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# EDITED TRANSCRIPT

ZNGA - Zynga Inc at UBS Global Technology Conference

EVENT DATE/TIME: NOVEMBER 14, 2017 / 11:00PM GMT



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## CORPORATE PARTICIPANTS

**Frank Gibeau** *Zynga Inc. - CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Eric Sheridan** *UBS - Analyst*

## PRESENTATION

**Eric Sheridan** - *UBS - Analyst*

All right. I know we're running a little tight on time. So we've got some people still getting settled, but let's jump right into it. For the next conversation, it's my pleasure to introduce Frank Gibeau, the CEO of Zynga. Frank, I wanted to start by maybe actually taking a step back.

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**Frank Gibeau** - *Zynga Inc. - CEO & Director*

Okay.

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**Eric Sheridan** - *UBS - Analyst*

You've been in the role now for a while. You made a lot of progress that, I think, investors have started to appreciate and understand, but walk us through the last year plus, 1.5 years. What were the big priorities? What did you set out to sort of accomplish? And where are we sitting right now in terms of the business?

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**Frank Gibeau** - *Zynga Inc. - CEO & Director*

Yes. Thank you for the opportunity today to talk to this group. The last 20 months have been awesome. We made a lot of progress and it's been a lot of hard work, but we really like the momentum that we have in the company right now. When I joined Zynga 20 months ago, what was really apparent to me initially was we had to unlock the value through better execution. The company had so much potential, great brands, lot of really talented teams, some fantastic capabilities, but it was just not coming out. We weren't able to actually bring products to market. We weren't able to grow. There was a lot of disarray in terms of the culture. And so first step was really to start to bring in a management team to really start to sharpen the operating model, focus on fewer things, do them better and really concentrate the talent on our biggest ideas. And that is really what has consumed us over the last 20 months, was really start to build a strong base of good fundamentals, predictable performance. And what was really important in that was, frankly, rebuilding our credibility and our reputation as well. We're a company that had an interesting past. And from my perspective, what we had to do was really rebuild credibility with not only The Street, but also with our own teams. And so from my perspective, it was about putting together a plan that people could believe in, that they could see and that we could start to unfold, and that really was about committing to live operations. We had a lot of great brands like Words With Friends, Poker, the CSR products. We had to fall back in love with the brands that got us there. And there was a big focus on new, new, new and we had spread the talent really thin across all these new games. And so there is a lot of reprioritization, refocus, restructuring that went underway there in those first few months, but what I'm really pleased with is how the team has rallied. We've been able to grow the business. And when we took over, it was about \$700 million in bookings, flat to down over the previous years. And we've grown to 20% since then. We have guided to the end of this year to be around \$840 million in bookings. We've grown our audience in mobile, made it -- bottomed out around 15 million daily active users. I'm happy to report we're up around 19 million daily active users and is continuing to grow. And we're excited about where we can take that.

Really one of the key things that I called out on the team when I first got there was we had good bookings, but frankly, the profitability wasn't there. And from my perspective, it was an indication that management wasn't doing the right things with the resources and generating returns that it had to. And I'm happy to report that on our internal profit metrics, we're up over 600% by the end of '17 on that front.



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Operating cash flow is something that wasn't really talked about too much. It was minus \$44 million in '15. We flipped it to plus \$60 million in '16 and for the first 3 quarters of this year, we're at \$68 million with our holiday quarter in front of us. So again, it's not rocket science. It was getting back to the fundamentals of good game development, focusing on live operations and just running the organization with a sharp operating model.

**Eric Sheridan** - UBS - Analyst

Just maybe one follow-up before we get into sort of live services more broadly. But in terms of realigning the resources inside the company, is the work done and now it's down to execution? Or are we still sort of fine-tuning, having the right resources against the right opportunities internally?

**Frank Gibeau** - Zynga Inc. - CEO & Director

I think most of the work is done, but it's a continuous process. We're going to constantly really be focused on getting the most out of what we've got. And from my perspective, we still have a ways to go to prove ourselves. We've set a goal for 20% EBITDA off bookings next year, and we remain committed to that. And that's going to require us to continue to keep a very sharp focus on how we manage expenses, generate the yield and manage R&D as well as our marketing and sales. The thing I'm really excited about where we are right now is that we're starting to transition out of fix-the-company mode into grow-the-company mode.

And we talked a little bit on our last earnings call about some different ideas we have for how we're going to do that. And it all starts with live operations. That's the lifeblood. I'm sure we'll get more into that in a minute. But it starts with live operations. We think we have more growth to go there. You've seen some really nice results on Poker and some other franchises. But I think we're just getting started there. But we're also going to start to introduce new products in the second half of next year. In fact, it started last week, with the introduction of the sequel to Words with Friends. We're starting to put new games back into the marketplace. And we think that as you layer those on top of the strong operating base we're starting to build and the predictable recurring live operations that we have, we think that, that can be a powerful part of our growth story.

Then also mobile is such a fantastic platform. You see things like augmented reality, chat as a gaming platform, 5G is further out on the horizon, but mobile is going to constantly innovate and create new ways to entertain people through games. And we're starting to invest in some of those new ideas that we're pretty excited about, certainly in chat,

And then finally, with positive operating cash flow as well as a pretty strong balance sheet, we have the opportunity to participate in how dynamic the mobile business is. We're always looking for great teams and franchises. Recently, brought on a company called Peak, and brought in their card business. So we're going to look and be opportunistic with that. But at the same time, we're spending most of our time on the organic growth part.

**Eric Sheridan** - UBS - Analyst

So sticking with your organic growth, it's fairly consistent, the message from the company that it's really this continuation of developing live services against your big brands, the big bets you already have that are in the marketplace. Maybe give us just a sense of how far along you are internally and user-facing in terms of turning some of the key products into live services at this point.

**Frank Gibeau** - Zynga Inc. - CEO & Director

I think it starts by looking at the mobile business and understanding that you have an opportunity to entertain people for very long periods of time if you are able to build a franchise and keep it all that fresh. If you look at Zynga Poker, for example, it hit its 10th year this year. Words With Friends hit its eighth year this year, and CSR is in its sixth. And in each one of those cases, they are seeing fantastic years. Right now, I think we're up 80% in bookings on Poker this year. It's because we treated like it's a new product everyday. We put our talent and our teams on the idea that through what we call, bold beats. These are new features, new ways to play. We can reengage players that have lapsed. We can get players that are currently playing play more. And we can attract new players. Mobile is such a vast market, it's very difficult to reach market saturation on a game. You can



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always find new audiences and new markets to bring people in. And if you put the right features into a game, like in the case of Poker we put leagues, we put in tournaments, we just introduced jackpots, we're able to activate each one of those customer segments in new ways.

So when you look at the existing live services that we have, for a given dollar of development or given dollar of marketing, it's extraordinarily leveraged if I can put it into a product that is entertaining millions of people already. To start from scratch with a new launch and properly introduce it, we want to do that, but it's not necessarily the first place to go for us where we are in our company's history. And so as we looked at each one of those franchises, we feel like we still have a lot of room to grow in each one of the big franchises that we're maintaining in live ops with Poker, Words With Friends, our Slots business, CSR2 and some of the more new emerging franchises like Dawn of Titans and our Magic Match business in Match-3.

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### **Eric Sheridan** - UBS - Analyst

Something you said there was sort of interesting. If you think about the product development cycle and you think about the customer acquisition, retention, remarketing cycle in mobile gaming, as it's built-in more and more on LIVE services, is that one of things that gives you confidence that over time you could see higher margins in the business because there is an underlying bedrock of the business that you're just trying to build and iterate around sort of year to year?

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### **Frank Gibeau** - Zynga Inc. - CEO & Director

Absolutely. I think when you look at the R&D part of it, the team doesn't grow. The team is focused on how it's managing a bold beat calendar over 6 or 8 quarters and it's a production discipline. It's in a discipline about looking far enough ahead, planning, researching and testing new ideas and features. I think it really applies to something like a CSR2, which came out a year ago and had a really nice start, but it's also seen a nice continuous growth on it. If you look at, we added the Fast & Furious IP. We were in a brainstorming meeting. We said we don't have anything currently planned in the second quarter of next year, where could we go? Well the movie is coming out. Why don't we talk to the Universal guys? Maybe we can do a quest tree around Fast & Furious. Then we went and got the Ferrari license. Then we added the new way to play PVP. And so it's part of that production process that I learned early in my career when you're on an annualized development schedule, you've got to be very careful about the time that you spend in engineering, in development, in publishing to make sure you're picking the right ideas. And you need to put on a long-enough planning frame, so you don't get surprised or caught out. And so that's what we've really tried to apply here to our live operations, is make it much more scientific, make it much more predictable and production-oriented, so that we don't end up in a place where, "Oh gosh, we ran out of ideas or we're out of position on something." If we do that part of the business right, then the revenue, the profitability is recurring and predictable. Then the risk that you've taken on a new production introduction, you're not betting the company anymore. It's really what you're really talking about at that point is you're adding more growth on a business that's already healthy, with strong fundamentals and moving forward in a high-growth business like mobile.

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### **Eric Sheridan** - UBS - Analyst

So I want to stick with CSR2, because that is an interesting example of something that launched and is now seeing on our numbers as well. As we look at industry daily, you obviously have better data than we do, is seeing sort of improvement as it ages, which, again, I think sort of proves out the live services model over time. Is it about that quarter-to-quarter cadence of just getting right enough intellectual property being injected into the game to drive higher, higher engagement where -- how do you turn that into sort of a multiyear platform that continues to build and grow? So some of the learnings maybe you learn from Poker that you apply to CSR2?

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### **Frank Gibeau** - Zynga Inc. - CEO & Director

Yes, one of the things that keeps these franchises live is the focus on long-term player engagement. You want people playing the games for as long as possible. I know it's a very obvious statement. But if you think about all the things that you need to do in development in order for that to happen and then look at the organic and paid marketing that you would employ in order to do that, it's actually pretty complicated. And so in the



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case of CSR, what we looked at was what would bring somebody back into the game that left, what would get somebody that plays the game currently to play even more. And for people that haven't heard of it yet, what would be a big idea that we could go out to them with that we could use in marketing and acquisition that would bring them in. I think if you look at Fast & Furious as an example of intellectual property that we put into it, that's a brand that appeals to a very, very large audience globally. So that on an acquisition front works very hard against new player segment. If you look at people that are playing the game currently to give them a quest tree to go unlock new cars like the Dodge Demon was an unlock in the game, we gave them a new quest tree so that when they're coming back weekly, daily to play the game, they have new things to do. And then for folks that might have popped out before the Fast & Furious actually came in, we say, "Guess what, now it's got the Fast & Furious quest tree, you get the Dodge Demon, come on back in, they can totally do it. That's the beauty of mobile is that you are not in a premium business model and you're in a vast market, you can always acquire new players in a very effective way.

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### **Eric Sheridan** - UBS - Analyst

So I think the industry is sort of gravitating towards a handful of definitions of categories in mobile gaming. Maybe for those who don't know it as well, help people understand what categories you play into today? Which ones maybe you look at long-term as ones you want to be in? Or ones that maybe just don't feel like you need to play in terms of categories to mobile?

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### **Frank Gibeau** - Zynga Inc. - CEO & Director

Yes. Mobile is a diverse market, it's a vast market. Our company plays in 4 key genres within that total market. The first one to talk about is Social Casino, which is where we have our Zynga Poker games, our card-based experiences as well as our Slots games. And that's a very large market internationally as well in terms of Poker. When you look at the overall growth in that category, what we've really focused in on is adding more features for people to play socially and to play competitively. And that's one of the key genres for us. On any given month, we're probably the #2 or 3 company overall in Social Casino. And we continue to look at ways to grow that business. The second category that we're very active in is Casual, which is best exemplified by our Words With Friends product. This is a category that appeals to a very vast market: males, females, young and old. And Words With Friends is an example of the franchise that's been around for 8 years. I mean, it's a big category. It's got Candy Crush and in addition to things like Words With Friends. The other genre that we recently entered was Action Strategy with CSR2 and Dawn of Titans. There's a company called NaturalMotion that was an acquisition of Zynga a few years ago. They are the studio that builds all the games that go into Action Strategy. Action Strategy are basically males 18 to 34, some 12 to 17. It's kind of your core game genre. We participate in that with some big ideas on CSR and Dawn of Titans. And in the final category is one that we're not as active in right now as we should be, and we're getting back into it is the Invest Express or the builder category. One of our brands that I'm sure some of you have heard of FarmVille, CityVille, that's where we have a big opportunity, I believe, to get back into that category. It's not a category we're actively in right now in a major way, but we're actively building new games to reenter and retake a position there.

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### **Eric Sheridan** - UBS - Analyst

When you see new games, do you think that's building live services and new titles around what people already know around things like the Ville franchises? Or is that something totally new outside the box, maybe looking at the category fresh?

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### **Frank Gibeau** - Zynga Inc. - CEO & Director

Yes. I think within each of those genres, they are large enough such that you can innovate by bringing together features or ways of playing from other genres and mash them up. They're called mashups. You take a little bit of this, a little bit that, you put them together and it creates something new. But it resides in that broader genre. I think in the case of bringing back a FarmVille and bringing back a CityVille, what we're going to do is really listen to what our players are looking for there. But at the same time, if you're going to bring a brand back, you do need to innovate. You need some fresh thinking and some new ideas there. So I think you'll see a combination of pieces there.



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**Eric Sheridan** - UBS - Analyst

How do you think -- I mean, I know we don't talk about new titles yet in terms of '18 and beyond. But when you think what planning out new IP, how do you plot out IP against your broader goals? Is it expanding in categories you already know, bolting on? So just help people understand the process of if someone internally was to bring IP to you and the management team, how do you sort of evaluate it?

**Frank Gibeau** - Zynga Inc. - CEO & Director

Sure. I think there's a couple of things. The first place you've to start is the team. I mean, do you have the talent? It's an entertainment business. It's a technology business. The folks that come up with these ideas, they are not that many of them in the world. And so you want to make sure that you have a really good team. And that allows you to bet on them, to get to a place where they can kind of breakthrough and really create a compelling experience. So you start with the team and make sure you've got the right talent and the complete team has got chemistry. Then the next thing you move to is not all teams can compete in all categories. A team that makes a first person shooter, probably isn't particularly good at a poker game and vice versa. So you want to make sure you understand what that team is capable of. At Zynga, we identify those 4 genres of places where we've really looked. I think that we've got tremendous growth in those 4 genres still ahead of us. I think the teams that we got deployed will allow us to grow into those categories. Adding a fifth or a sixth right now is a little bridge too far from my perspective. I think that we can grow with the franchises we have as well as the new ones in those genres and have a very nice result. Over time, then you can start to look further afield.

**Eric Sheridan** - UBS - Analyst

I think I know the answer, but it's probably worth asking anyway that if you were to launch new IP, would it be right to assume that it's going to be tailor-made for live services from the get go, as opposed to having to do what you've done in the last couple of years, which is sort of transition things to a live services model?

**Frank Gibeau** - Zynga Inc. - CEO & Director

Absolutely. From inception, they need to be social. From inception, they need to be oriented towards long-term engagement. If they are not, it's too hard to really fix the airplane in flight sometimes. That was a bit of the experience with NaturalMotion over the last 20 months. From my perspective, you start a project from its earliest core. You spend as little money as possible to figure out if it's going to be good or not, if it's fun. And then, then you scale once you solve for the hardest problems, which in general, is long-term engagement. So we spend a lot of time looking at PVP, the social dynamics of the game, how it unfolds over one year, not just in the first session. So those are the pieces that you really look at early on to see if you've got something.

**Eric Sheridan** - UBS - Analyst

You referenced earlier, we just had a launch of Words With Friends 2. Maybe help -- because I think this would be helpful for investors, what was the thought process behind launching Words With Friends 2? What is sort of the expectations for what it does for the franchise broadly? How do people get reenergized or reengaged with the franchise with the new version out there? What were some of the sort of internal goals you were trying to strive for in creating the game?

**Frank Gibeau** - Zynga Inc. - CEO & Director

Right. So, Words With Friends 2 offers multiple new ways to play the game. We have a game in Words With Friends 2 that we spent a lot of time understanding the player behavior inside existing games. The existing game is very successful. It's got multiple millions of DAUs. It's an ad-driven business. It's a very high-quality game. It's kind of ultimately a PVP game, where you're competing against each other. But what we found was that when and I were playing Words With Friends, after I completed my turn with you, I didn't really have that much else to do in the app. If I'd finished all my games with my friends, there wasn't anything else to do and I would just move out of the app and move on to something else. So we created



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a new solo mode that allows you to play the game against an AI and earn new things inside the game like badges or awards. And we update those constantly with themed events. And so we have a new single player mode that allows you to -- that keeps you engaged in the app. So for the segment of the audiences playing the game, you'll now play more. We also added a team-based synchronous multiplayer mode for the really hardcore players. Now they can jump in with three other people and have a really intense competitive battle. And that really super-serves the PVP players inside of Words With Friends. And so from our perspective, we ended up adding 2 new modes that allows you to play the game in all new ways. We updated the user interface, made it more performant and made it more modern. And then we've been adding new things like lots of new words to the dictionaries. And what was critical to us as we sequel the game was to make sure that people in the original game, the new game that's currently out, didn't feel like we just bifurcated the community. So the games are interoperable. So if you're in the current game and I'm in the sequel, we can still play against each other. And that allows you to migrate to the game when you want to as opposed to forcing you to migrate. We found in my history -- in my career, I worked on a lot of sequels and that was one of the critical things is the more that you impact players in a way that they don't want to be impacted or aren't ready to be impacted, you can really screw it up. So from our perspective, Words With Friends 2 is off to a really nice start over the last 10 days. We're going to be in this business for a very long time. And a lot of the new events and things that we're going to do are going to really impact overall what happens there.

The last piece that I'd call out that we've added to the game is it's traditionally been an ad-based business. Now we've added boosts and a coin-based economy, so that as a player you can buy these different boosts and use them in the play. We have something called Hindsight that allows you to go back and see what would have been the best word for you to play as opposed to what you played. We have a mode called Radar that shows you the areas on the board that are likely to be good places for you to play. And we have an instant swap, where you can swap letters. Now some people -- some of the purists say, hey that's cheating. Guess what, you don't have to use them. But for the folks that want a little bit of an edge or if they are in that team-based battle and they really want an edge, they now have the opportunity to add those boosts. So we're innovating on the business model as well by adding more value for players in the game. And that's really exciting to us over the long-term to start to transition the business to not just being an ad-driven business.

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### **Eric Sheridan** - UBS - Analyst

Interesting. For anyone who does have questions in the audience, I have got the iPad up here we've been talking about for the last 2 days. Feel free to send questions up. I'll work them into the conversation with Frank. Emerging platforms. You've talked about building more chat inside your apps. There is also the ability for people to play games more in chat apps going forward as platforms. How do you think about some of the emerging platforms that are starting to emerge that may give you another avenue to growth, another avenue for ways for people to engage with your key properties?

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### **Frank Gibeau** - Zynga Inc. - CEO & Director

Yes. Mobile is -- look, mobile reinvents itself almost every year with new innovations. The two that we're really interested in right now is being able to play games on chat platforms, the most social part of the phone you find is in messenger or iMessage. And what we're finding is that the technical capabilities of those platforms -- the platform is now such that you can play games in them. And it's not something totally novel, because in Asia, you see a lot of these types of platforms. But in the West, it's really not something that's seen or done too much. And now you're getting investments and technological innovations coming from Facebook, from Apple, from others that is allowing game makers like ourselves to put products out and our brands work really hard there. It's also our mission. Our mission is to connect the world through games and build social games. So we were early investors in that, and we continue to be excited about the opportunity to put more games in chat and reach a new audience, a very large audience in addition to what we do with our main apps. The second technology that we're really excited about is augmented reality. We feel like that's something that enhances the gameplay experience and can be the core part of a gameplay experience. This week, we're going to be introducing an augmented reality mode inside the CSR2, which will give players the ability to put a car right in the room, be able to interact with it, crawl in it, do all kinds of cool stuff with it and eventually you'll start to be much more big part of that experience as well. So just in the near term, those are two really exciting technologies on mobile that we're fired up about. But look, long-term mobile is built on a gaming platform. It reaches the entire world. Its installed base is massive. It reaches 8 to 80 males, females, all different types of players. And if you start to think about what's coming with 5G and some of the other technologies on the horizon, constantly reinvent itself and give game makers like ourselves new ways to entertain and more and more bandwidth and capability for us to put experiences out there.



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**Eric Sheridan** - UBS - Analyst

I don't know if I thought this through, but is your preferred mechanism by which you would have someone rather interact with your brands through a messaging application or through the traditional application store? Or you're relatively platform-agnostic as (inaudible)

**Frank Gibeau** - Zynga Inc. - CEO & Director

We're platform agnostic. We want to go with the audience is, where we can create high-quality experiences and build really good sustainable businesses.

**Eric Sheridan** - UBS - Analyst

Okay. You just did a piece of M&A. I know we get asked, so I'm sure you get asked all the time about how you're going to use the cash on your balance sheet. So you have better answers than I do. So you did an acquisition. Maybe just help us understand why this was the right acquisition? Why now? What did you see in the asset? So investors can understand a little bit better.

**Frank Gibeau** - Zynga Inc. - CEO & Director

Sure. I think when we look at how we're going to grow the company, we talked a little bit earlier about some of the organic ways that we're going to do it, but we also have positive cash flow. We've got a really nice balance sheet in terms of cash position. Our headquarters here in San Francisco is something that we own. So we have a lot of ability to be able to do deals and participate in the consolidation, in the dynamism of the business. But we're taking a very measured approach. One of the things that we look at is that we can create a great company organically, and we don't want to screw it up. And so from our perspective, we spend most of our time on that. And then, when we do look at M&A, which we do look at a lot, we do have a fairly sharp eye for what we're looking for. And right now, what we've been talking about with either was the Solitaire or Harpan acquisition that we did or the Peak card game is, we found an opportunity to acquire some franchises that we could plug into our existing business, which was our card-based business. And it would create a genre leadership position for us. We've now become the #1 casual card game company in the world on mobile with the acquisition of Peak. And when you add it to Solitaire and Poker, what we found in our data science and product management was there's a lot of crossover among the players there. And there was also the ability to add multiple millions of people to our ad network. And so when you took the products from Peak, which were Rummy and Spades as well as some of the regional hits they had there in Okey Plus, we're able to add that and we created a casual card-based network that allows us to grow the business from there. I think it gives us strength and position. It's a business that's accretive day 1. It was a very attractive multiple relative to ourselves. And we also, more importantly, got a really talented team in Istanbul that's very low cost, but very high quality, and would allow us to plug those into our live services portfolio.

**Eric Sheridan** - UBS - Analyst

So that actually dovetails well with the question that came in from the audience that how do you think about cost and talent in acquiring development teams overseas? Is it through acquisition or building them organically? How do you think about the right mix of domestic-based talent versus international-based talent? And what that gives you in terms of flexibility and cost structure?

**Frank Gibeau** - Zynga Inc. - CEO & Director

Yes. Look, the first thing you do is you go where the talent is at. And in mobile, there is unbelievably talented teams in Asia, Eastern Europe. In Bangalore, we have a very -- we have a large mobile studio in India. And so you can find incredibly talented mobile teams all over the world that are not only high quality, but they are also very inexpensive. So we're very comfortable acquiring and building teams in different markets like Helsinki or like we have in London and Brighton and now, Istanbul or Bangalore. So when we look at acquiring teams or even building teams, our bias is to look for opportunities like that. I've spent a lot of my career doing that as well in terms of managing those teams in different locations.



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So it's -- we're not beholding to the team has to be in San Francisco or North America. It's an opportunity. You go where the talent is. And there's -- the beauty is that the talent is very widespread in mobile.

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**Eric Sheridan** - UBS - Analyst

So when you think about M&A, I know there's always sort of the way to think about it is the product you get and also the talent you get. What's the prism by which you analyze M&A in terms of thinking about deploying cash in the business, when you think about all the buckets that can help solve for?

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**Frank Gibeau** - Zynga Inc. - CEO & Director

Yes. You start with does it fit with the strategic direction of the company. And so if you look at those four components that I laid or 3 components that I laid out earlier, if it's a capability or a team that enhances live services or adds to our live services portfolio, we're in. If it's a new franchise or a new talented team that we can add and potentially go forward from there, we'll do it. We did that with a team in Helsinki that we acquired, that allowed us to start to go after the Invest Express business. And that's also an opportunity for us to look at new emerging technology. So if we're going to look at AR or chat or other things like that or new distribution mechanisms, we'll look for those types of capabilities as well. What we find though is that there is a lot of action in the headline big M&A category, and that's something that we haven't participated in. We're much more interested in bolting on and adding to our genre leadership or some of these new emerging things we're looking at.

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**Eric Sheridan** - UBS - Analyst

Maybe last one in this area. Longer-term, so you've obviously been in a process of sort of realigning the business the last couple of years. Now you're focused on pivoting more to growth. 2, 3, 4 years out, what do you think is the optimal capital structure for the company? Is it this much cash on the balance sheet or not? How should investors think about -- if you achieve your goals on margins and growth, what the right capital structure is?

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**Frank Gibeau** - Zynga Inc. - CEO & Director

I've been in the job 20 months, so I'm just figuring out what's the right configuration for Zynga, and I think we're in the right configuration right now, where we have a good cash position. We have an active buyback program in place. The building that we own was not utilized properly. So we brought in a big leaseholder like Airbnb. We've started to reconfigure the building to get more return there. But we're not a real estate company. So if a deal comes in or if somebody wants to make us an offer on the building, we're all ears. So what we'll do over the long term is, we'll figure out the right capital structure to maximize shareholder value. We really will. And it's important though in these last 20 months was to get to a business that was actually generating cash again and to focus on restructuring and getting it to kind of sustainable recurring performance. And that's really been the primary focus. And we've made the right moves in the capital structure in the short-term. And over the longer term, we'll do the right thing.

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**Eric Sheridan** - UBS - Analyst

So maybe pivoting here, it feels like the whole mobile game industry has gone through a bit of a transformation. two, three years ago, it was grow MAU at all costs. And I think we probably peaked when people were buying Super Bowl ads, buying mobile games. And now it seems like the industry is pivoted much more to analytics, ROI, retention, reengagement. Have we gone all the way to where the industry needs to go? Or is there still tweaking and learning to get the balance right between audience growth, which is important versus monetization and sort of farming the user base?



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**Frank Gibeau** - Zynga Inc. - CEO & Director

Well, when we started on this turnaround at Zynga, we spent much more of our efforts on the per unit economics of the games than paid acquisition at all costs, right? So from our perspective, it wasn't that we wanted to bring more players in. We wanted to get more -- we wanted to have them stick around longer. We wanted them to see the value of the games and transact on it more. So if the industry is switching that way great. But we believe that in order for Zynga to succeed, we need to spend most of our time not only organically growing the company on a strategic level, but on an individual game basis, we spend a tremendous amount of time looking at the organic growth of the game. How many organics are we getting? What are the things that we could do to grow -- add more organics into the game? How many engineering hours this month went against organic growth? And then -- because the paid part of it, we've added an all-new team with super capable people. The paid acquisition is -- if you don't have the organics and you just rely on paid, it's ultimately a losing proposition in my view. So from our perspective, it's the intellectual property, it's the brand, do the features in engender something that you want to talk about. Is it something that ends up on Twitch. Did you want to send a text to somebody about the game? So we at Zynga, we think a lot more social. We think a lot more organic growth through features and communications and that type of thing than the paid acquisition piece. That part is absolutely part of what we do, but it starts there.

**Eric Sheridan** - UBS - Analyst

So part and parcel with audience size comes the advertising opportunity. And I think investors, we get asked a fair bit about the mix between monetizing games by micro transactions and monetizing games by advertising against audience. How do you think about the right mix to strike there? And what are sort of some of the things that still need to evolve when you think about advertising in the broader mobile gaming space.

**Frank Gibeau** - Zynga Inc. - CEO & Director

Sure. Our company is one of the first gaming companies to generate advertising revenue. And over that time, it has built up a lot of interesting algorithms and optimizations that allowed us to build a pretty good business there and to scale it up. Words with Friends being the premier example of a brand and a product that is ad-driven in terms of its business model in the industry. We're very excited about that being a long-term part of our business. And we saw explosive growth for the last several years on it. But we saw a real drag this year in terms of the web business. We have a legacy business on web. And it's been declining, and we have seen a little bit of a headwind there. We've also seen a bit of a headwind in the mobile advertising side of it, where we've been growing, but it hasn't been at the same degree. And a lot of that is a function of the pull that Google and Facebook have in terms of their ad networks. They have the ability to offer really rich player profiles or user profiles to advertisers that not only us, but other companies have a more difficult time, whether it's in games or other categories. So one of the things that we looked at is starting to add more valuable ad units like Play to Win, video ad units where you are able to watch -- you have an ad for Geico in CSR and you'll get some points inside the game or those types of things that are much more contextually relevant to a game that actually leads to greater engagement in the game. Sometimes folks don't want to transact on an MTX, but they will watch an ad. And so what we found is that there is a nice blend there that works. And through our data science and some of the analytics that we've been doing, we found some areas where we think there's some opportunity to grow. We've also been enhancing our ability to talk to advertisers about what our players are doing, who they are and why there's a good fit there. So long term, we're in the advertising business. We're going to continue to innovate there, some short-term headwinds that we're managing through. But in addition to that, you asked what percentage of it. Last year, advertising was about 26% of the total business. This year, it's about 20%. And I think it's because we've been growing our mobile IAP pretty aggressively. And honestly, that's where I think the most leverage is for Zynga is to generate the types of games that key players engaged over the long term and who want to transact with the content that we're building. I think advertising will continue to be a serious and significant part of what we do. But I actually like an 80-20 split there. I'm actually very comfortable with that.

**Eric Sheridan** - UBS - Analyst

Okay. We're running down to the last few minutes. Again, you threw it out a little early, you've talked about the target. You've talked about publicly about getting the 20% EBITDA margins. Maybe talk about some of the levers that we should be watchful for, as you move from where you are now to that target? And what are some of the things we should be watching? Is it sales and marketing? Is it leverage as you continue to grow, continue rationalization of the cost basis? What drives us towards that sort of 20% EBITDA margin target?



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**Frank Gibeau** - Zynga Inc. - CEO & Director

Yes. I think it's going to be continued growth in live services first and foremost and continuing to sharpen how we do that. So getting more yield out of R&D and marketing and sales. We're comfortable with where those operating budgets are at currently. So we're not looking for big increases there, but we'll make the right decisions at the appropriate time there, but so that the leverage from our perspective continues to see -- can we continue to do what we're doing in Poker with other franchises. Being up 80% year-over-year in Poker was a pretty nice result, and that's something that we think that we can do across the board in our live operations business by, maybe not 80%, but looking to grow from there. That will start to give us some leverage. Second piece is to start to introduce some new games that adds the portfolio. The part of the P&L in the middle is not going to change. What you're going to see is those will be incrementally new. We'll scale marketing appropriately with those launches. But if we can start to add those and things like Peak and some of the other businesses operate, then we think that, that climb from 20% to 30% is accomplished.

**Eric Sheridan** - UBS - Analyst

Maybe a follow-up there just as we're into the last minute. But given the portfolio of assets you have and how much you know about your players broadly, if you launched new IP now versus -- and I know you weren't at the company at the time, but 3, 4, 5, 6 years ago, you were in the mobile gaming space, 5-plus years ago. Do you think there is embedded advantages to the ecosystem you built that could actually increase marketing ROI in terms of launching games? Because if you launch a piece of IP, you can remarket it within your existing games to people that you think would be more likely to adopt it.

**Frank Gibeau** - Zynga Inc. - CEO & Director

Absolutely. I mean, the network scale that we have that is extraordinarily beneficial to new IP introductions, especially when they come from known brands or their adjacencies. So whenever we look at the green lighting games, we do look at what's the LTV, what's the CPI, what are the audiences that we can build beachheads with launch. How do -- and more importantly, like I mentioned earlier, what's the organic growth strategy. Anybody can do paid acquisition. But what's the organic growth strategy? What are the social dynamics? What are the long-term player engagement models and systems that will allow you to do that and then we think more broadly about the rest of the portfolio and how we feed players into those.

**Eric Sheridan** - UBS - Analyst

All right. Please - everyone join me in thanking Frank for being here at the UBS Tech Conference.

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