

Zynga investors worry about growth, shares slump

April 27 2012, By BARBARA ORTUTAY , AP Technology Writer

(AP) -- Shares of Zynga Inc. declined further on Friday, even after the online game maker reported first-quarter results that surpassed Wall Street's expectations. Nervous investors are looking for any signs of a slowdown for the young company, which completed its initial public offering in December.

THE SPARK: Zynga's earnings, revenue and bookings - a different revenue metric meant to reflect how much cash Zynga has actually taken in from virtual items during the quarter - were better than analysts had expected. Colin Sebastian, an analyst with Baird, said overall Zynga had a good quarter. That said, investors are concerned that the growth of Facebook games is slowing. User numbers and revenue are still increasing, but more slowly.

BACKGROUND: Young Internet companies, from Zynga to Groupon to Facebook, are expected to grow quickly, so investors watch for any signs of a [slowdown](#) at these companies and many sell off the stocks if they see it.

Investors, Sebastian said, are expecting "pretty steady beat-and-raise quarters." Zynga did raise its full-year bookings guidance to the range of \$1.43 billion to \$1.5 billion, but that was largely to account for its March acquisition of "Draw Something" maker OMGPop.

Sebastian also noted that Zynga saw a sequential decline in average bookings per user during the quarter. This, he added, is likely due to

people shifting to [mobile games](#), which don't make as much money as Facebook games.

Also hanging over Zynga is the expiration of its post-IPO lock-up period. This will allow [insiders](#), mostly Zynga employees, to sell their stock. Zynga has somewhat staggered the dates at which early investors are allowed to unload their shares, but Sterne Agee analyst Arvind Bhatia noted that by August, the number of Zynga's publicly owned shares will increase by eightfold.

"Obviously, this has the potential to put pressure on the shares," he said in a recent note to investors.

ANALYSTS VIEW: Sebastian has a "Neutral" rating on Zynga and a target price of \$13. He said the company has a "unique ability to grow and generate meaningful profits" and that he is "incrementally more positive" on the stock after the earnings report.

"It's a well-run company with a big market opportunity," he said.

Bhatia, who's had a negative view of Zynga even before its IPO, rates the stock "Underperform" and has a [target](#) price of \$7.

"The (first-quarter) beat did not surprise us given the low expectations and the benefit of OMGPop in the quarter," he said.

SHARE ACTION: Zynga's stock fell 89 cents, or 9.5 percent, to \$8.53 just before the market closed. The stock, which priced at \$10 when it went public, has traded between \$7.97 and \$15.91 since its IPO. It had dropped 28 percent in April through Thursday's close.

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