



ZYNGA – Q2 2015 QUARTERLY EARNINGS LETTER

August 6, 2015

To our Shareholders and Employees,

This quarter we're sharing our financial results in a Q2 2015 Quarterly Earnings Letter in addition to our press release and investor slides. This will allow more time for questions and dialogue during our quarterly conference call. Questions may be asked on today's call at 2 p.m. PT or submitted via email to investors@zynga.com and we will do our best to respond to as many questions as possible. Our Q2 2015 Quarterly Earnings Letter provides an update on our progress across our products, people and plan.

CEO PERSPECTIVE

On our last earnings call, I outlined our approach in terms of our products, people and plan. Since then, our teams have been executing well, delivering strong Q2 results while also making significant progress against our best growth opportunities.

Starting with our products, we're backing proven teams with persistent investment against the most valuable categories. In terms of our core franchises, our teams executed well and beat our expectations. Our Slots franchise, Hit It Rich! Slots and Wizard of Oz Slots, generated another quarter of strong bookings growth. FarmVille 2 outperformed our expectations on bookings while also transitioning to India and significantly reducing operating expenses.

Words With Friends, in partnership with our ads group, also delivered strong growth in bookings. The game saw declines in audience which the team is addressing. Zynga Poker, the world's largest free to play poker game, delivered solid bookings and modest sequential growth. They achieved this while significantly reducing team size and operating expenses.

We also launched Empires & Allies and Farmville: Harvest Swap with Dawn of Titans, CSR2 and a new Slots game coming later this year. E&A represents a promising foray into the mobile Action Strategy category. With exciting new features like Leagues, which just launched, and Alliance vs. Alliance coming later in the year, we are committed to its continued growth. FVHS, a new Casual entry into the Match 3 genre, is an early seed with potential to grow audience and bookings in 2016.

In terms of our people, we've made progress in moving to smaller game teams. We believe this will allow them to be more nimble, creative and innovative. We're also continuing to add talent and leadership. Today, we announced the appointment of Frank Gibeau, one of the top strategists in mobile gaming, to our Board of Directors.

Moving to our plan, we continue to narrow and intensify our focus around our best opportunities. As previously announced, we implemented a reduction in force, closed our Orlando Sports studio and sunset 16 games across web and mobile. As a result, we remain on track against our \$100 million cost-reduction program.

Q2 PERFORMANCE METRICS

Financial Results

- Bookings of \$174 million; above the high end of the guidance range
- Adjusted EBITDA of \$1 million; above the high end of the guidance range
- Mobile bookings now represent 66% of overall bookings at \$115 million; up 30% year-over-year
- Advertising bookings, excluding licensing and developer payments, up 44% year-over-year
- \$1.1 billion in cash and marketable securities
- Implemented \$100 million cost reduction plan
- Positive free cash flow inclusive of investment in game development, marketing for new launches and infrastructure

Product Highlights

- Our Slots franchise – Wizard of Oz Slots and Hit It Rich! Slots – grew bookings 32% sequentially and recently secured a multiyear agreement with Warner Bros. Interactive Entertainment to license the Willy Wonka and the Chocolate Factory brand
- Empires & Allies launched worldwide with a 4.5 Apple App Store star rating and strong engagement with players averaging 5 play sessions daily totaling 38 minutes; at \$0.26, Q2 Average Daily Bookings per Average DAU (ABPU) is nearly 3 times the company's ABPU in Q2
- FarmVille: Harvest Swap launched worldwide with a 4.5 Apple App Store star rating and strong player retention

Player Metrics

- Average Daily Active Users (DAUs): 21 million; down 23% year-over-year and down 15% sequentially
- Average Monthly Active Users (MAUs): 83 million; down 32% year-over-year and down 18% sequentially
- Average Daily Bookings per Average DAU (ABPU): \$0.091; up 29% year over year and up 21% sequentially
- Payer conversion (excluding Natural Motion): 1.6%; down 17% year over year and up 5% sequentially

Q2 RESULTS SUMMARY

We generated \$174 million in total bookings, an increase of 4% sequentially and above the top end of our guidance range of \$145 million to \$160 million. Our sequential increase in bookings was driven in part by our growth in mobile which was up 8% sequentially and 30% year-over-year. The biggest drivers of our mobile growth were our Slots franchise, which grew 32% sequentially, and the launches of Empires & Allies and FarmVille: Harvest Swap.

Growing our core franchises remains a strategic focus. We're happy to report that in the past quarter, our core franchises delivered bookings growth, up 4% sequentially and 9% year-over-year. We want to thank our teams for their continued innovation across these franchises – FarmVille (FarmVille, FarmVille 2, FarmVille 2: Country Escape), Slots (Wizard of Oz Slots and Hit It Rich! Slots), Zynga Poker and With Friends (Words With Friends, Words On Tour, Word Streak With Friends, among others).

Our Q2 results reflect the progress we continue to make in mobile where bookings have grown to \$115 million which is 66% of total. Mobile players represented 79% of total DAUs, up from 77% in Q1. Web bookings were down 31% year-over-year and 3% sequentially to \$59 million. Facebook-related bookings decreased from 33% of total bookings in Q1 to 31% in Q2. While we're encouraged by our continued growth in mobile bookings, we experienced audience declines in Q2. The year-over-year decline in MAUs was largely driven by our web games, inclusive of game sunsets.

In terms of adjusted EBITDA, our result for Q2 was \$1 million, above the high end of our guidance range of negative \$20 million to negative \$10 million. We're particularly pleased to deliver these results even as we continue to make substantial investments in new game development, marketing for new game launches and core infrastructure in data and analytics.

OUR PRODUCTS

Zynga and NaturalMotion have over 3.5 billion installs across our games to date. The majority of these are within the most valuable categories in social gaming – Social Casino, Action Strategy, Casual and Invest Express. This represents a large scale opportunity to renew our existing franchises while inventing new games. Our approach is to back proven teams with persistent investment against these categories.

Social Casino

Zynga was founded with the launch of Zynga Poker and, since then, we've seen Poker and more broadly the Social Casino category grow to a huge opportunity. We expanded our footprint in the category with the addition of Hit It Rich! Slots, and more recently Wizard of Oz Slots, which have been great growth drivers for our company on mobile and we're optimistic about the category's future potential.

Hit It Rich! Slots and Wizard of Oz Slots – Our Slots team has proven that by leveraging cross promotion, reusable game engines and world class data and analytics we can drive lower customer acquisition costs and higher monetization levels. Because of this repeatable, scalable model, our free to play Slots franchise has grown bookings 274% over the last year and 32% sequentially in Q2.

In Hit It Rich! Slots, our players continue to return to the game for its variety of unique content and innovative features. Our 25 brand partnerships, including the recently launched THE SOUND OF MUSIC, Hot in Cleveland and The Three Stooges slots, offer players the most authentic experience in free slots. In Wizard of Oz Slots, we saw strong growth in both our player base and monetization primarily driven by our increased pace of new feature releases. As we said last quarter, we will continue to invest in Slots and we expect to launch another game in Q4.

Today, we're pleased to announce that we've secured a multi-year agreement with Warner Bros. Interactive Entertainment to license their iconic Willy Wonka and the Chocolate Factory brand. We expect to launch our Willy Wonka and the Chocolate Factory themed slots game worldwide in 2016.

Zynga Poker – Our team continues to improve the overall quality of Zynga Poker and, as a result, the game grew bookings 2% sequentially. The game is now above a 4.0 rating in the Apple App Store and we've seen good momentum on Android where we've grown bookings 23% year-over-year. The team has made great strides on quality and they recently shifted their focus on enhancing the social value of the game.

Action Strategy

Action Strategy, which includes games such as Empires & Allies and the soon to be launched Dawn of Titans and CSR2, is an important category for us because of its high levels of player engagement and monetization. While it's early days for us in this category, we're optimistic about our future growth potential.

Empires & Allies – We're encouraged by the initial performance of Empires & Allies which debuted worldwide in May. Since global launch, the game has maintained high quality ratings from players with an average of 4.5 stars in the Apple App Store and reached the Top 5 grossing chart position on iPad. In Q2, our players sent over 12 million chat messages and visited the game an average of 5 times per day for an average of 38 minutes a day. This deep engagement has resulted in high monetization rates; at \$0.26 in ABPU in Q2, Empires & Allies generated almost 3 times the company's ABPU in Q2. We continue to see growth potential as we invest in new social features such as Leagues, leaderboards and innovation around our alliance feature to increase competition and create a more engaging experience for advanced players.

Dawn of Titans – Our second mobile Action Strategy game, Dawn of Titans, is currently available in soft launch in 7 geographies on iOS including Saudi Arabia, United Arab Emirates, Vietnam, Hong Kong, Singapore, South Africa and New Zealand, as well as on Android in Singapore. We continue to see promising early indicators around monetization with ABPU among the highest we've seen in a Zynga game. We're seeing great levels of engagement in the game where, since the team's last update, fans are playing an average of 10 sessions per day. We're also receiving positive player feedback on the quality of the game which currently has an average of 4.5 stars in the Apple App Store. Throughout the geo-lock phase, the team has continued to innovate on the user experience, economy tuning and social features, leveraging learnings from our Empires & Allies team. We are targeting a Q4 worldwide launch for Dawn of Titans.

CSR2 – In 2012, the NaturalMotion team introduced CSR Racing which delivered industry leading levels of visual fidelity and authenticity and more than 130 million installs since launch. We will soon be entering into the geo-lock testing phase with the sequel, CSR2, which we expect to launch globally in Q4.

Casual

The Casual category is strategic to Zynga because of our social mission and focus on mass market gaming as well as the proven ability for Casual games to cross over to higher engagement categories like Social Casino and Action Strategy.

Words With Friends – In Q2, our Words With Friends team drove a 5% sequential bookings increase and a 30% increase year-over-year driven primarily by a strong advertising performance. We saw these gains despite a decline in our audience which our teams are addressing in a number of ways. First, to increase our engagement overall, the team is committed to a robust feature roadmap over the next few quarters that we expect to increase social interaction, player progression and achievements. To further broaden our reach and grow audience, the team recently launched a localized version of Words With Friends in 6 new languages including Spanish, French, German and Italian, giving players around the world more ways to connect and compete with their friends. While it's early days, localization is creating a lift in installs particularly in France and Germany.

Match 3 – FarmVille: Harvest Swap – In Q2, we entered the mobile Match 3 category with the worldwide launch of FarmVille: Harvest Swap. We are encouraged by the initial player response with an average Apple App Store rating of 4.5 stars and high monetization for the category. The team is preparing a number of significant updates that will include more social features, new levels and customized level tuning to deliver a more personalized player experience. While a new entry for us, Match 3 is one of the biggest genres in social gaming with cross promotion potential for our Slots products.

Invest Express

Invest Express is a huge category in social gaming and a significant opportunity for us, with an installed base for FarmVille of 700 million users across web and mobile to date. We see great potential to innovate across the category on mobile.

FarmVille – In Q2 we transitioned the day-to-day operations of FarmVille 2 to our Studio-I team in India. In addition to lowering costs and improving efficiencies, this change allows us to focus our talent in San Francisco on new mobile starts. This past quarter, our teams delivered new competition and social collaboration features, such as State Fair and Animal Breeding which exceeded our performance expectations and helped us engage the game's loyal players.

On mobile, we're focused on delivering the highest quality experience for our players in FarmVille 2: Country Escape. In the next few weeks, we'll be launching a new Lighthouse expansion to deliver more new game play for our most valuable, advanced players. We've found these expansions to be a strong driver of engagement and retention and for the remainder of the year we expect to increase our pace of expansions across our FarmVille portfolio.

In terms of our future pipeline, we have 3 experienced teams developing new Ville games which are a part of our 2016 slate.

Advertising

Our advertising team continues to deliver strong results, with our ad business now representing 22% of our total bookings, up from 16% in Q2 of 2014. Advertising bookings, excluding licensing and developer payments, delivered strong growth in Q2, up 44% year-over-year and 15% sequentially. In Q2 we expanded our work with brand partners including in-game campaigns with Honda, Kentucky Fried Chicken and NBC Universal. Brand partners are increasingly leveraging Zynga as a part of their digital ad spend, with over 50% of our deals representing repeat customers. We also have been investing in building out our Private Marketplace (PMP) offering for advertising. As we look at ways to optimize our approach to advertising, PMP makes it easier and more efficient for brands to include Zynga ad products in their programmatic ad buys.

OUR PEOPLE

Our people continue to be our most important asset. In the past quarter, it's been encouraging to see individuals and teams take it upon themselves to drive innovation where it counts.

We want to specifically call out a few game changers for us. We recently had a talented data engineer who's been with us for over 5 years, develop a next generation proprietary tool that allows our teams to do more rapid, segmented testing on mobile. We also mentioned last quarter that Jordan Maynard and his team of 5 were preparing to launch a prototype game, Mountain Goat Mountain, leveraging existing Zynga IP and the game achieved Top #7 in the Top Free game category on the Apple App Store Charts. He proved to Zynga and the world that our small nimble teams can deliver innovative surprise and delight to our players.

We're continuing to add to our leadership team and today, we're proud to announce that Frank Gibeau, former Executive Vice President at Electronic Arts Inc., has joined Zynga's Board of Directors. Frank is an entertainment and gaming industry veteran who has spent nearly 25 years developing and publishing mainstream mobile, PC and console gaming franchises such as EA SPORTS, Battlefield, Need For Speed, The Sims and Star Wars. Frank's incredibly deep experience developing mass market blockbuster hits and bringing them to mainstream global audiences will be incredibly valuable to our Board.

OUR PLAN

Last quarter, we announced a cost reduction plan and we're on track to generate approximately \$100 million in annualized pre-tax savings by the end of Q3 2016. This program enables us to reduce costs in mostly non-game related spend in order to fund our investments in key areas such as new games and data and analytics. We now expect to incur only \$22 to \$32 million of one-time charges in connection with our restructuring plan as compared to our previous estimate of \$80 to \$90 million.

We continue to be on track to achieve \$45 million in annualized savings from our workforce reduction by the end of Q4 2015. In Q2, our labor-related spend decreased 5% sequentially, driven by a partial quarter of the cost reduction plan, which was offset by the severance package to our prior CEO. We also achieved \$10 million in savings in centralized services and outside spend last quarter, part of the \$55 million in annualized savings from our cost reduction plan. We drove a 5% reduction in spend on facilities, outside services and other corporate costs as a result of the plan.

Technology expenses increased by 22% from Q1 2015, as we have not fully completed our game migration from our existing data centers to Amazon Web Services. In Q2, our marketing expense increased 35% sequentially as we launched two new games in the quarter. Our fees and royalties increased 7% largely due to our increased mobile mix. These factors contributed to an overall increase in non-GAAP operating expenses to \$126 million, a 3% increase over Q1 2015, and non-GAAP cost of revenue of \$51 million, flat sequentially.

In terms of our game slate, we have narrowed our launch expectations to 6 games in 2015. So far this year we've released 3 new games – Words On Tour, Empires & Allies and FarmVille: Harvest Swap. We expect to launch 3 additional games globally in Q4 – Dawn of Titans, CSR2 and a new mobile Slots game. We also expect to start geo-lock testing some new titles at the end of the year in preparation for global launch in 2016. In addition to our planned slate, we may choose to launch prototype games like Mountain Goat Mountain, which can deliver a unique experience and contribute to our mobile audience.

Our Q3 guidance range reflects the continued investments we are making. In Q3 we expect bookings to be in the range of \$155 million and \$170 million and Adjusted EBITDA to be between negative \$17 million and negative \$7 million.

Going forward, we will focus on balancing investment in our future with resourcefully managing our costs in order to maximize long term profitability and value. We will continue to invest in our new game pipeline and live games with a disciplined approach that is accretive and ROI positive in the mid to long term.

CONCLUSION

We believe that social gaming has the opportunity to be as important a medium in people's lives as social networking and social media. We're excited to deliver on that promise by focusing on getting back to our entrepreneurial roots, innovating on game mechanics and leveraging world class data and analytics to accelerate our path.

We want to thank our teams for their deep commitment and focus. We executed well in the second quarter while navigating changes in our company including our recent cost reduction plan and CEO change. We have terrific talent at Zynga who come in every day excited to deliver value on behalf of our players. Our teams have worked hard to lay the mobile-first foundation necessary to lead in social gaming. We look forward to building on that progress for the remainder of 2015 and beyond.

Sincerely,



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Founder, CEO and Chairman



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Chief Financial Officer

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NON-GAAP FINANCIAL MEASURES

We have provided in this release non-GAAP financial information including bookings, Adjusted EBITDA, free cash flow, non-GAAP operating expense and non-GAAP cost of revenue to supplement the consolidated financial statements, which are prepared in accordance with United States generally accepted accounting principles ("GAAP"), that are included in our press release announcing second quarter 2015 financial results included as Exhibit 99.1 to our current report on Form 8-K, filed with the SEC on August 6, 2015, copies of which may be obtained by visiting our Investor Relations web site at <http://investor.zynga.com> or the SEC's web site at www.sec.gov. Management uses these non-GAAP financial measures internally in analyzing our financial results to assess operational performance and liquidity. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared in accordance with GAAP. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe these non-GAAP financial measures are useful to investors because they allow for greater transparency with respect to key financial metrics we use in making operating decisions and because our investors and analysts use them to help assess the health of our business. We have provided reconciliations between our historical and third quarter 2015 outlook for non-GAAP financial measures to the most directly comparable GAAP financial measures in (1) the following filings, copies of which may be obtained by visiting our Investor Relations web site at <http://investor.zynga.com> or the SEC's web site at www.sec.gov: our press release announcing second quarter 2015 financial results included as Exhibit 99.1 to our current report on Form 8-K, filed with the SEC on August 6, 2015, our quarterly report on Form 10-Q for the three months ended March 31, 2015, and our press release announcing first quarter 2015 financial results included as Exhibit 99.1 to our current report on Form 8-K, filed with the SEC on May 6, 2015; and (2) our Q2 2015 earnings slides, dated August 6, 2015, copies of which may be obtained by visiting our Investor Relations web site at <http://investor.zynga.com>.

FORWARD-LOOKING STATEMENT

This letter contains forward-looking statements relating to, among other things, our outlook for third quarter 2015 bookings, Adjusted EBITDA, free cash flow, non-GAAP operating expenses, and non-GAAP cost of revenue; certain other financial items; our future operational plans, use of cash, strategies and prospects; our cost structure and cost reduction plans and estimated savings and charges, including our ability to work as a team to accelerate execution, drive profitability and nurture creativity and innovation while reducing costs and lowering discretionary spend; our path to profitable growth; the growth potential of our games; our ability to accelerate execution, drive profitability and nurture creativity and innovation while reducing costs and lowering discretionary spend; our ability to foster an entrepreneurial environment; our ability to manage new IP costs; the breadth and depth of our game slate for 2015 and the success of this slate, including the success of the recently launched *Empires & Allies* and *FarmVille: Harvest Swap*; our planned launch of mobile first games and new features and content for existing games, including our planned launch of 6 games in 2015, including *Dawn of Titans*, *CSR2* and a new mobile Slots game, plans for our 2016 game slate, and plans for new features and content for *Empires & Allies*, *Words With Friends*, *FarmVille: Harvest Swap* and *FarmVille 2: Country Escape*; our ability to maintain consumer excitement, retention and monetization shown in early game testing after worldwide game launches, including the early results we've seen with *Empires & Allies* and *Dawn of Titans*; our multi-year agreement with Warner Bros. Interactive Entertainment to license their Willy Wonka and the Chocolate Factory brand and our plans for a Willy Wonka and the Chocolate Factory themed slots game in 2016; our ability to maintain consumer excitement, retention and monetization shown in early game testing after worldwide game launches, including the early results we've seen with *Empires & Allies* and *Dawn of Titans*; our ability to grow our mobile bookings in 2015; our ability to execute against our strategy and deliver long term value to our shareholders, employees and players; our ability to use data and analytics to improve our player experience, gameplay and monetization, including through our proprietary tool that allows our teams to do more rapid, segmented testing on mobile; our ability to intensify and narrow our focus around our best opportunities; our ability to attract and retain key employees in light of business challenges, including employees key to franchise games and planned launches and senior management; the impact of changes in management, new hires and other organizational changes and roles on our organization; the strength of our balance sheet and our ability to effectively manage our cost structure and investments; our strategies of backing proven teams to develop or expand our game offerings in the four content categories where we are focused; our ability to use smaller game teams in efforts to be more

nimble, creative and innovative; the timely launch of our games in these categories and the success of these games; our ability to monetize our games; our ability to improve our execution against audience growth and product quality and address audience declines; our ability to effectively market our games; our ability to execute in mobile; our ability to sustain and expand key games to sustain and grow audiences, bookings and engagement, including our core franchises which include FarmVille (FarmVille, FarmVille 2, FarmVille 2: Country Escape), Slots (Wizard of Oz Slots and Hit It Rich! Slots), Zynga Poker and With Friends (Words With Friends, Words On Tour, Word Streak With Friends, among others); our ability to build on our social legacy in both our web games and our new mobile games and to build a player network across mobile games; our ability to accurately forecast our upcoming game launches and bookings and revenue related to upcoming game launches and the performance of our existing games; our continued investment in our future pipeline, including persistent investment in four social gaming categories, Social Casino, Action Strategy, Casual and Invest Express; our investment in our Private Marketplace offering for advertising; our ability to attract and retain advertising brand customers; our ability to utilize, protect, defend and enforce our intellectual property; and market opportunity in the social gaming market, including the mobile market, the advertising market, the market for social game categories in which we invest, and our ability to capitalize on and contribute to this market opportunity.

Forward-looking statements often include words such as “outlook,” “project,” “plan,” “intend,” “could,” “should,” “would,” “will,” “might,” “anticipate,” “estimate,” “continue,” “believe,” “may,” “target,” “expect,” or similar expressions, or the negative or plural of these words or expressions and statements in the future tense are generally forward-looking. The achievement or success of the matters covered by such forward-looking statements is subject to a number of risks, uncertainties, and assumptions. More information about the factors that could affect our operating results is included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2014, our Quarterly report on Form 10-Q for the three months ended March 31, 2015, and, when filed, our Quarterly report on Form 10-Q for the three months ended June 30, 2015, as well as our press release announcing second quarter 2015 financial results included as Exhibit 99.1 to our current report on Form 8-K, filed with the Securities and Exchange Commission (“SEC”) on August 6, 2015. Copies of these filings may be obtained by visiting our Investor Relations web site at <http://investor.zynga.com> or the SEC’s web site at www.sec.gov. Undue reliance should not be placed on the forward-looking statements in this letter, which are based on information available to us on the date hereof. There is no guarantee that the circumstances described in our forward-looking statements will occur. Except as required by law, we assume no obligation to update any forward-looking statements for any reason to conform these statements to actual results or to changes in our expectations. The results we report in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 could differ from the preliminary results we have announced in this letter.

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