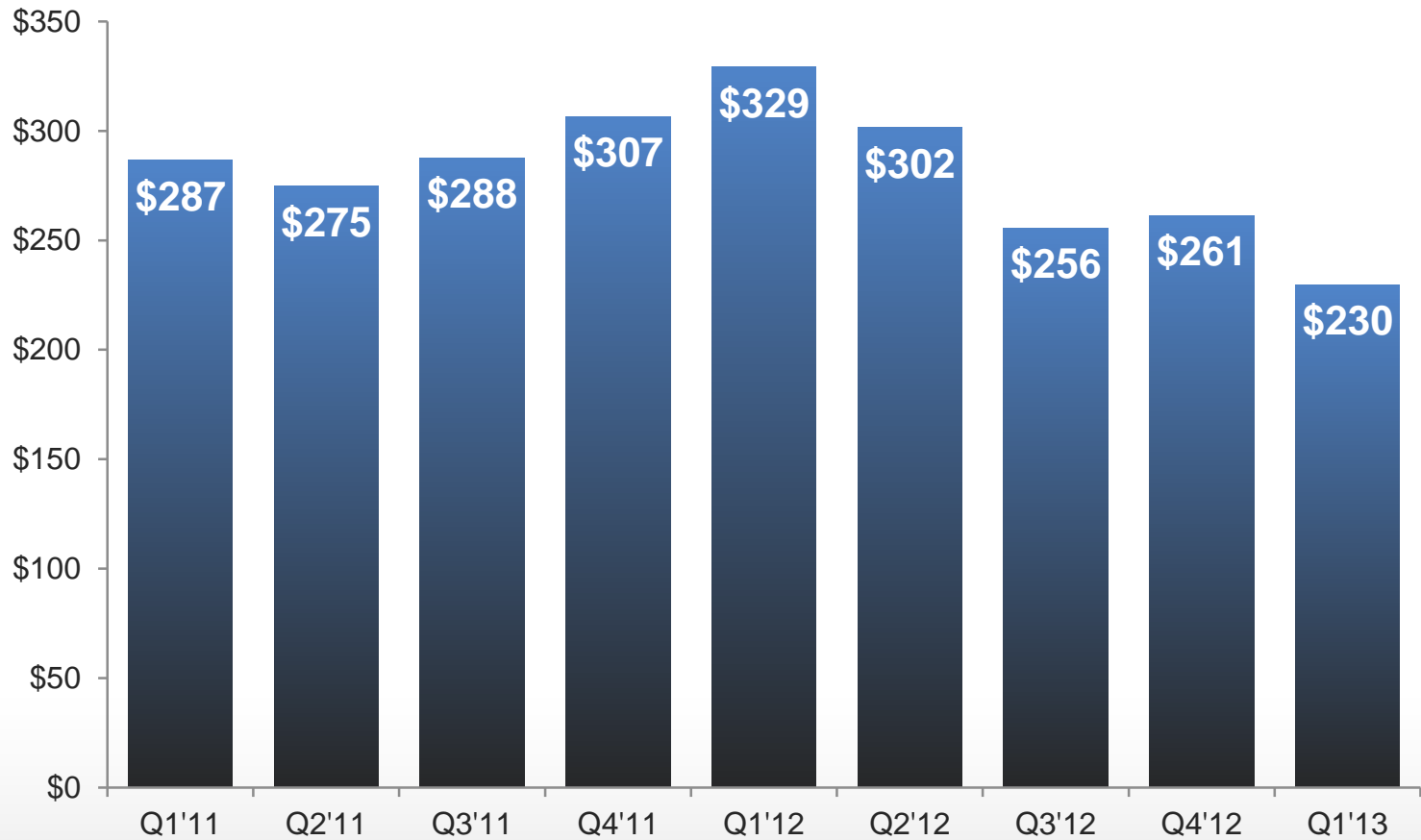
## Conversion





# Bookings

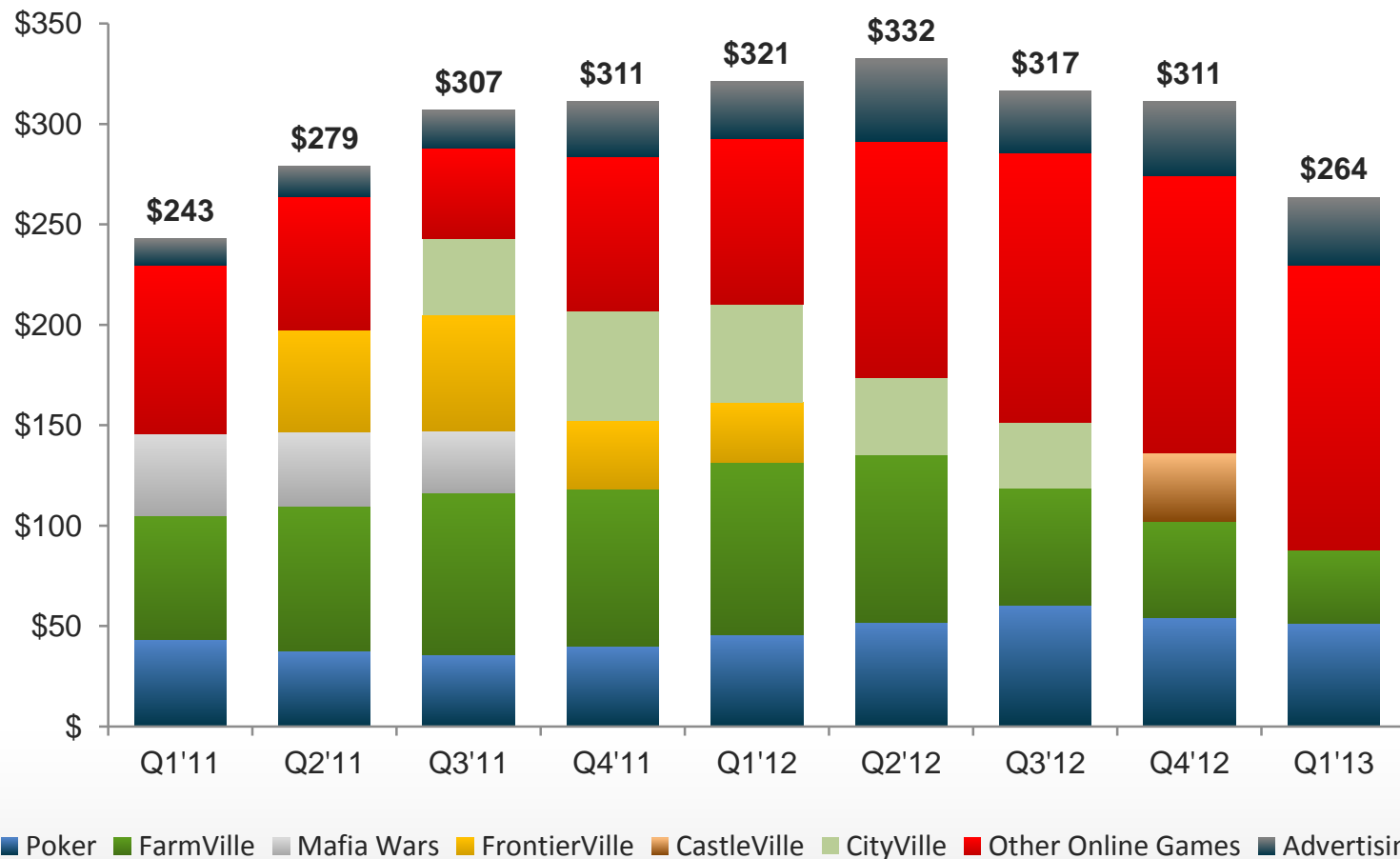
In millions





# Revenue

In millions

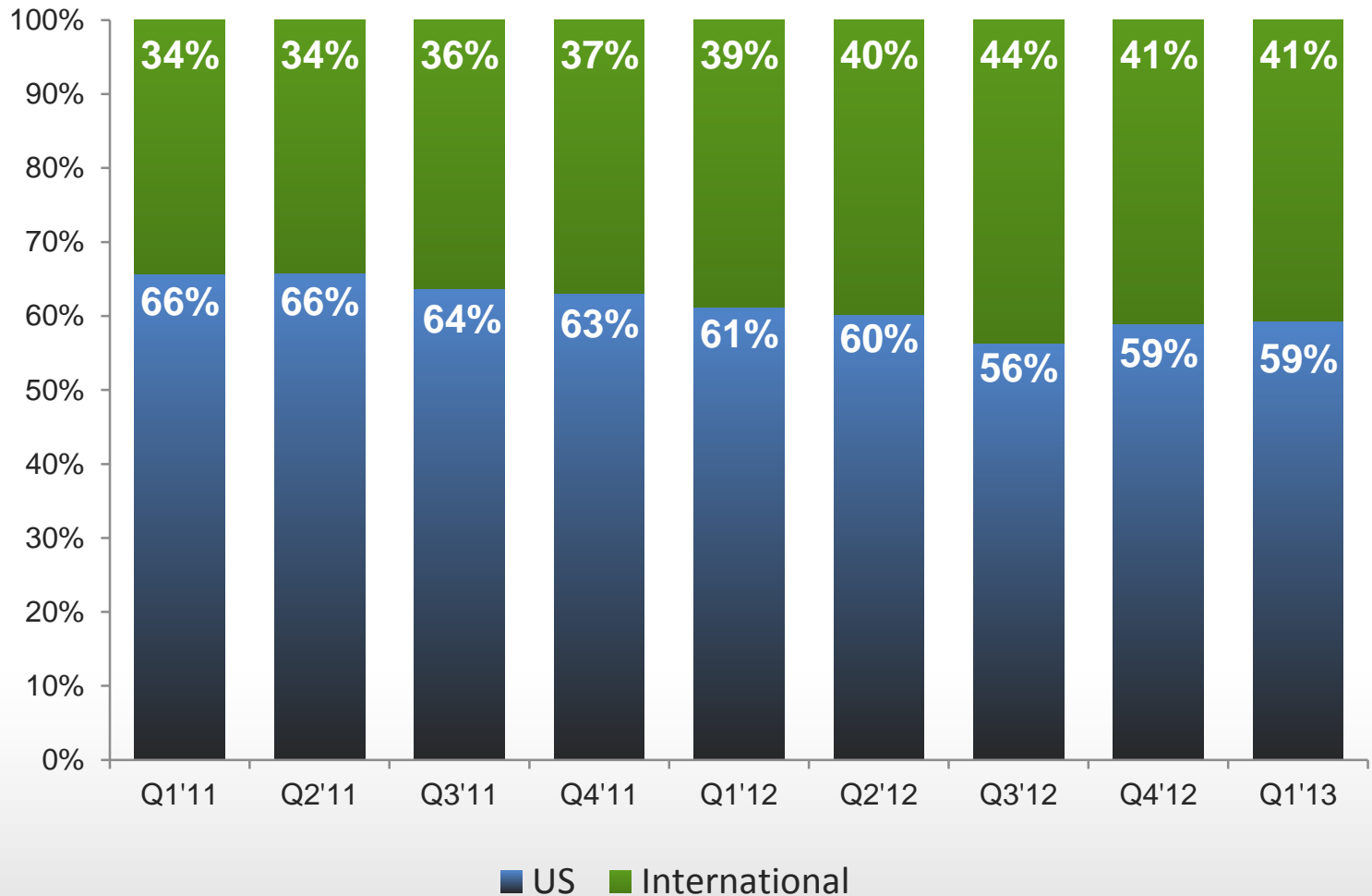


Note: Games representing less than 10% of online game revenue in any period are included in Other Online Games.



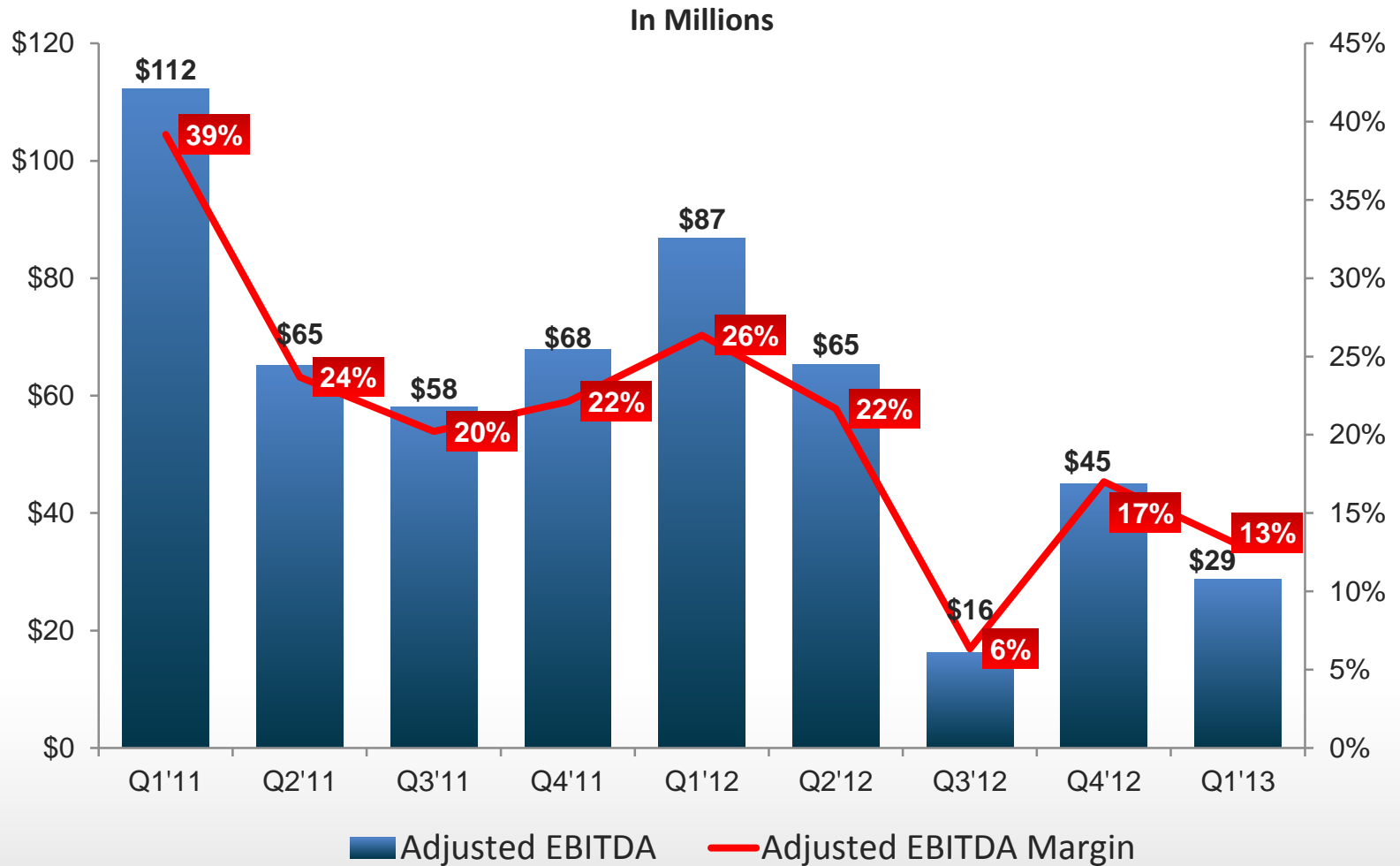


# Revenue by Geography





# Adjusted EBITDA and Margin





# Net Income (Loss) & Cash Flow

(in millions, except per share data)

	Q1'12	Q4'12	Q1'13
<b>GAAP</b>			
Net income (loss)	\$(85.4)	\$(48.6)	\$4.1
Diluted earnings per share	\$(0.12)	\$(0.06)	\$0.00
<b>Non-GAAP</b>			
Net income	\$47.0	\$6.9	\$9.1
Earnings per share	\$0.06	\$0.01	\$0.01
Operating cash flow	\$78.8	\$19.8	\$26.4
Free cash flow	\$43.8	\$29.5	\$23.2
Cash, cash equivalents and marketable securities	\$1,521.5	\$1,652.3	\$1,671.4



# Q2 & 2013 Outlook

(in millions, except per share data)

## GAAP

	Q2 2013 Outlook	
	Low	High
Revenue	\$ 225	\$ 235
Stock-based expense	\$ 33	\$ 33
Net loss	\$ (37)	\$ (27)
Diluted share count	785	795
EPS	\$ (0.05)	\$ (0.03)

## Non-GAAP

Bookings	\$ 180	\$ 190
Adjusted EBITDA	\$ (10)	\$ -
Non-GAAP net loss	\$ (30)	\$ (22)
Diluted share count	785	795
Non-GAAP EPS	\$ (0.04)	\$ (0.03)

## Full year 2013

Capital expenditures	\$ 35
Target Adjusted EBITDA margin %	0%-10%



# **GAAP to Non-GAAP Reconciliations**



# Reconciliation of Revenue to Bookings

(in thousands, unaudited)

	3 months ended	
	March 31, 2013	March 31, 2012
<b>Reconciliation of Revenue to Bookings</b>		
Revenue	\$ 263,589	\$ 320,972
Change in deferred revenue	(33,774)	8,192
<b>Bookings</b>	<b>\$ 229,815</b>	<b>\$ 329,164</b>



# Reconciliation of Net Income (Loss) to Adjusted EBITDA

(in thousands, unaudited)

	3 months ended	
	March 31, 2013	March 31, 2012
<b>Reconciliation of Net Income (Loss) to Adjusted EBITDA</b>		
Net income (loss)	\$ 4,133	\$ (85,351)
Benefit from income taxes	(8,766)	(78)
Other income (expense), net	863	1,142
Interest income	(1,163)	(1,291)
Restructuring expense	5,459	-
Legal settlements	-	889
Depreciation and amortization	32,061	29,398
Stock-based expense	29,922	133,851
Change in deferred revenue	(33,774)	8,192
<b>Adjusted EBITDA</b>	<b>\$ 28,735</b>	<b>\$ 86,752</b>



# Reconciliation of Net Income (Loss) to Non-GAAP Net Income

(in thousands, unaudited)

	3 months ended	
	March 31, 2013	March 31, 2012
<b>Reconciliation of Net Income (Loss) to Non-GAAP Net Income</b>		
Net income (loss)	\$ 4,133	\$ (85,351)
Stock-based expense	29,922	133,851
Amortization of intangible assets from acquisitions	3,658	6,951
Change in deferred revenue	(33,774)	8,192
Restructuring expense	5,459	-
Legal settlements	-	889
Tax effect of non-GAAP adjustments to net income (loss)	(293)	(17,483)
<b>Non-GAAP net income</b>	<b>\$ 9,105</b>	<b>\$ 47,049</b>





# Reconciliation of GAAP Diluted Shares to Non-GAAP Diluted Shares

(in thousands, except per share data, unaudited)

	3 months ended	
	March 31, 2013	March 31, 2012
<b>Reconciliation of GAAP Diluted Shares to Non-GAAP Diluted Shares</b>		
GAAP diluted shares	827,526	707,693
Other dilutive equity awards	-	135,993
<b>Non-GAAP diluted shares <sup>(1)</sup></b>	<b>827,526</b>	<b>843,686</b>
<b>Non-GAAP earnings per share</b>	<b>\$ 0.01</b>	<b>\$ 0.06</b>

1) Includes the effect of all dilutive awards based on the treasury stock method.



# Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

(in thousands, unaudited)

	3 months ended	
	March 31, 2013	March 31, 2012
<b>Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow</b>		
Net cash provided by operating activities	\$ 26,445	\$ 78,817
Acquisition of property and equipment	(4,924)	(34,994)
Excess tax benefits from stock-based awards	1,657	-
<b>Free cash flow</b>	<b>\$ 23,178</b>	<b>\$ 43,823</b>



# Reconciliation of GAAP to Non-GAAP (Provision for) Benefit from Income Taxes

(in thousands, unaudited)

	3 months ended	
	March 31, 2013	March 31, 2012
<b>Reconciliation of GAAP to Non-GAAP (Provision for) Benefit from Income Taxes</b>		
GAAP benefit from income taxes	\$ 8,766	\$ 78
Stock-based expense	(1,669)	(15,612)
Amortization of intangible assets from acquisitions	(204)	(811)
Change in deferred revenue	1,884	(956)
Restructuring expense	(304)	-
Legal settlements	-	(104)
<b>Non-GAAP (provision for) benefit from income taxes</b>	<b>\$ 8,473</b>	<b>\$ (17,405)</b>



# Reconciliation of GAAP to Non-GAAP

## Second Quarter 2013 Outlook

(in thousands, except per share data)

	<b>Second Quarter 2013</b>
<b>Reconciliation of Revenue to Bookings</b>	
Revenue range	\$ 225,000 - 235,000
Change in deferred revenue	\$ (45,000)
<b>Bookings range</b>	\$ 180,000 - 190,000
<b>Reconciliation of Net Loss to Adjusted EBITDA</b>	
Net loss range	\$ (36,500) - (26,500)
Provision for income taxes	4,000
Other expense, net	3,500
Interest income	(1,000)
Depreciation and amortization	32,000
Stock-based expense	33,000
Change in deferred revenue	(45,000)
<b>Adjusted EBITDA range</b>	<b>\$ (10,000) - 0</b>
<b>Reconciliation of Net Loss to Non-GAAP Net Loss</b>	
Net loss range	\$ (36,500) - (26,500)
Stock-based expense	33,000
Amortization of intangible assets from acquisitions	3,000
Change in deferred revenue	(45,000)
Tax effect of non-GAAP adjustments to net loss	15,500 - 13,500
<b>Non-GAAP net loss range</b>	<b>\$ (30,000) - (22,000)</b>
<b>GAAP and non-GAAP diluted shares</b>	<b>785,000 - 795,000</b>
<b>Net loss per share range</b>	<b>\$(0.05) - \$(0.03)</b>
<b>Non-GAAP net loss per share range</b>	<b>\$(0.04) - \$(0.03)</b>



**Thank you!**

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