

# Game maker Zynga stock tanks after weak 2Q report

July 25 2012, by BARBARA ORTUTAY

---

(AP) — Zynga Inc. lost money and received less revenue than anticipated in the second quarter because "CityVille," "FarmVille" and other games are not attracting as many paying players as they should.

Its stock tanked in after-hours trading and dragged Facebook's shares as well because the social networking icon relies on Zynga for a good chunk of its revenue — 12 percent last year. The news comes just as Facebook prepares to report quarterly earnings on Thursday, its first as a public company.

Though Zynga's revenue grew, Wall Street wanted more. The number of players increased, but only because it got more players from its acquisition of OMGPop, the maker of the mobile game "Draw Something." Expenses grew, too.

Faced with a dismal quarter, Zynga lowered its outlook for the year on Wednesday, citing game delays, reduced expectations for "Draw Something" and what it called a "more challenging environment on the Facebook Web platform."

In short, not all is well in Zyngaville.

"The largest reason for us decreasing our guidance has to do with the performance of our existing games," Chief Financial Officer David Wehner said in a conference call with analysts.

It's not clear if this means people are growing tired of Zynga's games, of Facebook games in general, or if they are just not paying as much for virtual cows and poker chips as they used to. Zynga offers its games for free and makes money when players buy those virtual goods to enhance game play.

To Michael Pachter of Wedbush, the reasons Zynga gave for its weak outlook were not good enough.

"Why did they do so badly? I wish I knew," he said. But he was more concerned about the reduced forecast.

The game delay, the weak "Draw Something" performance and changes Facebook made to its website — which can make older games such as "FarmVille" more difficult to discover — helped explain why Zynga did badly in the second quarter. But Pachter said these reasons don't explain the weak outlook for the rest of the year.

The company said it now expects adjusted earnings of 4 cents to 9 cents per share for all of 2012. In April, it had forecast adjusted earnings between 23 cents and 29 cents per share. Analysts were expecting 26 cents.

Zynga derives nearly all of its revenue from games played on Facebook. A growing number of Facebook users are accessing the social network using mobile devices rather than computers, which hurts Web-based games such as Zynga's.

Zynga had a lot riding on this quarter. Investors had been punishing its stock because of worries about declining user numbers. Zynga said the number of active monthly users grew by 34 percent from a year ago, to 306 million. But the number wouldn't have gone up were it not for the OMGPop acquisition. Zynga didn't break out the OMGPop numbers.

The results provided no relief. Zynga's stock sank \$1.89, or 37 percent, to \$3.19 in after-hours trading after the results came out. That is below its all-time low of \$4.45 and means Zynga will likely start trading Thursday at its lowest level since going public in December.

The stock had closed up 16 cents at \$5.08 during the regular session. Zynga's stock priced at \$10 when it went public.

Facebook's stock also declined after Zynga's announcement. The bad news from Zynga could hurt Facebook, whose stock fell \$2.23, or 7.6 percent, to \$27.11 in after-hours trading.

Zynga said Wednesday that it lost \$22.8 million, or 3 cents per share, in the April-June quarter. That's down from earnings of \$1.4 million a year ago when it was still privately held. Its per-share results a year ago were at breakeven.

Adjusted earnings in the latest quarter were a penny per share, below expectations of 5 cents per share.

Zynga's revenue grew 19 percent to \$332 million. Analysts surveyed by FactSet had expected \$342.8 million.

Zynga also said Wednesday that its chairman and CEO, Mark Pincus, became the beneficial owner of more than 50 percent of the company's voting power through stock he owns.

Copyright 2012 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Game maker Zynga stock tanks after weak 2Q report (2012, July 25) retrieved 29 June 2024 from <https://phys.org/news/2012-07-zynga-disappointment.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.