

Social games star Zynga in the red, but optimistic (Update)

April 26 2012, by Glenn Chapman



Online social games star Zynga on Thursday beat Wall Street earnings expectations with quarterly results showing it gained users and pumped up revenue.

Online social games star Zynga stayed in the red in its second quarter as a publicly traded company but on Thursday promised better days ahead with the help of play on smartphones and tablet computers.

Zynga posted a loss of \$85.35 million on revenue that climbed to nearly \$321 million from the \$242.9 million seen in the first three months of last year.

Not counting "special items" such as stock awarded to compensate employees or as part of an acquisition, Zynga said its net income was \$47.05 million.

The company said it was winning new players as it invested heavily in developing new games.

"We're pleased with the progress that Zynga has made in the first quarter, growing our audience reach 25 percent year-over-year and nearly 20 percent quarter-over-quarter," said Zynga founder and chief executive Mark Pincus.

"Our team did a great job launching five new games across mobile and Web including new hits like Hidden Chronicles, Slingo and Scramble with Friends."

Zynga reported that sales of virtual goods, referred to as "bookings," reached an all-time high of \$329 million.

Pincus said that the surge in play on mobile gadgets was "explosive" and boded well for the company in a world in love with smartphones and tablets.

"We believe we are in the middle of a secular shift in all gaming to free, open and accessible," Pincus said in an earnings call with analysts.

Zynga expected its bottom line to get a lift from its recent purchase of the startup behind fiercely popular smartphone game Draw Something.

Pincus said the company has played off the popularity of games such as Words With Friends to win people over to spin-off titles such as Hanging With Friends and is confident it could build on Draw Something with variations to the theme.

"We are excited about the future prospects as we build a bigger, more powerful network and have opportunities to do brand extensions that leverage engagement and drive play to other games," Pincus said.

Zynga's stock price sank nearly two percent to \$9.25 a share in trading that followed release of the earnings figures.

Zynga ended last year with a net loss of \$404.3 million, which included more than a half-billion dollars in stock compensation workers earned instead of cash at the startup.

The Internet company jumped into the stock market with a billion-dollar listing in December.

Offering 100 million shares -- one-seventh of the company's total -- at \$10 a pop, the maker of FarmVille and Zynga Poker was valued at a whopping \$7 billion.

Despite concerns by some analysts that new Internet stars are being precariously overvalued, Zynga's stock was snapped up quickly.

Zynga games are free to play but the company makes money by selling virtual in-game goods to players and serving up advertising.

The games developer boasts around 236 million players per month in 175 countries, dwarfing its social gaming competitors.

Founded in 2007, the San Francisco-based software company makes notoriously addictive games which run on top of social networking site Facebook.

Zynga last month opened an online playground where users can enjoy hit titles without having to visit the world's top social network.

Zynga.com launched with CastleVille, Words With Friends, CityVille, Hidden Chronicles and Zynga Poker, along with a promise of more social games by the firm and outside developers.

"We've invested heavily to build a network and infrastructure tuned for delivering social gaming at scale," Pincus said at the launch.

Zynga.com is connected to the Facebook "social graph" so game play and the actions of friends involved will follow users between the online venues.

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