



ZYNGA – Q4 2015 QUARTERLY EARNINGS LETTER

February 10, 2016

To our Shareholders and Employees,

Below is our Q4 2015 Quarterly Earnings Letter, which provides an update on our progress across our products, people and plan. We look forward to addressing your questions on today's Q4 earnings call at 2 p.m. PT. You may also submit questions via email to investors@zynga.com.

CEO PERSPECTIVE

I came back as CEO last April with a goal of returning our company to our vision for social gaming and restoring operational excellence in running live games. Core to this turnaround has been reinvigorating our obsession with players and product quality. Our teams have made real progress against this, some of which is starting to show up in our results.

In terms of our financial scorecard, for 2015, we made good progress in our transition to mobile on a bookings level but, due to the lack of significant new releases, we saw an overall decline in our audience. While our total bookings grew 1%, our core live mobile franchises – Slots, Words With Friends and Poker – were up 63% and all of mobile grew 35%. We ended the year with mobile now representing 73% of total bookings up from 60% in Q4 2014. We saw our web business continue to decline with bookings down 32% and audience down 53%. Overall for the year, we managed to support a relatively large slate of new game development and user acquisition while remaining profitable.

Our mobile audience was down 1% in 2015. Within the quarter, it was down sequentially by 5% driven by a lack of significant new releases. However we've stemmed these declines for our core live mobile franchises – Slots, Words With Friends and Poker – which were up 1% for the quarter versus a loss of 6% in Q3. This was led by Slots which accelerated its audience growth rate from 6% in Q3 to 15% in Q4. Words With Friends moved from a loss of 7% in Q3 to flat in Q4 and a 9% increase in the beginning of Q1. Poker has moved from a 10% decline in Q3 to a 4% decline in Q4 and has flipped to positive growth of 12% in the beginning of Q1.

We expect bookings growth and operating profitability to improve throughout 2016 and 2017 as we continue to grow our core live franchise bookings and launch our new game slate.

In terms of what's working, Words With Friends, Slots and advertising all delivered record bookings in the fourth quarter. Our Words With Friends team delivered their most successful bold beat – Weekly Challenge – increasing turns played by 11%. This new feature increased LTV, enabling us to invest accretively in Words With Friends audience growth for the first time ever.

Our Slots team has been the biggest driver behind our growth on mobile. For Q4, they grew audience by 12% sequentially and delivered bookings growth of 7% sequentially and 78% year-over-year. They launched 2 new games in Q4 with 4 more coming in the first half of this year. We have supported their aggressive expansion with the acquisitions of Rising Tide and most recently Zindagi Games, a high performing mobile developer.

Action Strategy remains a work in progress. We're excited by the potential of NaturalMotion's high fidelity games – Dawn of Titans and CSR2 – to delight players and generate large scale installs. While both games have taken longer than we expected, the teams are making progress with strengthening engagement and soon to be released social features focused on long term retention.

Poker has also been a work in progress. The team has a renewed commitment to quality with a weekly obsession for player reviews and ratings which is restoring engagement and growth on mobile. Zynga Poker's ratings have improved on iOS from an all-time low of 2.0 to a recent 4.2 with audience trend lines growing into Q1. More personalized features continue to be a hit with players, improving the user experience and driving up engagement with hands played up 11%.

For 2016 and beyond, growth and profits will be driven by our ability to continue our momentum with live franchises and execute on new game launches. While we get that Zynga has been a show me story, in 2016, we have better visibility into our slate than ever before, with 6 new games already in soft launch. While we have high conviction in our ability to launch these games, the biggest challenge will be delivering on long-term retention and the LTV to support user acquisition at scale.

We expect to launch 10 new games in 2016. In Social Casino in the first half of this year, we plan to launch Spin It Rich!, Willy Wonka Slots, True Vegas and Vegas Diamond Slots. In Match-3, we expect to launch 2 new games in the first half of this year with Zindagi's Crazy Cake Swap and a branded game leveraging the Wizard of Oz license. In Invest Express, we expect to launch a sequel to FarmVille 2: Country Escape as well as CityVille Mobile in the second half of 2016. Finally, in Action Strategy, we also expect to launch CSR2 and Dawn of Titans in the second half of the year.

As we exit the year with this slate of new games launched and in the market, we expect to have changed our mix of R&D and unlaunched slate to live, revenue generating games which will improve our company's predictability, profitability and growth.

2015 PERFORMANCE SUMMARY

- Ended 2015 with \$700 million in reported bookings; up 1% year-over-year.
- \$17 million in Adjusted EBITDA; down 57% year-over-year.
- Grew mobile bookings 35% year-over-year; web bookings declined 32% year-over-year.
- Delivered strong player monetization growth; ABPU up 26% year-over-year.
- Strongest advertising year to date; 2015 ads and other bookings up 22% year-over-year.
- DAU declined 20% year-over-year with mobile DAUs declining 1% and web DAUs declining 53%.
- Launched a \$100 million cost reduction plan; \$45 million in annualized savings from workforce reduction and \$55 million in annualized savings from reduction in centralized services costs and spend.

Q4 PERFORMANCE HIGHLIGHTS

Financial Highlights

- Bookings of \$182 million; above the high end of the guidance range, flat year-over-year and up 3% sequentially.
- Adjusted EBITDA of \$1.7 million; within the guidance range.
- Mobile bookings of \$134 million or 73% of overall bookings, up 21% year-over-year and up 10% sequentially.
- Advertising and other bookings up 23% year-over-year and 24% sequentially; best advertising quarter to date.
- \$987 million in cash, cash equivalents and marketable securities.
- Began \$200 million share repurchase program which we completed in Q1.

Product Updates

- Slots – Delivered highest quarterly bookings in franchise history; bookings up 78% year-over-year and 7% sequentially. Launched Princess Bride Slots & Black Diamond Casino, now in the top 30 grossing Casino charts in the Apple App Store.
- Words With Friends – Delivered strongest quarterly bookings performance in the history of the game; up 28% year-over-year and 29% sequentially. Consumers played 11% more words as a result of fun new features.
- Dawn of Titans – On track to launch in 2016; continuing to see strong potential with an average Apple App Store rating of 4.4 stars. Scaled to 14 test markets and ABPU remains strong.
- CSR2 – On track to launch in 2016; now testing across 10 markets with an average Apple App Store rating of 4.6 stars.
- CityVille – Entered into geo-lock with new CityVille Mobile in Q4; worldwide launch expected in 2016.

Player Metrics

- Average Daily Bookings per Average DAU (ABPU): \$0.11; up 31% year-over-year and up 9% sequentially.
- Average Daily Active Users (DAUs): 18 million; down 24% year-over-year and down 5% sequentially.
- Average Monthly Active Users (MAUs): 68 million; down 30% year-over-year and down 9% sequentially.
- Payer conversion (excluding NaturalMotion legacy games and games from recently acquired Rising Tide): 1.7%; up 7% year-over-year and down 2% sequentially.

OUR PRODUCTS

Social Casino

Hit It Rich! Slots and Wizard of Oz Slots – This quarter, our Slots franchise had record bookings, growing 78% over the prior year and 7% sequentially. Wizard of Oz Slots generated a strong performance with sequential growth in bookings of 5% and DAUs of 13%. Hit It Rich! Slots saw a sequential decline in bookings of 7% driven in part by the team's decision to scale back content cadence to focus on other new titles. Q4 represented the first full quarter for Black Diamond Casino, launched by the Rising Tide team which we acquired in Q3. While it's early days for the game, it's showing promising monetization and engagement, and it's currently in the top 30 highest grossing Casino games in the Apple App Store. At the end of Q4, we launched Princess Bride Slots, a new standalone product that leverages our Wizard of Oz Slots engine to deliver players a fun and nostalgic experience. In 2016, we expect bookings growth for the Slots franchise to be primarily driven by our new titles.

Our approach with Slots is to create a portfolio of games where some titles serve as tent poles – like Hit It Rich! Slots and Wizard of Oz Slots – and others perform as niche games – such as Princess Bride Slots – within that ecosystem. Our Slots team is pursuing an aggressive expansion strategy that includes as many as 4 new games in the first half of this year. While we may pivot or slow this strategy based on market performance, the team's current approach is to continue this pace throughout the year. Our new products include 2 Slots games with broad appeal – Spin It Rich, which is currently being tested in geo-lock, and Willy Wonka Slots, which is expected to launch worldwide in Q1 – and 2 new niche Slots games – True Vegas and Vegas Diamond Slots.

A part of our expansion strategy has also been talent acquisition, including acquiring Rising Tide Games in Q3 and Zindagi Games in Q1. Zindagi is made up of world-class engineers, game designers, product managers and artists and we were impressed by their ability to deliver high quality games with small teams. Led by founders Umrao Mayer and George Simmons, they have delivered high quality Match-3 games, in addition to developing second party mobile titles for Disney and Electronic Arts. These acquisitions accelerate our ability to execute against new opportunities in Slots and other genres.

This past quarter, our Slots team joined forces with our San Diego studio, makers of FarmVille: Harvest Swap. Because of the positive overlap between brand licenses and the Slots audience, our team wants to continue iterating on the Match-3 category. We're working on a few new starts including a new Wizard of Oz themed Match-3 game which we expect to soft launch in Q1. Additionally, the Zindagi team will launch Crazy Cake Swap, later this quarter. We view these Match-3 games as relatively inexpensive shots that will generate audience engagement for our Slots network and offer the potential to prove another adjacent product line.

Zynga Poker – Despite overall bookings and audience declines for Poker, we are pleased that mobile bookings in Q4 were up 15% year-over-year and 3% sequentially. Though we saw a 4% sequential DAU decline in Q4, we continue to see long-term potential to grow our mobile Poker audience and bookings. Our team's focus on improving engagement and retention through more personalized features like level-based events has already delivered an 11% lift in hands played for mobile Poker and a 12% increase in mobile DAUs so far in Q1. We're seeing Zynga Poker team's renewed quality focus translate into player ratings, which have recovered from a 2.0 Apple App store star rating at the beginning of Q4 2014 to a 4.2 star rating today.

Casual

Words With Friends – Words With Friends had a great Q4, generating the highest quarterly bookings in the 6-year history of the game with a 28% increase year-over-year and a 29% increase sequentially. We're proud of the team's hard work to innovate on key features for players which has helped increase engagement over the past quarter. One example is the recently launched Weekly Challenge which has become the most successful new feature in the game's history, resulting in an 11% increase in moves played in Q4. We've seen some recent momentum with our audience, with a 9% DAU lift so far in Q1. This increased audience engagement has led to higher LTVs which in turn enabled the team to drive an accretive ad spend on audience growth, both new and reactivation.

Action Strategy

Dawn of Titans – Dawn of Titans represents our best and highest beta launch opportunity this year. We continue to invest heavily in further developing this game with teams in London and San Francisco collaborating. Over the last quarter, we made progress to improve our long-term player retention by strengthening key areas including our Leagues matchmaking algorithm and offering more ways for players to invest and interact with their Titans. As we've scaled into 14 test markets, Dawn of Titans' ABPU continues to be among the highest we've seen in a Zynga game and the quality is resonating with players with an average of 4.4 stars in the Apple App Store. Our development roadmap includes several significant game updates before our worldwide launch later this year.

CSR2 – We soft launched CSR2 at the end of Q3 and the game is currently being tested in 10 markets with an average Apple App Store rating of 4.6 stars. Over the last quarter, the team has focused on further developing new features including the addition of wet weather racing and synchronous player versus player. We look forward to bringing the game to worldwide audiences in 2016.

Empires & Allies – The team executed well and delivered 3% bookings growth this past quarter. As we have said, given the category's high level of player engagement and monetization, Empires & Allies continues to generate important learnings for us. We've been leveraging key best practices from Empires & Allies to improve on our events systems, alliance tuning and social mechanics, as we prepare for the worldwide launches of CSR2 and Dawn of Titans.

Invest Express

FarmVille – Our classic FarmVille web games, FarmVille 1 & 2, continue to be meaningful contributors to our business, representing 14% of total bookings in the quarter. In Q4, our FarmVille web audience decline was the smallest we saw in 2015, with DAUs down 6% sequentially. This year, we expect to launch a sequel to FarmVille 2: Country Escape. The new game leverages the FV2CE engine to deliver players a unique way to interact with FarmVille game play in an entirely new setting. We expect the game to enter geo-lock testing later this quarter.

CityVille – Over the past few quarters our teams have been working on ways to expand our Invest Express mobile portfolio and today, we are pleased to announce that we're bringing our popular CityVille IP to mobile in 2016. When the original game launched on the web in 2010, it quickly became one of the most successful social games of its time, reaching more than 70 million monthly active users at its peak and delivering players a truly fun and social city building experience. The game is currently being tested in the Philippines and in India, and we expect to bring CityVille Mobile to consumers worldwide later this year.

Advertising

In Q4, our advertising team had its best quarter ever, with advertising and other bookings up 23% year-over-year and 24% sequentially. Advertising and other bookings accounted for 31% of our total bookings this past quarter, up from 25% in Q4 2014. Similar to the previous quarter, this continued growth was driven by the Q4 performance of games, such as Words With Friends, seasonality, increased optimization initiatives and strategic partnerships that drove a higher effective Cost Per Impression (eCPM). Our team also continues to develop and grow our support and optimization of Real Time Bidding channels (RTB). These ongoing efforts resulted in a 48% year-over-year and 31% sequential increase in average daily advertising bookings (excluding licensing and developer payments) per DAU for games with ads. We also continue to expand our programmatic offerings, and in Q4, we announced our plans to make 100% of our premium inventory, including our immersive SponsoredPLAY ads units, available to programmatic buyers globally.

OUR PEOPLE

We're also pleased to announce that Tim LeTourneau is returning to Zynga as SVP of Games to join our Invest Express team. While at Zynga, Tim was a tremendous creative leader who spearheaded the development of FarmVille 2, one of Zynga's most profitable games ever, generating over \$450 million in lifetime reported bookings and serving more than 240 million players to-date. Prior to Zynga, Tim spent 17 years at Electronic Arts managing the Sims Studio. Moving forward, Tim will apply his creative and design DNA to our FarmVille studio and lead the effort to reinvigorate this franchise.

OUR PLAN

Our operating plan has been focused on developing sustainable, profitable live games that can fund growth from user acquisition and new game development. In Q4, we generated \$129 million in non-GAAP gross profit. We invested this in user acquisition for \$39 million and new game R&D for \$18 million. These investments contributed to an 11% sequential increase in non-GAAP operating expenses and resulted in \$1.7 million of Adjusted EBITDA.

Our non-GAAP operating expenses in Q4 were \$127 million, an increase of \$13 million from prior quarter, approximately half of which was due to the addition of recently acquired Rising Tide. Marketing increased 21% due to additional spend for 2 new Slots launches (including Black Diamond Casino from Rising Tide) – and accretive user acquisition spend on Wizard of Oz Slots and Words With Friends. Our technology expense increased 22% sequentially as we supported both the cost of our move to the cloud and our data center exit. We expect technology expenses to be reduced in future quarters since we've now exited our data centers.

This quarter, we completed our \$45 million workforce reduction plan and we continue to be on track to complete the remainder of our \$55 million cost reduction plan for outside services spend by Q3 2016. In Q4, we saw a 16% increase in outside services spend driven by new game development and non-recurrent corporate expenses. Labor-related costs increased by 3% sequentially primarily due to the first full quarter impact of Rising Tide. We expect spend in these areas to decrease in future quarters.

We also completed our \$200 million share repurchase program announced in Q3.

In terms of audience, we saw an overall decline of 5% in DAUs and 9% decline in MAUs sequentially. This DAU decrease was primarily driven by our web games which were down 7% and a 5% decline in our mobile games. While DAUs were flat sequentially in our core live mobile franchises, we saw declines in our smaller mobile games such as Mountain Goat Mountain, Looney Tunes Dash! and FarmVille: Harvest Swap.

Financial Outlook – We expect Q1 bookings to be in the range of \$150 million and \$165 million. Similar to last year, this sequential decline is driven by the seasonality of our advertising primarily impacting Words With Friends, as well as continued decline in our larger web games. We expect Adjusted EBITDA to be between negative \$10 million and breakeven. This is primarily driven by our decision to continue to invest in what we believe to be highly accretive user acquisition opportunities in Words With Friends and across our Slots games which should drive positive future returns in audience, bookings and profits.

This quarter, we plan to explore opportunities to monetize our San Francisco building through a sale and long term leaseback transaction.

2016 Slate – As we have said, we expect to launch 10 new games in 2016. In Social Casino in the first half of this year, we plan to launch Spin It Rich!, Willy Wonka Slots, True Vegas and Vegas Diamond Slots. In Match-3, we expect to launch 2 new games in the first half of this year with Zindagi's Crazy Cake Swap and a branded game leveraging the Wizard of Oz license. In Invest Express, we expect to launch a sequel to FarmVille 2: Country Escape as well as CityVille Mobile in the second half of 2016. Finally, in Action Strategy, we also expect to launch CSR2 and Dawn of Titans in the second half of the year. The timing of new game launches may change depending on the soft-launch performance of our products and we look forward to keeping you updated as we work to deliver the best experiences for our players.

Sincerely,



Mark Pincus
Founder, CEO & Chairman



Michelle Quejado
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NON-GAAP FINANCIAL MEASURES

We have provided in this letter non-GAAP financial information including bookings, Adjusted EBITDA, non-GAAP gross profits and non-GAAP operating expense, as a supplement to the consolidated financial statements, which are prepared in accordance with United States generally accepted accounting principles ("GAAP") and included in our press release announcing fourth quarter 2015 financial results which is included as Exhibit 99.1 to our current report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2016, and, when filed, in our Annual Report on Form 10-K for the year ended December 31, 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. In line with our historical practice, the financial information presented herein is provided on a supplemental, non-GAAP basis unless otherwise indicated. We have provided reconciliations between our historical and fourth quarter 2015 outlook for non-GAAP financial measures to the most directly comparable GAAP financial measures in (1) our press release announcing fourth quarter 2015 financial results which is included as Exhibit 99.1 to our current report on Form 8-K, filed with the Securities and Exchange Commission on February 10, 2016, and, when filed, in our Annual Report on Form 10-K for the year ended December 31, 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, and (2) our fourth quarter 2015 earnings slides presentation, dated February 10, 2016, a copy of which may be obtained by visiting our Investor Relations web site at <http://investor.zynga.com>.

FORWARD-LOOKING STATEMENTS

This letter contains forward-looking statements relating to, among other things, our outlook for the first quarter 2016 bookings and Adjusted EBITDA; certain other financial items necessary for GAAP to Non-GAAP reconciliation; our future operational plans, use of cash, strategies and prospects; our cost structure and cost reduction plans and estimated savings and charges, including our reduction in workforce and reduction in centralized services costs and spend; our ability to accelerate execution, drive profitability and nurture creativity and innovation while reducing costs and lowering discretionary spend; the breadth and depth of our 2015 game slate and our game slate for 2016 and the success of these slates; including recently launched *Princess Bride Slots*, *Black Diamond Casino*, *Empires & Allies*, *Mountain Goat Mountain* and *FarmVille: Harvest Swap* and future launches of *Dawn of Titans*, *CSR2*, *CityVille Mobile*, a sequel to *FarmVille 2: Country Escape*, *Spin It Rich!*, *Willy Wonka Slots*, *True Vegas*, *Vegas Diamond Slots*, *Crazy Cake Swap* and a Wizard of Oz branded match-3 game; our ability to change our mix of R&D and unlaunched game slate to live games; our ability to increase the predictability of our business; our continued transition to mobile; our ability to sustain player engagement, develop compelling social features, optimize to increase long-term player retention and the lifetime value ("LTV") of our players, generate installs (including organically and through accretive player acquisition spend) and monetize our live games (including our Slots games, *Words With Friends*, *Zynga Poker* and *FarmVille* franchise games) and games in geo-lock testing (including *Dawn of Titans*, *CSR2*, *CityVille Mobile*, *Spin It Rich!*, *Vegas Diamond Slots* and *Crazy Cake Swap*); our ability to grow our mobile bookings in 2016 and beyond; our ability to execute against our strategy and deliver long-term value to our shareholders, employees and players and fulfill our mission to connect the world through games; 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 our senior management team and management teams, new hires and other changes in our organization; the strength of our balance sheet and our ability to effectively manage our cost structure and investments; the timely launch and success of our games, including the launch of 2016 game slate (including *Dawn of Titans*, *CSR2*, *CityVille Mobile*, a sequel to *FarmVille 2: Country Escape*, *Spin It Rich!*, *Willy Wonka Slots*, *True Vegas*, *Vegas Diamond Slots*, *Crazy Cake Swap*, a Wizard of Oz branded match-3 game); the success of our acquisition of Rising Tide Games and Zindagi Games; our ability to improve our execution against audience growth and product quality; 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 games within our Slots Franchise (*Hit It Rich! Slots*, *Wizard of Oz Slots* and *Black Diamond Casino*), *Words with Friends*, *Zynga Poker* and *FarmVille* franchise; investment in new game development, marketing for live games and new game launches and core infrastructure in data and analytics; our ability to build on our social legacy in both our web games and our new mobile games and 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 ability to operate in an entrepreneurial manner, innovate on game mechanics, and leverage data and analytics in our operations; our ability to utilize, protect, defend and enforce our intellectual property; 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; our ability to develop and grow our support and optimization of advertising Real Time Bidding channels; and our ability to successfully monetize our building.

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, 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 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 September 30, 2015, and, when filed, our Annual report on Form 10-K for the year ended December 31, 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. 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 Annual Report on Form 10-K for the year ended December 31, 2015 could differ from the preliminary results we have announced in this letter.

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