Worries about future pummel Zynga shares

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(AP) — Zynga investors are not playing games.

After Zynga's dismal second-quarter earnings report and still dimmer outlook, shares plummeted 40 percent. At least seven analysts downgraded the online games maker and several raised questions about its long-term relevance.

Zynga Inc. cut its full-year guidance sharply Wednesday after reporting a loss and revenue below Wall Street's expectations. Though both user numbers and revenue increased, analysts were expecting much more.

In turn, Goldman Sachs and others downgraded the stock and lowered their target prices.

Problems are myriad for the maker of "FarmVille" and other Facebook games. The company's bleak outlook was due to the sharp drop-off of users of Zynga's most profitable games, delays in developing new games, the growing pull of Facebook's mobile app and because Facebook has changed the way it promotes games, said Goldman's Heath Terry. He cut Zynga to "Neutral" from "Buy."

Zynga's mobile games, such as "Words With Friends," are popular but don't make as much money as the Facebook versions. And Facebook makes up nearly all of Zynga's revenue.

Facebook Inc. recently changed the way it recommends applications to users in a way that favors newer games rather than older ones such as

Zynga's "FarmVille." But Cowen analyst Doug Creutz thinks the weak report isn't just about Facebook's changes.

"We are skeptical that Zynga's (paying) player bases on titles like 'FarmVille' and 'CityVille,' which have been around for years, simply forgot to play without proper prompting via their news feed," he wrote in a note to investors. Rather, he said, he thinks users are shifting from PC-based social games to mobile gaming.

"We think this shift is likely permanent and ongoing, threatening Zynga's largest business segment," he said, keeping his "Neutral" rating.

A few analysts remained positive. Baird analyst Colin Sebastian called the quarter a "big reset of expectations" for investors, and the stock will suffer. But he still believes that over the long term, Zynga will benefit from the growing market for social and mobile games. He kept an "Outperform" rating on Zynga's stock but lowered his target price to $6 from $13.

Zynga's stock is down $1.99 at $3.09 in afternoon trading. That's its lowest level since Zynga went public in December and nearly 70 percent off its IPO price of $10.

Zynga's bad news dragged Facebook's stock lower too. Shares of the online social networking company dropped $2, or 8.8 percent, to $27.34 a few hours before Facebook was scheduled to report its second-quarter earnings, its first as a public company. In 2011, 11 percent of Facebook's revenue came from Zynga.

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