Investors give 'Farmville' maker a cold shoulder

December 16 2011, By BARBARA ORTUTAY , AP Technology Writer

The corporate logo for Zynga is shown on an electronic billboard at the Nasdaq MarketSite, Friday, Dec. 16, 2011 in New York. Stock in the San Francisco company began trading at Nasdaq, Friday following its IPO. (AP Photo/Mark Lennihan)

(AP) -- As its workers celebrated with hot chocolate and cinnamon buns, Zynga saw its stock dinged on its first day of trading Friday - an unexpected turn of events for a closely watched public debut seen as a precursor to Facebook's next year.

Zynga Inc., the online game developer behind "FarmVille," "Mafia Wars" and other popular time killers on Facebook, raised at least $1 billion in its initial public offering of stock, the largest for a U.S. Internet company since Google's $1.4 billion IPO in 2004.

But by Friday afternoon, Zynga's stock fell 50 cents, or 5 percent, to close at $9.50. The stock priced at $10 on Thursday, at the high end of its expected range. It traded as high as $11.50 on Friday before heading into a downward spiral on the Nasdaq Stock Market.

It was far from the eye-popping jump that has been the trend this year for freshly public Internet darlings such as LinkedIn Corp., which saw its stock double on its first trading day.

Zynga's opening - with a ticker symbol of "ZNGA" - was supposed to be big. After all, unlike many others with IPOs, the company is profitable, with more than 220 million people playing its games on Facebook each month.

What this all means for Facebook's IPO, expected sometime after April, is hard to say. One thing is clear, though.

"A hot IPO is not guaranteed," said Kathleen Smith, principal of IPO investment advisory firm Renaissance Capital.

Despite the big-name public offerings this year, the IPO market is not in good health. Buyers are skittish and concerned about the high volatility of freshly public stocks, Smith said. Big name or not, investors don't want to pay sky-high prices for stocks, especially not before a company has proven itself with good earnings reports and analyst ratings.

Seventy percent of the 125 companies that went public this year are now trading below their IPO price, according to Renaissance Capital.

While Friday's drop doesn't look good, it's not devastating for Zynga. Its CEO, Mark Pincus, said the company's focus is on "delivering great products" that expand audience for social games over the next few years - and not on the next trading day.

"We didn't have any expectations coming into this whole process," he said in an interview. "We decided to go public a long time ago."

Pincus rang the Nasdaq's opening bell in San Francisco, a first in the city for a freshly public company. The company's roughly 1,700 San Francisco employees woke up at the crack of down to celebrate with cinnamon buns and hot cocoa. Zynga also delivered video of the opening ceremony over the Internet to its offices around the world.

Thursday's pricing gives Zynga a market value of about $7 billion. That's roughly half of the value of online deals site Groupon, which began trading in early November. Zynga, though, sold a much bigger chunk of its available shares, 14.3 percent compared with Groupon's 5.5 percent. It's an issue of supply and demand - selling more shares means investors don't have to scramble to get their hands on them.

Wedbush analyst Michael Pachter said stocks trade based on supply and demand on the first day.

In Zynga's case, he believes the IPO's underwriters placed more shares with investors who were going to "flip" the stock - that is, buy a hot stock and quickly sell it to make a profit instead of holding on to it for the long run. All that selling tempered the stock's price, and other nervous investors started selling, too.

Sterne Agee's Arvind Bhatia said the issue came down to valuation - what people are willing to pay.

"You might like a company but not its valuation," said Bhatia, who took the unusual step of starting coverage of Zynga's stock before it went public, giving it an "Underperform" rating and a price target of $7.

With its huge player base and a few loyal spenders, Zynga had net income of $90.6 million in 2010, an unusual pre-IPO money-maker in the sector.

Cowen & Co. analyst Doug Creutz, however, initiated coverage Friday with a "Neutral" rating on the stock. Although Zynga is the leader in Facebook gaming, he's concerned that it won't be able to grow fast enough to justify its stock price. Growth in Facebook gaming has slowed, and Zynga's market share has declined from 50 percent to 38 percent of daily active users, he wrote.

He's also concerned that Zynga's famously aggressive and hard-charging culture may not be the best field to grow good games in. Others have raised concerns that the focus on deadlines and profits might be squeezing out creativity and talent.

In November, Groupon raised $700 million in its IPO. The granddaddy of all Internet IPOs might happen next year, as Facebook Inc. is expected to raise as much as $10 billion.

Bhatia declined to speculate about what Zynga's first-day drop might mean for Facebook. But he pointed out that what was a bad year for Zynga was a good year for Facebook. That's because Facebook stated charging application developers a 30 percent cut of the money they make through its site. That means for every dollar a player spends on "FarmVille" crops, 30 cents goes to Facebook.

"They are in the driver's seat," Bhatia said of Facebook. The company, he added, is "in class of its own."