



# ZYNGA Q1 2017

## FINANCIAL RESULTS

May 4, 2017

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# MANAGEMENT TEAM

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**CHIEF EXECUTIVE OFFICER**  
Frank Gibeau



**CHIEF FINANCIAL OFFICER**  
Gerard Griffin

## FORWARD-LOOKING STATEMENTS

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This presentation contains forward-looking statements, including those statements relating to our guidance for the second quarter of 2017 under the heading "Q2 2017 FINANCIAL GUIDANCE" and statements relating to, among other things: our ability to execute against a steady roadmap of new features in Zynga Poker; our ability to improve player engagement and monetization in Social Slots; our ability to increase the pace of new feature development; our ability to deliver product, financial and operating performance, and our expectations with respect to new products and features. Forward-looking statements often include words such as "guidance," "projected," "intends," "will," "anticipate," "believe," "target," "expect," and statements in the future tense are generally forward-looking. 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. Undue reliance should not be placed on such forward-looking statements, which are based on information available to us on the date hereof. We assume no obligation to update such statements. More information about factors that could affect our operating results are described in greater detail in our public filings with the Securities and Exchange Commission (the "SEC"), 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).

In addition, the preliminary financial results set forth in this presentation are estimates based on information currently available to us. While we believe these estimates are meaningful, they could differ from the actual amounts that we ultimately report in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. We assume no obligation and do not intend to update these estimates prior to filing our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.



## OVERVIEW OF Q1 2017 PERFORMANCE

# Q1 2017 PERFORMANCE OVERVIEW

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## Q1 FINANCIAL HIGHLIGHTS

- Revenue of \$194.3 million; above our guidance, up 4% year-over-year and up 2% sequentially
- GAAP operating expenses of \$138.4 million, down 12% year-over-year and down 15% sequentially
- Net loss of \$9.5 million, better than our guidance and an improvement of \$17.1 million year-over-year and \$26.0 million sequentially
- Deferred revenue increased by \$13.1 million; \$8.1 million above our guidance
- Bookings of \$207.4 million; above our guidance, up 14% year-over-year and up 3% sequentially
- Non-GAAP operating expenses of \$121.2 million were in line with our expectations; down 2% year-over-year and down 4% sequentially
- Adjusted EBITDA, which includes the impact of changes in deferred revenue, of \$16.7 million; above our guidance
- Operating cash flow of negative \$4.7 million, down \$1.4 million year-over-year and down \$32.5 million sequentially

## MOBILE HIGHLIGHTS

- Mobile revenue of \$161.6 million or 83% of overall revenue; up 19% year-over-year and up 4% sequentially
- Mobile bookings of \$176.1 million or 85% of overall bookings; up 27% year-over-year and up 5% sequentially
- Average mobile DAUs of 18 million; up 16% year-over-year and up 17% sequentially
- Apple and Google continue to be our two largest platform partners for user pay revenue and bookings

## ADVERTISING HIGHLIGHTS

- We're seeing softness in the gaming advertising market
- Advertising and other revenue of \$40.8 million or 21% of overall revenue; down 18% year-over-year and down 19% sequentially
- Advertising and other bookings of \$41.9 million or 20% of overall bookings; down 10% year-over-year and down 17% sequentially
- As we look across 2017, we expect advertising to grow marginally as we progress through the year when including Solitaire
- We continue to look for more ways to integrate our popular advertising products with key brand partners within our products

## Q1 2017 FINANCIAL GUIDANCE VS. ACTUALS

\* Q1'17 guidance as communicated in our Q4'16 press release and shareholder's letter

(in millions, except per share data)

<b>GAAP</b>	<b>Guidance*</b>	<b>Actuals</b>
Revenue	\$ 185,000	\$ 194,284
Net release of (increase in) deferred revenue <sup>(1)</sup>	\$ (5,000)	\$ (13,074)
Net income (loss)	\$ (16,000)	\$ (9,474)
Diluted share count	881,000	875,712
Net income (loss) per share	\$ (0.02)	\$ (0.01)
 <b>Non-GAAP</b>		
Bookings	\$ 190,000	\$ 207,358
Adjusted EBITDA	\$ 14,000	\$ 16,675

*Footnote:*

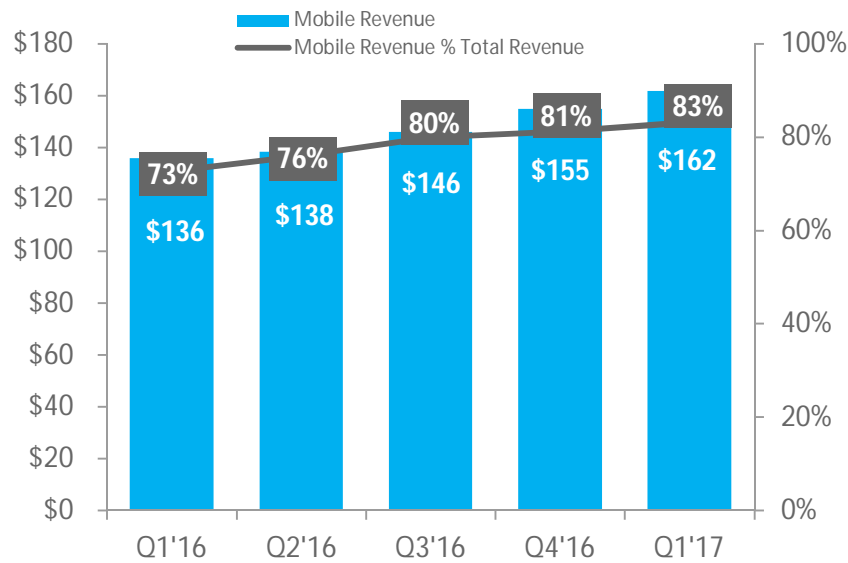
- (1) For clarity, a net increase in deferred revenue generally occurs in quarters when the company is delivering sequential bookings growth. In these circumstances bookings are higher than revenues recognized as the bookings deferred to future periods exceeds those recognized from prior period deferrals. It also results in a corresponding increase in deferred revenue on the balance sheet.

# MOBILE HIGHLIGHTS

IN MILLIONS

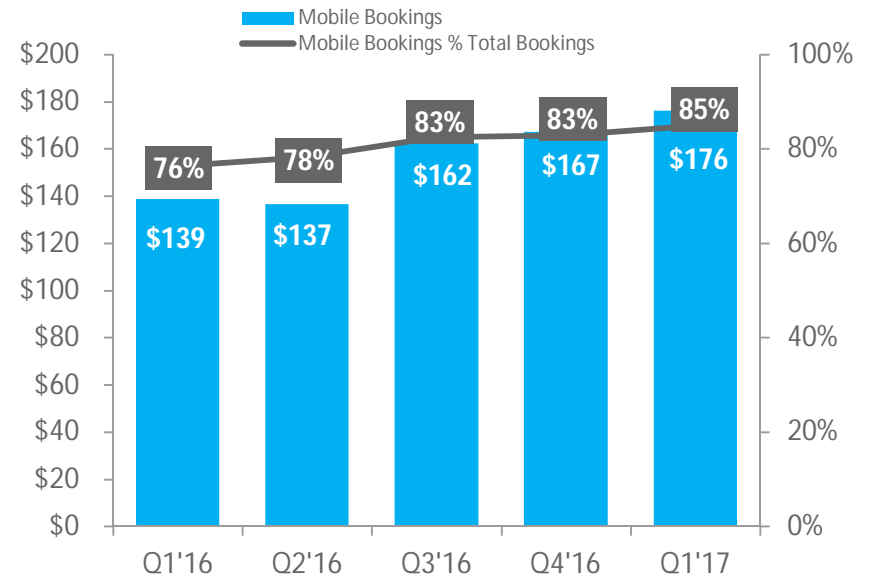
## MOBILE REVENUE

83% OF TOTAL IN Q1'17, UP 2% Q/Q



## MOBILE BOOKINGS

85% OF TOTAL IN Q1'17, UP 2% Q/Q



Net Release of (Increase in) Deferred Revenue <sup>(1)</sup>	(\$3)	\$1	(\$16)	(\$12)	(\$15)
Mobile Bookings	\$139	\$137	\$162	\$167	\$176 <sup>(2)</sup>

Footnotes:

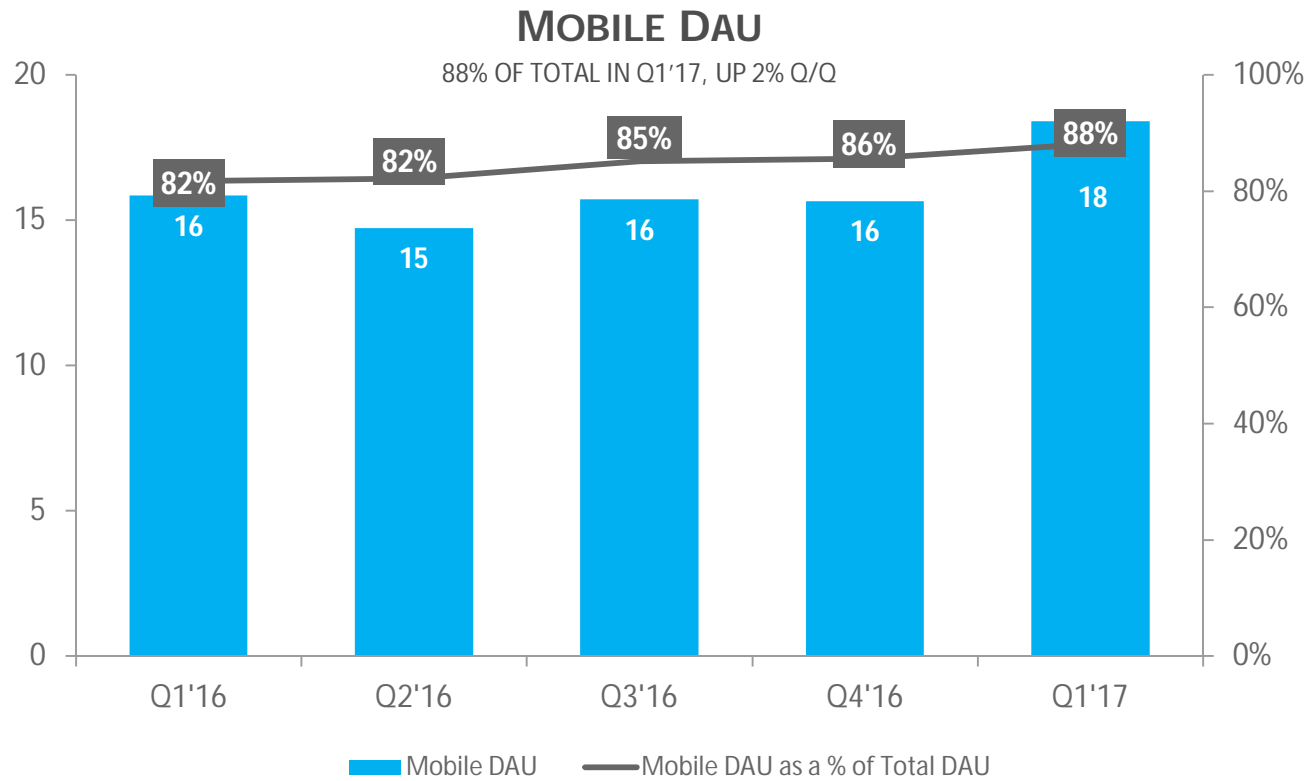
- (1) Refer to footnote (1) on slide 7
- (2) This measure, as presented, differs due to the impact of rounding





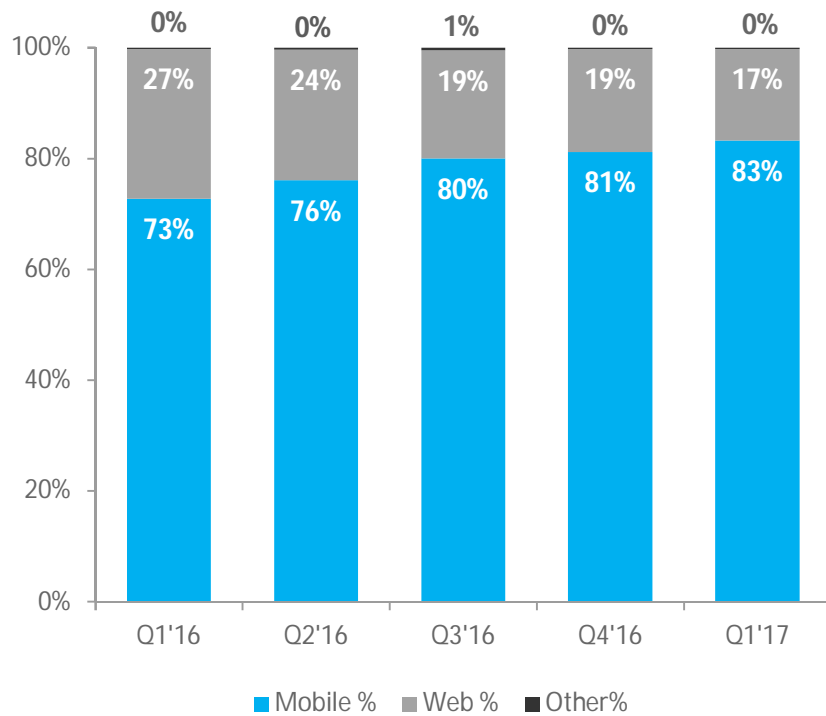
# MOBILE HIGHLIGHTS

IN MILLIONS

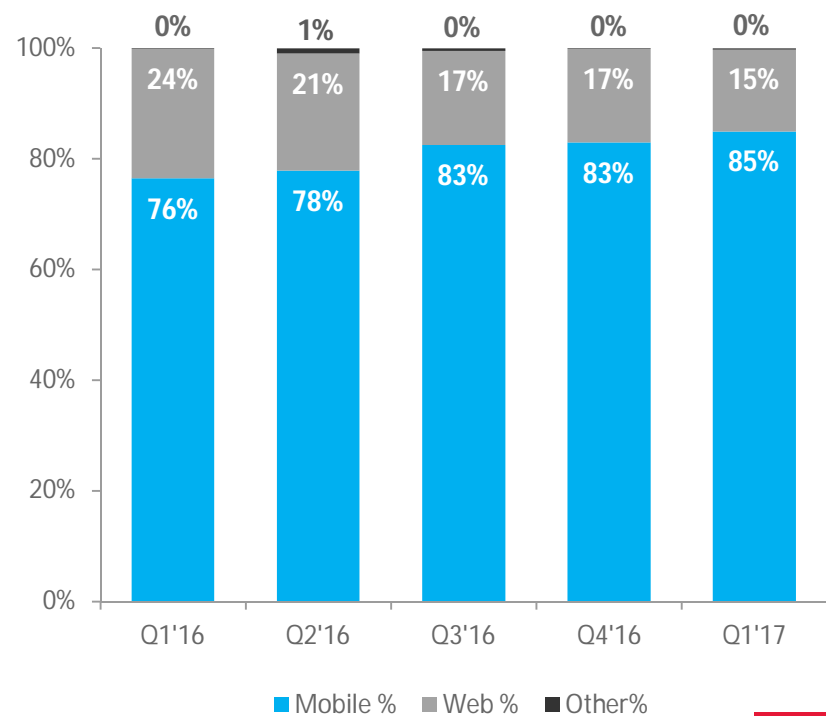


# PLATFORM MIX: REVENUE AND BOOKINGS

## PLATFORM REVENUE MIX



## PLATFORM BOOKINGS MIX



# OUR PRODUCTS

## SOCIAL CASINO



- *Zynga Poker* experienced its highest quarterly mobile performance in franchise history - mobile revenue was up 63% Y/Y and mobile bookings were up 76% Y/Y
  - The game also saw impressive gains in audience, with average mobile DAU up 78% Y/Y
  - *Zynga Poker* celebrates its 10-year anniversary later this year and the team is working hard to execute against a steady roadmap of new features in coming quarters
- In *Social Slots* - mobile revenue increased by 6% Y/Y and mobile bookings declined by 10% Y/Y



- The team is focused on improving player engagement and monetization – specifically, in Q1 we've seen a sequential improvement in our average daily booking per average DAU (ABPU)
- Strong quarter from *Wizard of Oz Slots* due to the introduction of the Choose Your Side feature as well as improved event cadence

## CASUAL



- *Word with Friends* mobile revenue declined by 20% Y/Y and mobile bookings declined by 19% Y/Y as advertising continues to experience headwinds
  - We're increasing the pace of new feature development and are testing bold beats like Hindsight, Radar and Tile Swap which introduce new ways for players to engage
  - *Words With Friends'* audience grew in the quarter with average mobile DAUs up 4% sequentially
- Today, we launched *Crosswords with Friends* to global audiences – as a part of our launch, the game will feature a unique partnership with People magazine including content inspired by trends and entertainment news
- We are also experimenting with new platforms
  - Earlier this week, we partnered with Facebook to bring first ever turn-based game to Messenger with *Words With Friends for Instant Games*
  - We've also introduced new products in the App Store for iMessage including *Words With Friends, GIFs Against Friends, Boggle With Friends, and Games With Friends*

# OUR PRODUCTS

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## ACTION STRATEGY



- CSR2 continued its momentum into Q1 with new events and partnerships, including exclusive content from iconic automotive brands like Porsche, McLaren and Lamborghini
  - CSR2 continues to be the #1 Grossing Racing game in the U.S. App Store and Google Play Store
  - The team's commitment to live operations and delivering players unique content helped propel the game back into the Top 15 Grossing game charts in the U.S. App Store last month
  - Last week, we launched a new Fast & Furious integration with Universal Brand Development which includes characters and cars from The Fate of the Furious.



- Q1 represented the first full quarter for *Dawn of Titans* – our teams have moved quickly into live operations mode by executing on a steady cadence of bold beats
  - Bold beats in the quarter included a new Titan Class – Ranger Titans – and an enhancement of our relic system
  - We've also added machine translation of chat and language support for Arabic

## INVEST EXPRESS

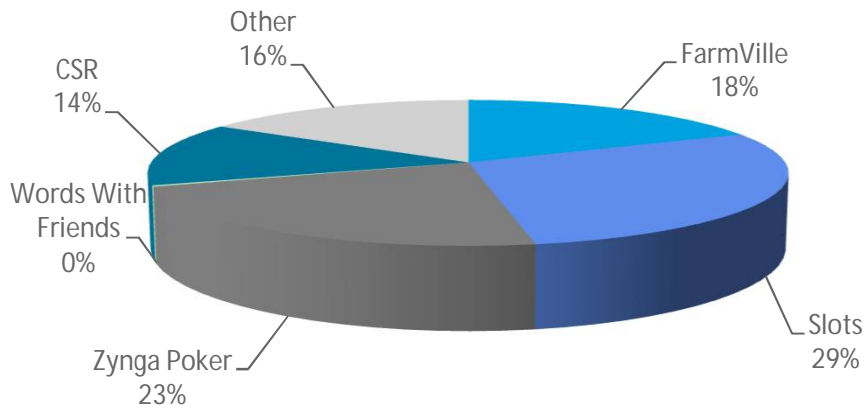


- *FarmVille: Country Escape* delivered a strong Q1 due to the introduction of The Social Order Board – a new bold beat that increased social activity between in-game players
  - New bold beat resulted in an increase in the game's player monetization and long term retention growth

# Q1'2017 ONLINE GAME REVENUE AND BOOKINGS BY FRANCHISE

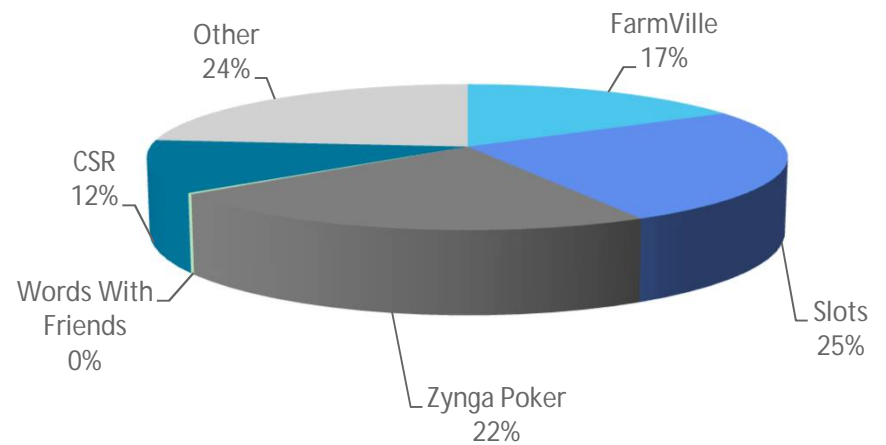
## Q1'2017 ONLINE GAME REVENUE

Total Amount: \$153 million



## Q1'2017 ONLINE GAME BOOKINGS

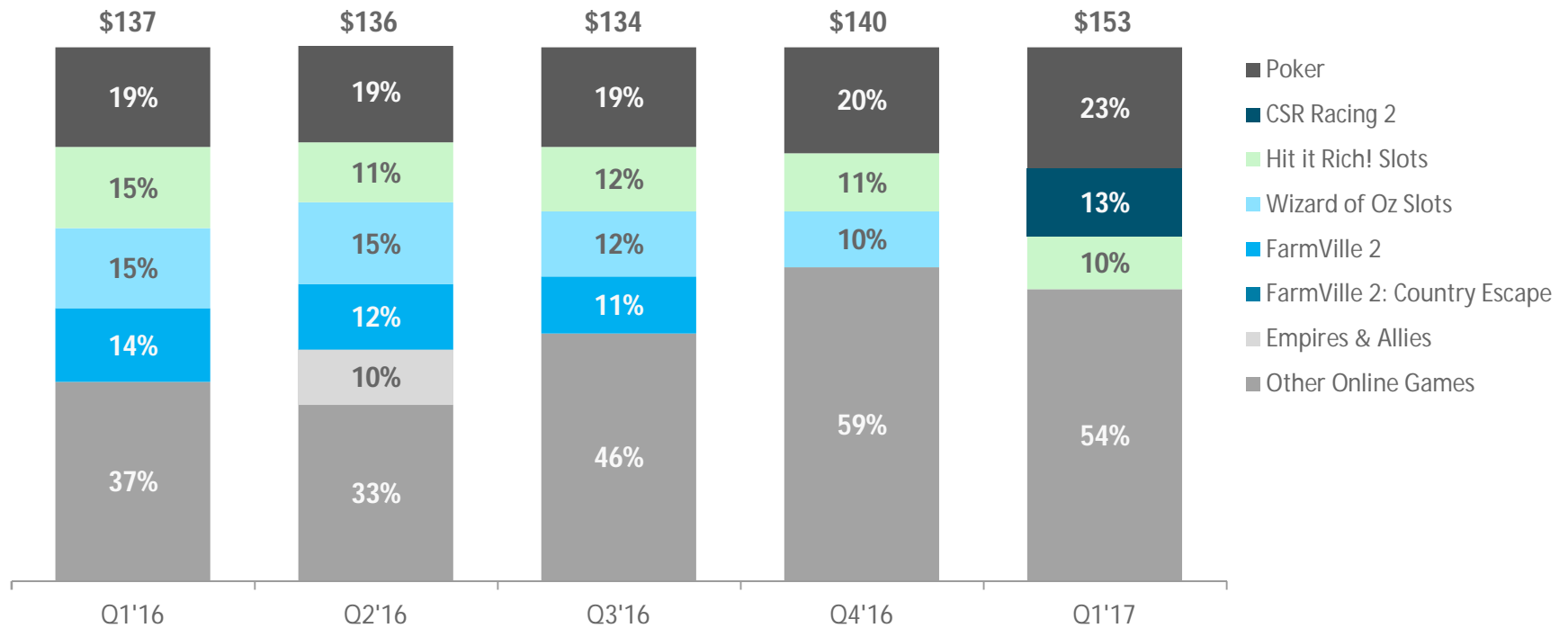
Total Amount: \$165 million



**Note:** Online game revenue/bookings excludes advertising and other revenue/bookings

# ONLINE GAME REVENUE CONCENTRATION

TOTAL REVENUE IN MILLIONS

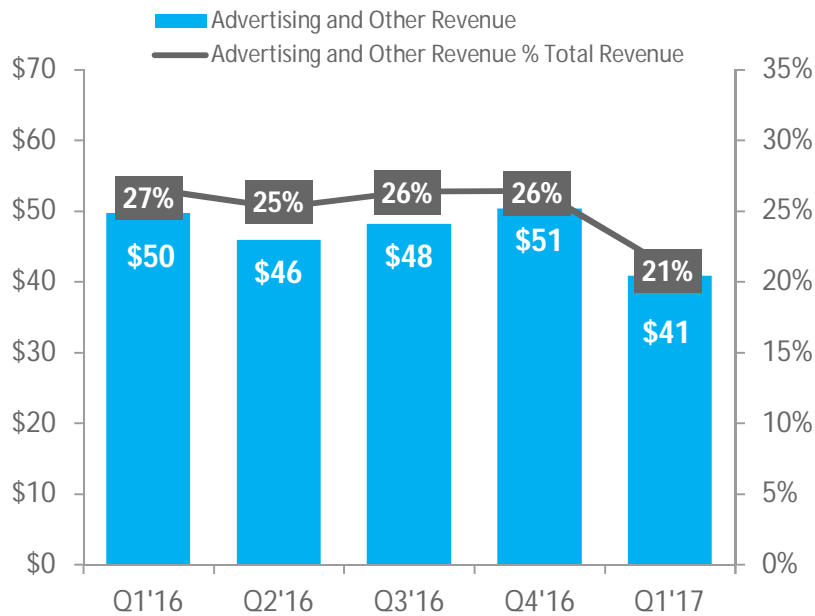


**Note:** Games representing less than 10% of online game revenue in any period are included in "Other Online Games"

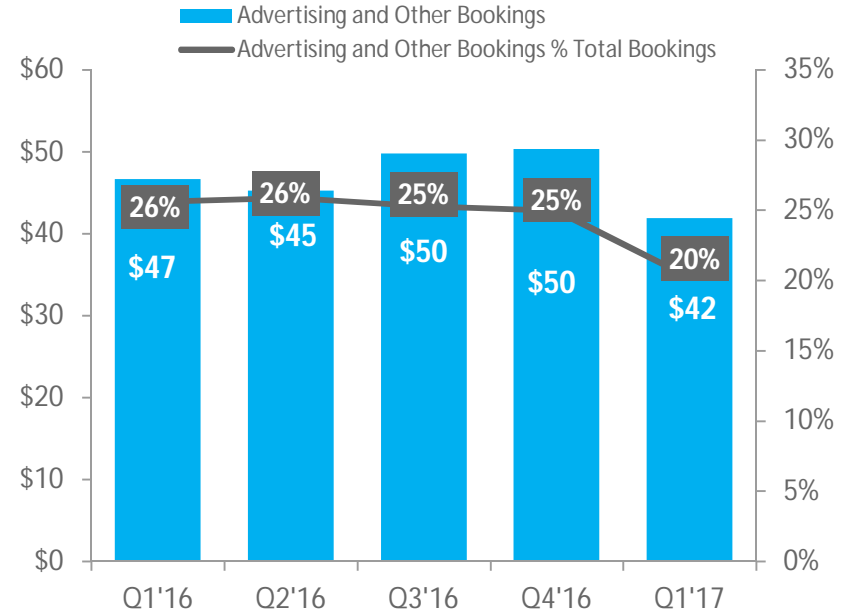
# ADVERTISING AND OTHER: REVENUE AND BOOKINGS

IN MILLIONS

### ADVERTISING AND OTHER REVENUE

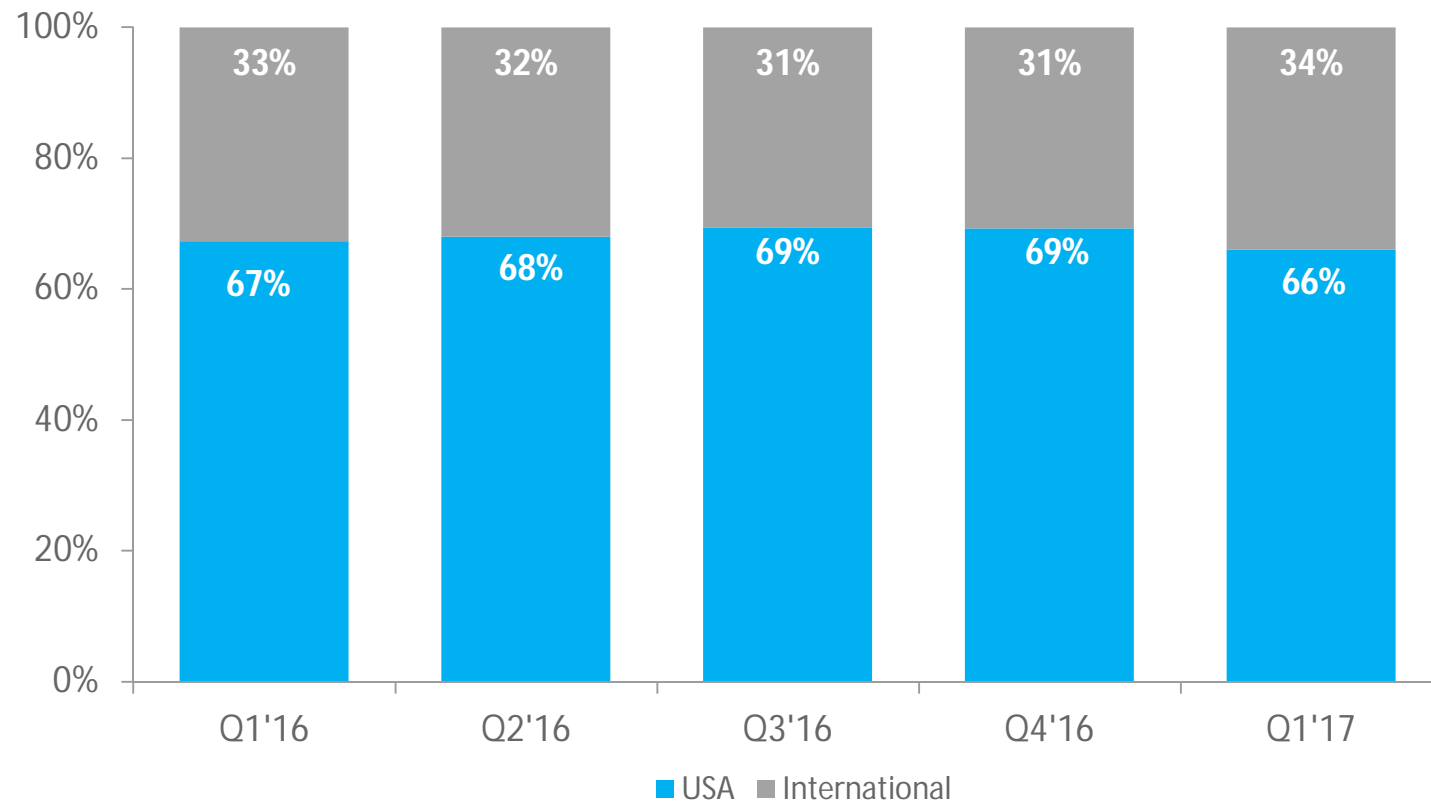


### ADVERTISING AND OTHER BOOKINGS



Net Release of (Increase in) Deferred Revenue <sup>(1)</sup>	\$3	\$1	(\$2)	\$1	(\$1)
Ad & Other Bookings	\$47	\$45	\$50	\$50	\$42

## REVENUE BY GEOGRAPHY





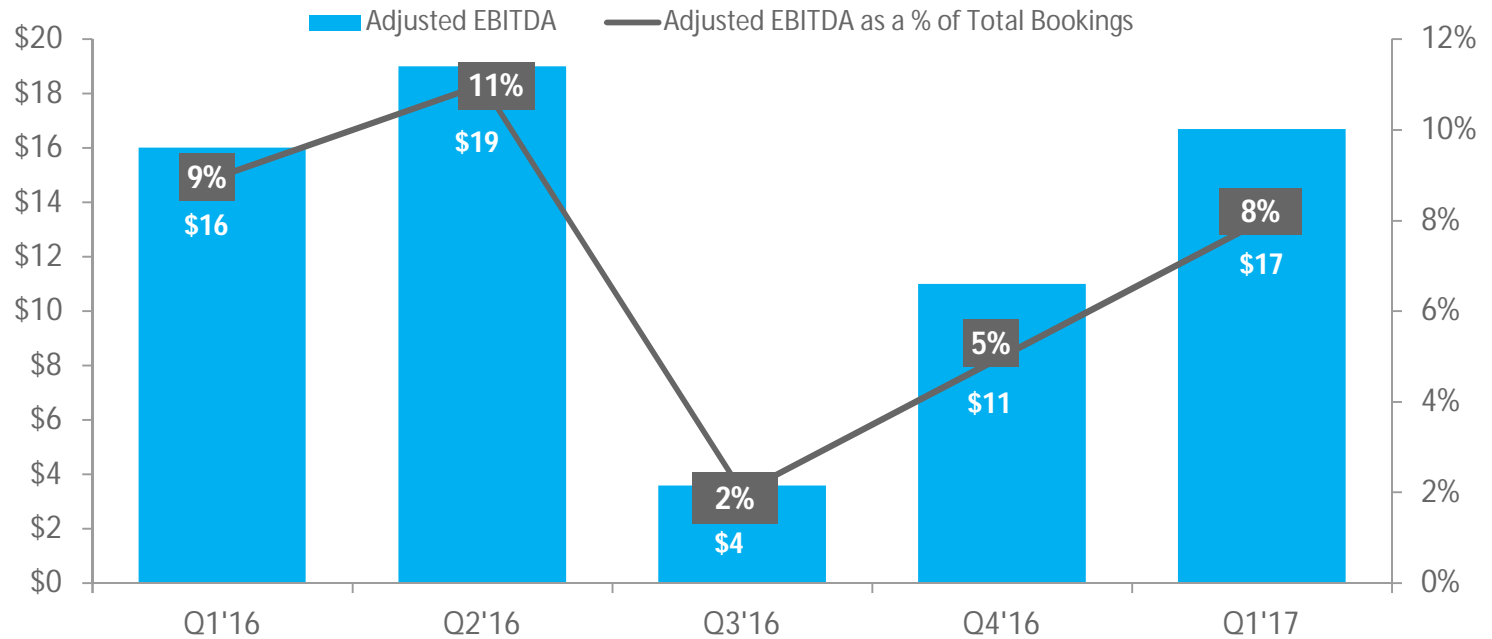
## NET INCOME (LOSS) AND CASH FLOW

*(in millions, except per share data)*

	Q1'17	Q4'16	Q3'16	Q2'16	Q1'16
<b>GAAP</b>					
Net income (loss)	\$ (9.5)	\$ (35.4)	\$ (41.7)	\$ (4.4)	\$ (26.6)
Diluted net income (loss) per share	\$ (0.01)	\$ (0.04)	\$ (0.05)	\$ (0.01)	\$ (0.03)
<b>Operating cash flow</b>	\$ (4.7)	\$ 27.7	\$ 21.0	\$ 14.5	\$ (3.3)
<b>Free cash flow (non-GAAP)</b>	\$ (7.0)	\$ 24.1	\$ 18.4	\$ 13.3	\$ (6.0)
<b>Cash, cash equivalents and marketable securities</b>	\$ 720	\$ 852	\$ 871	\$ 868	\$ 857

# ADJUSTED EBITDA

IN MILLIONS



Net Release of (Increase in) Deferred Revenue <sup>(1)</sup>	\$5	\$7	(\$14)	(\$11)	(\$13)
Change in Deferred Revenue as a % of Total Bookings	(3%)	(4%)	7%	5%	6%

18 *Footnote:*  
(1) Refer to footnote (1) on slide 7



## KEY OPERATING METRICS

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The company tracks operating metrics using internal systems which rely on internal company data and third party data. We rely on the veracity of data provided by individuals and reported by third parties to calculate our metrics and reduce duplication of data.

**DAUs.** We define DAUs as the number of individuals who played one of our games during a particular day. Under this metric, an individual who plays two different games on the same day is counted as two DAUs. We use information provided by third parties to help us identify individuals who play the same game to reduce this duplication. However, because we do not always have the third party network login data to link an individual who has played under multiple user accounts, a player may be counted as multiple DAUs. Average DAUs for a particular period is the average of the DAUs for each day during that period. We use DAUs as a measure of audience engagement.

**MAUs.** We define MAUs as the number of individuals who played one of our games in the 30-day period ending with the measurement date. Under this metric, an individual who plays two different games in the same 30-day period is counted as two MAUs. We use information provided by third parties to help us identify individuals who play the same game to reduce this duplication. However, because we do not always have the third party network login data to link an individual who has played under multiple user accounts, a player may be counted as multiple MAUs. Average MAUs for a particular period is the average of the MAUs at each month-end during that period. We use MAUs as a measure of total game audience size.

**MUUs.** We define MUUs as the number of individuals who played one or more of our games, which we were able to verify were played by the same individual in the 30-day period ending with the measurement date. An individual who plays more than one of our games in a given 30-day period would be counted as a single MUU to the extent we can verify that the games were played by the same individual. However, because we do not always have the third party network login data necessary to link an individual who has paid under multiple user accounts in a given 30-day period, an individual may be counted as multiple MUUs. Because many of our players play more than one game in a given 30-day period, MUUs are always equal to or lower than MAUs in any given time period. Average MUUs for a particular period is the average of the MUUs at each month end during that period. We use MUUs as a measure of total audience reach across our network of games.

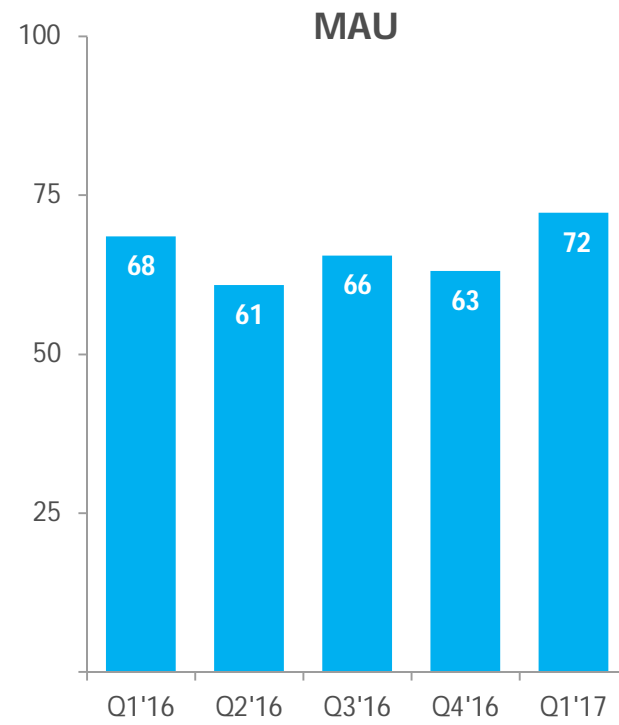
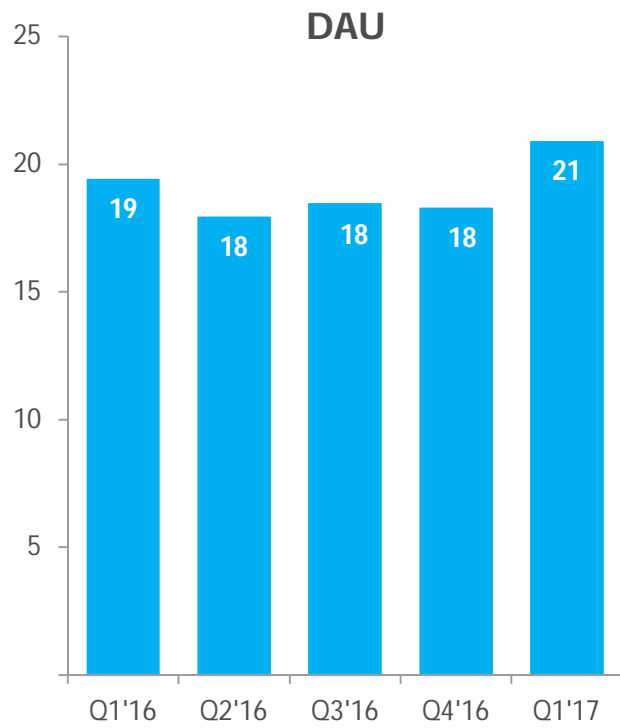
**MUPs.** We define MUPs as the number of individuals who made a payment at least once during the applicable 30-day period through a payment method for which we can quantify the number of individuals, including payers from certain mobile games. MUPs does not include individuals who use certain payment methods for which we cannot quantify the number of unique payers. However, because we do not always have the third party network login data necessary to link an individual who has paid under multiple user accounts in a 30-day period, a player who has paid using multiple user accounts may be counted as multiple MUPs. MUPs are presented as an average of the three months in the applicable quarter. We use MUPs as a measure of the number of individuals who made payments across our network of games during a 30-day period.

**ABPU.** We define ABPU as our total bookings in a given period, divided by the number of days in that period, divided by, the average DAUs during the period. We believe that ABPU provides useful information to investors and others in understanding and evaluating our results in the same manner as our management and board of directors. We use ABPU as a measure of overall monetization across all of our players through the sale of virtual goods and advertising.

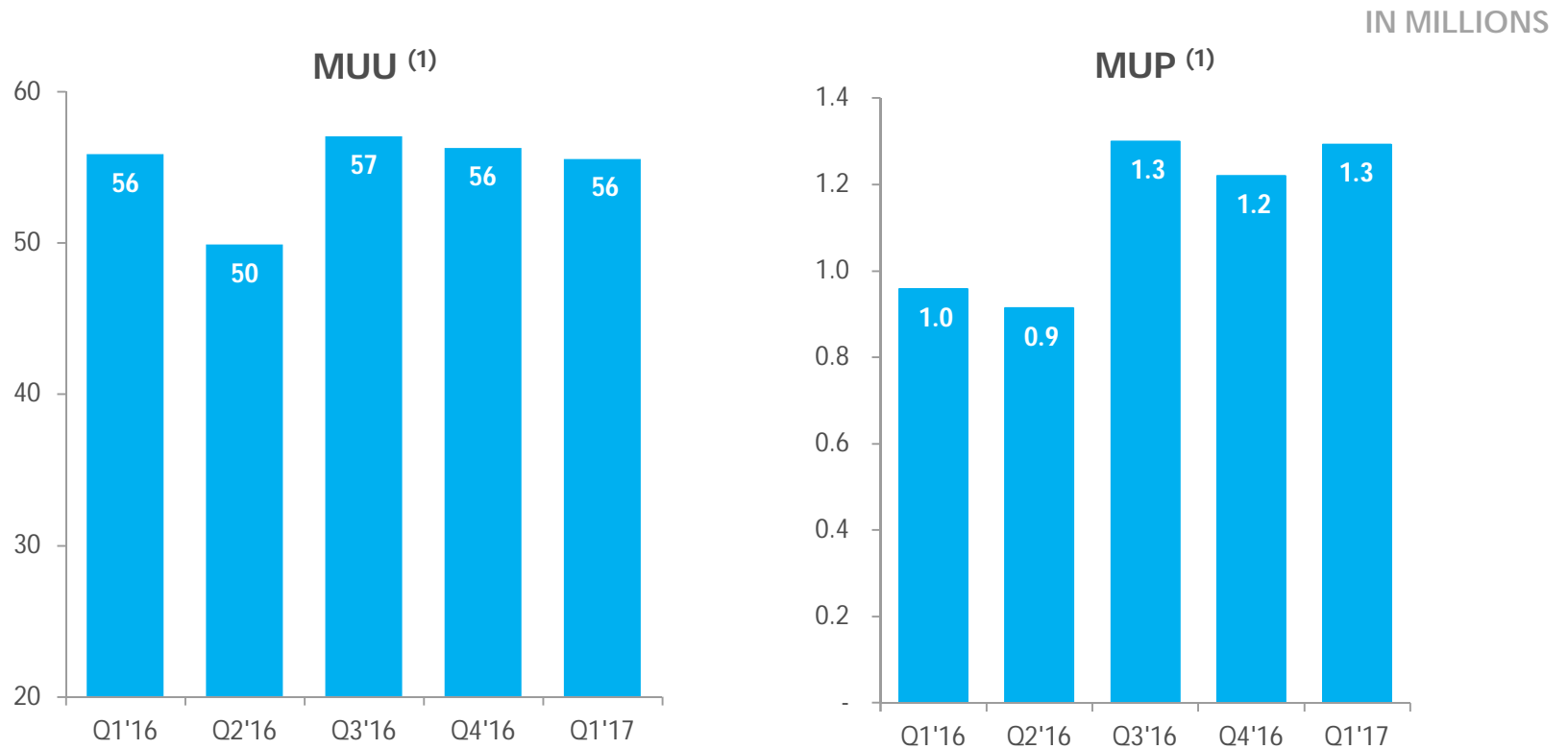
**Payer Conversion.** We define payer conversion as MUPs divided by MUUs.

# AUDIENCE METRICS

IN MILLIONS



# AUDIENCE METRICS

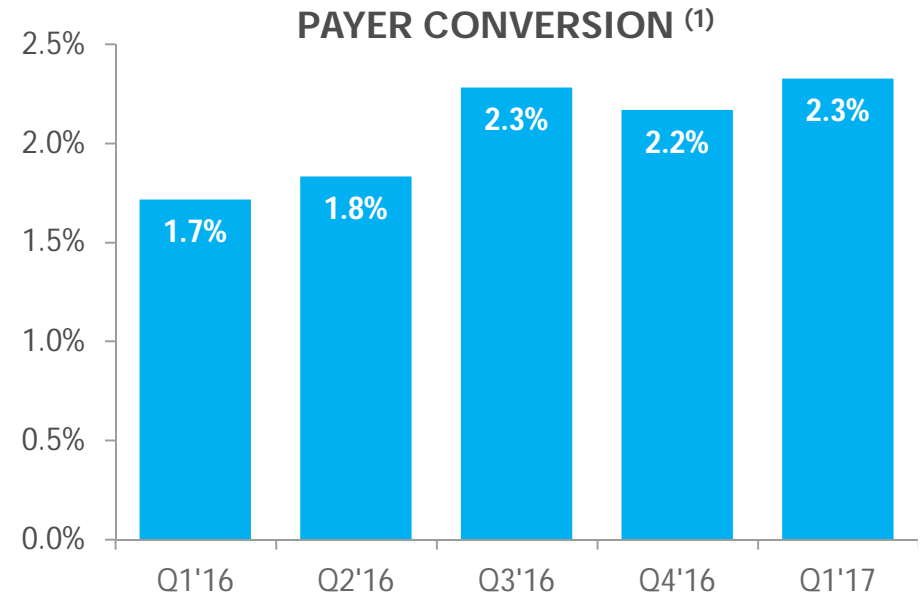
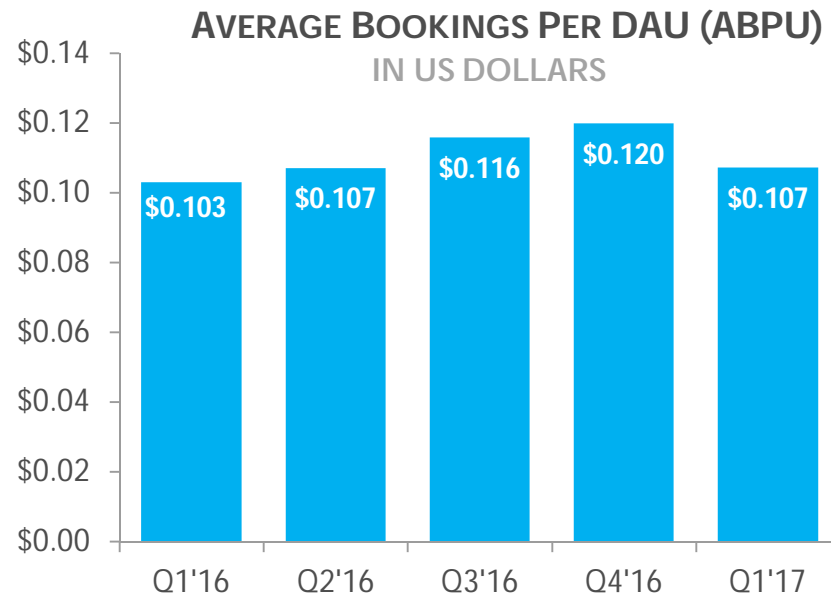


Footnote:

(1) For the first quarter of 2017, MUUs and MUPs exclude *Vegas Diamond Slots*, *Daily Celebrity Crossword* and *Solitaire* games. For the fourth quarter of 2016, MUUs and MUPs exclude *Vegas Diamond Slots* and *Daily Celebrity Crossword*. For the first, second and third quarters of 2016, MUUs and MUPs exclude *Black Diamond Casino*, *Vegas Diamond Slots*, *Yummy Gummy*, *Crazy Kitchen* and *Daily Celebrity Crossword*.



# MONETIZATION



Footnote:

(1) For the first quarter of 2017, payer conversion excludes *Vegas Diamond Slots*, *Daily Celebrity Crossword* and Solitaire games. For the fourth quarter of 2016, payer conversion excludes *Vegas Diamond Slots* and *Daily Celebrity Crossword*. For the first, second and third quarters of 2016, payer conversion excludes *Black Diamond Casino*, *Vegas Diamond Slots*, *Yummy Gummy*, *Crazy Kitchen* and *Daily Celebrity Crossword*.



## Q2 2017 FINANCIAL GUIDANCE

## Q2 2017 FINANCIAL GUIDANCE

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*(in millions, except per share data)*

### GAAP

	<u>Q2'17 Guidance</u>
Revenue	\$ 200
Net release of (increase in) deferred revenue <sup>(1)</sup>	\$ (5)
Net income (loss)	\$ (6)
Diluted share count	863
Net income (loss) per share	\$ (0.01)

### Non-GAAP

Bookings	\$ 205
Adjusted EBITDA	\$ 19

Footnote:

- (1) For clarity, a net increase in deferred revenue generally occurs in quarters when the company is delivering sequential bookings growth. In these circumstances bookings are higher than revenues recognized as the bookings deferred to future periods exceeds those recognized from prior period deferrals. It also results in a corresponding increase in deferred revenue on the balance sheet.





## GAAP TO Non-GAAP RECONCILIATIONS

## NON-GAAP FINANCIAL MEASURES

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We have provided in this presentation certain non-GAAP financial measures to supplement our consolidated financial statements prepared in accordance with GAAP (our “GAAP financial statements”). Management uses non-GAAP financial measures internally in analyzing our financial results to assess operational performance and liquidity. Our non-GAAP financial measures may be different from non-GAAP financial measures used by other companies.

The presentation of our non-GAAP financial measures is not intended to be considered in isolation or as a substitute for our GAAP financial statements. We believe that both management and investors benefit from referring to our non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe our non-GAAP financial measures are useful to investors because they allow for greater transparency with respect to key financial measures 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 of our non-GAAP financial measures used in this presentation to the most directly comparable GAAP financial measures in the following tables and elsewhere in this presentation.

Because of the following limitations of our non-GAAP financial measures, you should consider the non-GAAP financial measures presented in this presentation with our GAAP financial statements. Key limitations of our non-GAAP financial measures include:

- Adjusted EBITDA does not include the impact of stock-based expense, acquisition-related transaction expenses, contingent consideration fair value adjustments and restructuring expense;
- Bookings does not reflect that we defer and recognize online game revenue and revenue from certain advertising transactions over the estimated average life of durable virtual goods or as virtual goods are consumed;
- Adjusted EBITDA does not reflect income tax expense and does not include other income (expense) net, which includes foreign exchange gains and losses and interest income;
- Adjusted EBITDA excludes depreciation and amortization of intangible assets. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and
- Free cash flow is derived from net cash provided by operating activities less cash spent on capital expenditures and acquisitions, and removing the excess income tax benefits or costs associated with stock-based awards.

## REVENUE TO BOOKINGS: TOTAL

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	3 months ended	
	3/31/17	3/31/16
<i>(in thousands, unaudited)</i>		
<b>Reconciliation of Revenue to Bookings</b>		
Revenue	\$ 194,284	\$ 186,721
Change in deferred revenue	13,074	(5,096)
<b>Bookings</b>	<b>\$ 207,358</b>	<b>\$ 181,625</b>

## REVENUE TO BOOKINGS: MOBILE

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	3 months ended	
	3/31/17	3/31/16
<i>(in thousands, unaudited)</i>		
<b>Reconciliation of Revenue to Bookings: Mobile</b>		
Revenue	\$ 161,613	\$ 135,667
Change in deferred revenue	14,508	3,095
<b>Bookings: Mobile</b>	<b>\$ 176,121</b>	<b>\$ 138,762</b>

## REVENUE TO BOOKINGS: ADVERTISING AND OTHER; ADVERTISING

	3 months ended	
	3/31/17	3/31/16
<i>(in thousands, unaudited)</i>		
<b>Reconciliation of Revenue to Bookings: Advertising &amp; Other</b>		
Revenue	\$ 40,802	\$ 49,664
Change in deferred revenue	1,082	(3,055)
<b>Bookings: Advertising &amp; Other</b>	<b>\$ 41,884</b>	<b>\$ 46,609</b>
Less Bookings: Other	\$ (777)	\$ (1,233)
<b>Bookings: Advertising</b>	<b>\$ 41,107</b>	<b>\$ 45,376</b>

## NET INCOME (LOSS) TO ADJUSTED EBITDA

<i>(in thousands, unaudited)</i>	3 months ended	
	3/31/17	3/31/16
<b>Reconciliation of Net income (loss) to Adjusted EBITDA</b>		
Net income (loss)	\$ (9,474)	\$ (26,558)
Provision for (benefit from) income taxes	2,867	2,480
Other income (expense), net	(1,436)	(2,100)
Interest income	(937)	(705)
Restructuring expense, net	(845)	468
Depreciation and amortization	8,881	10,812
Acquisition-related transaction expenses	187	—
Contingent consideration fair value adjustment	(94)	2,030
Stock-based expense	17,526	29,608
<b>Adjusted EBITDA</b>	<b>\$ 16,675</b>	<b>\$ 16,035</b>

## NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES TO FREE CASH FLOW

<i>(in thousands, unaudited)</i>	3 months ended	
	3/31/17	3/31/16
<b>Reconciliation of net cash provided by (used in) operating activities to free cash flow</b>		
Net cash provided by (used in) operating activities	\$ (4,719)	\$ (3,305)
Acquisition of property and equipment	(2,285)	(2,654)
<b>Free cash flow</b>	<b>\$ (7,004)</b>	<b>\$ (5,959)</b>

## GAAP TO NON-GAAP COSTS AND EXPENSES

Adjustments to GAAP to arrive at non-GAAP measure  
(In thousands, unaudited)

Three months ended March 31, 2017

	GAAP measure	Restructuring expense, net	Amortization of intangible assets from acquisitions	Acquisition- related transaction expenses	Contingent consideration fair value adjustment	Stock-based expense	Non-GAAP measure
Cost of revenue	\$ 64,877	\$ -	\$ (4,295)	\$ -	\$ -	\$ (619)	\$ 59,963
Research and development	69,202	932	-	-	94	(11,713)	58,515
Sales and marketing	46,620	-	(1,053)	(201)	-	(1,787)	43,579
General and administrative	22,565	(87)	-	14	-	(3,407)	19,085
Total costs and expenses	<u>\$ 203,264</u>	<u>\$ 845</u>	<u>\$ (5,348)</u>	<u>\$ (187)</u>	<u>\$ 94</u>	<u>\$ (17,526)</u>	<u>\$ 181,142</u>

Adjustments to GAAP to arrive at non-GAAP measure  
(In thousands, unaudited)

Three months ended March 31, 2016

	GAAP measure	Restructuring expense, net	Amortization of intangible assets from acquisitions	Contingent consideration fair value adjustment	Stock-based expense	Non-GAAP measure
Cost of revenue	\$ 57,139	\$ -	\$ (6,643)	\$ -	\$ (649)	\$ 49,847
Research and development	87,737	(125)	-	(2,030)	(24,203)	61,379
Sales and marketing	46,344	-	(736)	-	(1,991)	43,617
General and administrative	22,384	(343)	-	-	(2,765)	19,276
Total costs and expenses	<u>\$ 213,604</u>	<u>\$ (468)</u>	<u>\$ (7,379)</u>	<u>\$ (2,030)</u>	<u>\$ (29,608)</u>	<u>\$ 174,119</u>



## Q2 2017 FINANCIAL GUIDANCE: GAAP TO NON-GAAP RECONCILIATION

*(in thousands, except per share data)*

	Q2'17
<b>Reconciliation of Revenue to Bookings</b>	
Revenue	\$ 200,000
Change in deferred revenue	5,000
<b>Bookings</b>	<b>\$ 205,000</b>
<b>Reconciliation of Net income (loss) to Adjusted EBITDA</b>	
Net income (loss)	\$ (6,000)
Provision for (benefit from) income taxes	4,000
Other income (expense), net	(1,000)
Interest income	(1,000)
Depreciation and amortization	8,000
Stock-based expense	15,000
<b>Adjusted EBITDA</b>	<b>\$ 19,000</b>
<b>GAAP diluted shares</b>	863,000
<b>Net income (loss) per share</b>	<b>\$ (0.01)</b>

