

## Zynga Inc. (ZNGA)

**\$9.95** (As of 08/06/20)

Price Target (6-12 Months): **\$8.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 08/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: B

### Summary

Zynga's second-quarter 2020 results benefited from strength in live services and growth in international markets. Robust performance of five popular franchises — CSR Racing, Words With Friends, Zynga Poker, Empires & Puzzles and Merge Dragons! — was a major growth driver. Notably, Social Slots portfolio and Empires & Puzzles witnessed a spike in revenues and bookings in the reported quarter. Zynga's portfolio strength and recent releases, Merge Magic! and Game of Thrones Slots Casino are key catalysts for the long haul. The company's shares have outperformed the industry on a year-to-date basis. However, weakening advertising demand as a result of coronavirus lockdown is an overhang. Higher software development and marketing costs keep margins under pressure.

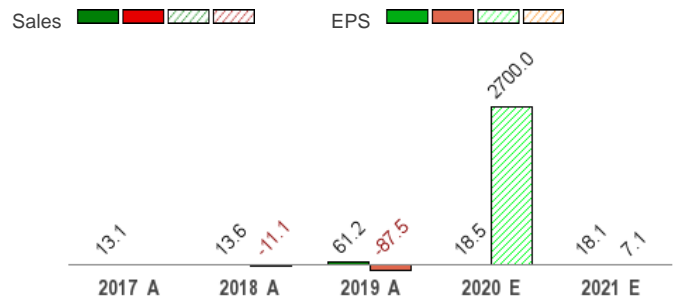
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$10.69 - \$5.51
20 Day Average Volume (sh)	18,749,116
Market Cap	\$9.5 B
YTD Price Change	62.6%
Beta	0.35
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Gaming</a>
Zacks Industry Rank	Bottom 19% (204 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-112.5%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	-4.6%
Expected Report Date	11/04/2020
Earnings ESP	0.0%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	539 E	580 E	551 E	592 E	2,189 E
2020	425 A	518 A	445 E	482 E	1,854 E
2019	359 A	376 A	395 A	433 A	1,564 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.08 E	\$0.10 E	\$0.08 E	\$0.08 E	\$0.30 E
2020	\$0.01 A	-\$0.01 A	\$0.04 E	\$0.05 E	\$0.28 E
2019	-\$0.12 A	-\$0.04 A	\$0.00 A	\$0.04 A	\$0.01 A

\*Quarterly figures may not add up to annual.

P/E TTM	248.8
P/E F1	35.5
PEG F1	2.5
P/S TTM	5.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/06/2020. The reports text is as of 08/07/2020.

## Overview

Based in San Francisco, CA, Zynga Inc. is a leading developer, marketer, and publisher of social game services.

Zynga's gaming portfolio includes *CSR Racing 2*, *Empires & Puzzles*, *FarmVille*, *Merge Dragons!*, *Words With Friends*, *Mafia Wars*, *Zynga Poker* and *Treasure Isle*.

Zynga operates social games as live services, which means that it continues to support and update games after launch and gather daily, metrics-based player feedback that enables it to continually enhance games by adding new content and features.

The company publishes games on a number of global platforms including Facebook, MySpace, Yahoo, iPad, iPhone and Android devices.

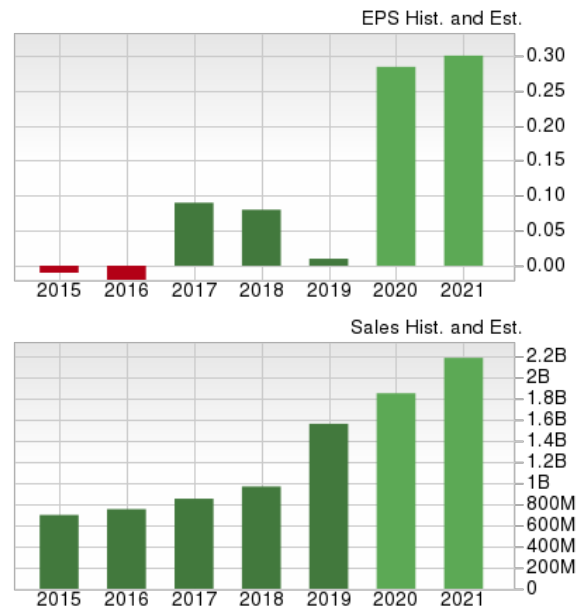
Zynga earns revenues from the sale of advertisement-free versions of mobile games, virtual currency that players use to buy in-game virtual items, licensing and advertising services.

The company reported revenues of \$1.32 billion for 2019. International revenues accounted for approximately 37% of revenues.

In the mobile and social gaming market, Zynga competes with the likes of Glu Mobile, NetEase Games, SciGames Interactive and EA Mobile.

The company also faces substantial competition from console and personal computer game publishers and diversified media companies including Sony, Microsoft, Nintendo, Activision Blizzard, Take-Two Interactive, THQ Ubisoft Time Warner and Viacom.

Zynga acquired 80% of Small Giant Games for \$560 million in a deal that closed at the beginning of 2019, thus adding Empires & Puzzles as a new forever franchise to its live services portfolio.



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### Reasons To Sell:

- ▼ Active user addition is key to healthy growth of any gaming company. Zynga's top line is driven by increase in user spending rather than a growing player base, which is a concern. Average mobile monthly active users declined 5% in a year's time to 68 million.
- ▼ The video game industry is inherently hit driven and highly competitive. Though Zynga has a powerful line-up of games that can be repeatedly upgraded, there is no assurance that a particular game will be a hit. Moreover, the video game business is highly cyclical and heavily dependent on time-to-time upgrade/introduction of new game software and hardware systems. This keeps the margins under pressure
- ▼ Zynga is losing opportunities in the rapidly growing e-sports market to the likes of Take Two Interactive and Activision Blizzard. With continued increase in viewership, corporate sponsorships and growing media coverage, e-sports is here to stay. Per the latest report from Newzoo, e-sports industry will reach \$1.8 billion by 2022.

The video game industry is inherently hit driven and highly competitive. Zynga faces significant competition from the likes of Take Two Interactive and Activision Blizzard.

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## Risks

- Zynga's growth is primarily driven by strength in its diversified portfolio of live services. Also known as forever five franchises — *CSR Racing*, *Words With Friends*, *Zynga Poker*, *Empires & Puzzles* and *Merge Dragons!* — are the key growth drivers for the company.
  - Zynga's expanding mobile gaming portfolio is expected to drive growth. Tremendous initial response from soft launches of games such as *Farmville 3* and *Merger Magic!* from Gram Games and *Puzzle Combat* from Small Giant Games are positives.
  - Zynga had cash and cash equivalents & short-term investments of approximately \$1.55 billion as of Jun 30, 2020 compared with \$1.26 billion as of Mar 31, 2020. However, the company's net cash of \$686 million on Jun 30, 2020 gives an indication that its debt level is manageable. The company continues to invest in developing its platform and products.
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## Last Earnings Report

### Zynga's Q2 Loss Wider Year Over Year, Revenues Up

Zynga reported second-quarter 2020 loss of 16 cents per share. The figure was wider than a loss of 6 cents reported in the year-ago quarter.

Revenues surged 56.9% year over year to \$452 million driven by strength in live services, and robust growth in international markets.

In particular, contributions from *Social Slots portfolio*, *Words With Friends*, *CSR2* and *Empires & Puzzles* drove the top line in the reported quarter.

The Zacks Consensus Estimate for earnings and revenues was pegged at 8 cents per share and \$503 million, respectively.

Total bookings came in at \$543 million, up 54.7% year over year. The upside was driven by strong mobile bookings. The consensus mark for bookings was pegged at \$503 million.

#### Quarter Details

Zynga's online game revenues (85.9% of total revenues) increased 61.3% year over year to \$388.2 million on the back of its five popular franchises — *CSR Racing*, *Words With Friends*, *Zynga Poker*, *Empires & Puzzles* and *Merge Dragons!* Along with strong player engagements across titles as a result of coronavirus-induced self-quarantine by users globally.

Meanwhile, Advertising revenues (14.1% of total revenue) and advertisement bookings (11.6% of total bookings) declined 3.5% and 4.5%, respectively year over year to \$63.5 million and \$63 million. The downside was caused by lower advertising demand as a result of coronavirus lockdown.

Mobile revenues (95.9% of total revenue) and mobile bookings increased 50.9% and 39.1%, respectively year over year to \$433 million and \$498 million. The increase was driven by robust live services performance.

On a geographic basis, revenues from the United States (61.1% of total revenues) increased 56.8% year over year to \$276 million.

Moreover, International revenues (38.9% of total revenues) increased 57.1% to \$176 million.

#### User-Base Details

In the second quarter, user pay revenues were \$388 million, up 61% year over year. User pay bookings were \$455 million, up 47% year over year.

Zynga's average mobile daily active users (DAUs) increased 4% year over year to 22 million. The addition of *Empires & Puzzles* and *Merge Magic!* was more than offset by declines in older mobile titles such as *Zynga Poker* and chat games.

Moreover, average mobile monthly active users (MAUs) were flat year over year at 70 million in the reported quarter, primarily due to declines in *Zynga Poker*, chat games and older mobile titles. This was partially offset by the additions of *Empires & Puzzles*, *Merge Magic!* and *Merge Dragons!*

Average mobile daily bookings per average mobile DAU (ABPU) rallied 32% year over year to \$0.248 in the reported quarter.

#### Operating Details

GAAP gross margin, as a percentage of revenues, expanded to 60% from 59% in the year-ago quarter due to lower net increase in deferred revenues.

Non-GAAP operating expenses (49.2% of total revenue) increased 13.3% year over year to \$222.1 million in the reported quarter primarily, due to increase in sales and market investments.

Non-GAAP research & development (R&D), general & administrative (G&A) and sales & marketing (S&M) expenses increased 0.9%, 22.4% and 18.2% year over year to \$66.5 million, \$24.8 million and \$130.7 million, respectively.

Adjusted EBITDA was \$70 million compared with \$2.9 million in the year-ago quarter.

#### Balance Sheet

As of Jun 30, 2020, Zynga had cash and cash equivalents & short-term investments of approximately \$1.55 billion compared with \$1.26 billion as of Mar 31, 2020.

Cash flow provided by operating activities in second-quarter 2020 was \$1.45 billion compared with \$35.1 million cash flow used in operating activities in first-quarter 2020. Free cash flow was \$1.42 billion in the second quarter compared with negative \$43.7 million in the previous quarter.

#### Guidance

For third-quarter 2020, Zynga expects revenues of \$445 million and bookings of \$620 million.

Management expects the top line to benefit from mobile live services with expected sequential growth across its five forever franchises including

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	2.99%
EPS Surprise	-112.50%
Quarterly EPS	-0.01
Annual EPS (TTM)	0.04

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full-quarter contributions from *Toon Blast*, *Toy Blast* and *Merge Magic!*.

For 2020, management expects revenues of \$1.8 billion and bookings of \$2.2 billion.

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## Recent News

On Aug 5, announced that it has entered into an agreement to acquire Istanbul-based Rollic, a mobile games developer and publisher with a portfolio of hyper-casual games that have been downloaded more than 250 million times. Zynga will acquire 80% of Rollic for \$168 million in cash.

On Jul 2, Zynga announced completion of the acquisition of Peak for \$1.85 billion. Peak brings to Zynga a renowned, talented team and two forever franchises, *Toon Blast* and *Toy Blast*, that have consistently ranked within the top 10 and top 20 U.S. iPhone grossing games, respectively in the past two years.

On Jun 17, Zynga announced the launch of Words With Friends Word Pop, a new voice game based on Words With Friends, exclusively for Alexa.

On Jun 11, Zynga announced plans to create more multiplayer titles exclusively for Snap's gaming platform, Snap Games. The first new game under this collaboration, Bumped Out, was revealed at Snap Partner Summit and is available starting today, exclusively on Snap Games.

On May 15, Zynga announced the release of the first official trailer of Harry Potter: Puzzles & Spells, soft launched in select markets on Mar 5. The magical match-3 mobile game is officially licensed from Warner Bros. Interactive Entertainment.

On May 6, Zynga announced that Garth Brooks, the best-selling solo artist in U.S. history, has collaborated with Amazon to bring free content to Amazon Prime members in *Words With Friends*.

## Valuation

Zynga's shares are up 65.5% in the year-to-date period and 64.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 23.5% and 3.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 9.4% while the sector is up 4.9%.

The S&P 500 index is up 4% in the year-to-date period while up 14.3% in the past year.

The stock is currently trading at 4.68X forward 12-month sales, which compares to 2.96X for the Zacks sub-industry, 2.39X for the Zacks sector and 3.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.97X and as low as 2X, with a 5-year median of 3.34X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$8 price target reflects 3.98X forward 12-month sales.

The table below shows summary valuation data for ZNGA

Valuation Multiples - ZNGA					
		Stock	ub-Industr	Sector	S&P 500
P/S F12M	Current	4.68	2.96	2.39	3.66
	5-Year High	4.97	3.26	2.95	3.66
	5-Year Low	2	1.62	1.68	2.53
	5-Year Median	3.34	2.47	2.5	3.04
P/B TTM	Current	5.13	3.41	3.28	4.58
	5-Year High	5.38	4.99	4.95	4.58
	5-Year Low	0.92	1.91	2.22	2.83
	5-Year Median	2.02	3.8	4.21	3.73
EV/Sales TTM	Current	5.02	3.12	3.07	3.32
	5-Year High	6	4.31	3.88	3.43
	5-Year Low	0.85	1.91	2.27	2.1
	5-Year Median	3.12	3.42	3.39	2.82

As of 08/06/2020

## Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Activision Blizzard, Inc. (ATVI)	Neutral	3
Electronic Arts Inc. (EA)	Neutral	2
Facebook, Inc. (FB)	Neutral	3
Glu Mobile Inc. (GLUU)	Neutral	4
Microsoft Corporation (MSFT)	Neutral	3
Nintendo Co. (NTDOY)	Neutral	3
Tencent Holding Ltd. (TCEHY)	Neutral	2
TakeTwo Interactive Software, Inc. (TTWO)	Neutral	2

Industry Comparison Industry: Gaming				Industry Peers		
	ZNGA	X Industry	S&P 500	ATVI	EA	TTWO
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	2	2
VGM Score	F	-	-	D	D	D
Market Cap	9.52 B	1.58 B	23.20 B	67.03 B	42.43 B	20.28 B
# of Analysts	5	3	14	15	14	21
Dividend Yield	0.00%	0.00%	1.78%	0.47%	0.00%	0.00%
Value Score	F	-	-	D	D	D
Cash/Price	0.14	0.23	0.07	0.09	0.15	0.14
EV/EBITDA	62.13	9.89	13.21	29.54	22.23	25.73
PEG Ratio	2.47	1.91	2.94	1.75	4.03	5.35
Price/Book (P/B)	5.48	2.65	3.12	4.90	5.45	7.65
Price/Cash Flow (P/CF)	387.42	9.24	12.27	30.94	27.38	30.78
P/E (F1)	35.57	28.88	21.69	30.17	27.17	46.70
Price/Sales (P/S)	5.93	1.42	2.48	9.59	7.33	6.00
Earnings Yield	2.81%	-3.34%	4.39%	3.32%	3.68%	2.14%
Debt/Equity	0.41	1.93	0.77	0.20	0.05	0.06
Cash Flow (\$/share)	0.03	0.68	6.94	2.81	5.37	5.76
Growth Score	C	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	NA%	0.54%	10.46%	13.15%	14.93%	29.50%
Proj. EPS Growth (F1/F0)	2,740.00%	-147.17%	-6.80%	27.94%	-5.44%	-31.33%
Curr. Cash Flow Growth	-57.58%	-0.77%	5.39%	-23.97%	15.43%	-8.18%
Hist. Cash Flow Growth (3-5 yrs)	19.28%	9.19%	8.55%	9.90%	7.26%	12.57%
Current Ratio	1.84	1.71	1.33	3.02	2.61	1.72
Debt/Capital	28.88%	68.14%	44.50%	16.36%	4.85%	5.47%
Net Margin	-1.72%	-11.04%	10.13%	25.96%	34.27%	13.22%
Return on Equity	-2.06%	-7.98%	14.39%	17.66%	21.32%	28.26%
Sales/Assets	0.44	0.37	0.51	0.36	0.52	0.68
Proj. Sales Growth (F1/F0)	18.51%	-2.86%	-1.51%	19.97%	14.02%	-6.07%
Momentum Score	B	-	-	A	F	F
Daily Price Chg	-1.19%	2.16%	-0.04%	2.99%	0.53%	0.75%
1 Week Price Chg	2.93%	0.00%	0.14%	3.30%	4.72%	5.13%
4 Week Price Chg	-4.69%	9.08%	7.78%	7.69%	5.87%	17.63%
12 Week Price Chg	26.27%	15.87%	17.48%	19.02%	25.47%	34.83%
52 Week Price Chg	61.53%	-12.55%	0.68%	76.04%	54.31%	34.97%
20 Day Average Volume	18,749,116	80,687	2,057,775	6,552,960	2,054,325	1,440,140
(F1) EPS Est 1 week change	-4.57%	0.00%	0.00%	17.25%	-1.53%	0.00%
(F1) EPS Est 4 week change	-4.57%	0.00%	1.36%	18.45%	9.28%	-1.17%
(F1) EPS Est 12 week change	10.94%	-11.12%	1.57%	19.38%	10.05%	-22.76%
(Q1) EPS Est Mthly Chg	-37.50%	0.00%	0.54%	56.82%	-140.52%	-7.57%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	B
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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