



ZYNGA – Q2 2016 QUARTERLY EARNINGS LETTER

August 4, 2016

Dear Shareholders,

We look forward to discussing our Q2 results during today's earnings call at 2:00 p.m. PT. Below, you'll find our quarterly letter which details our performance over the last quarter.

CEO PERSPECTIVE

We are continuing to make great progress in our turnaround. In Q2, we launched 4 new games, including the successful release of NaturalMotion's highly anticipated *CSR2*. Our top live services saw growth, with *Words With Friends*, *Social Slots* and *Zynga Poker* delivering strong results this quarter. We are tightening our operating model and improving our cost management as we do more with less, particularly in marketing. While we have more work to do in our turnaround, I am encouraged to see the momentum we feel in our products and company show up in our results.

Our Q2 bookings were above the high end of our guidance range at \$174.7 million. Our key mobile franchises, *Words With Friends*, *Social Slots* and *Zynga Poker*, showed momentum with combined mobile bookings up 33% year-over-year and up 2% sequentially. *Words With Friends* had its strongest Q2 bookings performance in its 6-year history, though bookings were slightly down from the previous quarter due to audience seasonality. Our *Social Slots* portfolio drove sequential mobile bookings and audience increases. *Zynga Poker* achieved its second quarter of growth across mobile bookings and audience. Our Q2 Adjusted EBITDA was above our guidance range at \$11.6 million, primarily driven by lower and more efficient marketing investments that reduced our non-GAAP operating expenses by 5% quarter-over-quarter.

In late June, we launched *CSR2* to widespread acclaim with more than 600,000 5-star reviews across the App Store and Google Play. Fans are responding positively to the game's stunning visuals, compelling player versus player racing experience and have driven over 264 million miles in the game already. The *CSR* franchise is the top grossing Racing franchise so far in 2016, and is currently being played in over 200 countries and territories. As the game transitions from its launch period to live operations, we plan to sustain it with bold beats that deliver fans new supercars, updated racing modes and crew milestones that increase competition.

While we are pleased with the results we drove in Q2, we saw a 7% sequential decline in mobile daily active users (DAU) largely driven by older games. On mobile, we have 15 million DAU, which now represents 82% of our total DAU. The performance of games such as *Word With Friends*, *Looney Tunes Dash!*, *Empires & Allies* and *Clumsy Ninja* accounted for the majority of the mobile DAU declines. Historically, *Words With Friends* experiences a seasonal audience decline in Q2 following increased post-holiday installs and engagement in Q1. The *Words With Friends* declines last quarter were less than half of the audience declines the game had in Q2 2015. Looking ahead, we expect our audience metrics to fluctuate as we launch new games and our older mobile and web games decline.

We have released 8 games in 2016 and remain on track to launch *FarmVille: Tropic Escape* in late Q3 and *Dawn of Titans* in the Q4 holiday season. We are excited to bring *Dawn of Titans* to Action Strategy fans worldwide later this year, and are actively updating the game based on soft-launch feedback. Players are responding to the game's high-fidelity graphics and combat gameplay, and increasing *Dawn of Titans*' long-term engagement and social features remains a priority.

We continue to focus on quality over quantity in terms of our new titles. As a result, we have decided to stop development of our current version of *CityVille* mobile, which was originally scheduled to launch later this year. Based on extensive testing and soft-launch data, the game failed to meet our expectations and those of our players. As a company, we remain committed to the Invest Express category and our *CityVille* brand long-term.

FINANCIAL OUTLOOK

We expect our Q3 bookings to be in the range of \$180 million to \$190 million. The majority of the sequential growth in bookings is expected to be driven by the performance of our key mobile franchises, including *CSR*, *Words With Friends*, *Social Slots* and *Zynga Poker*, offset by declines in some of our older mobile titles and web games. We expect Adjusted EBITDA to be between \$12 million and \$16 million. The improvement in Adjusted EBITDA is projected to be driven by growth in bookings, partially offset by a sequential rise in marketing expenses. While we are committed to achieving a higher return on marketing, the anticipated increase in marketing expenses is due to the launches of *CSR2*, *FarmVille: Tropic Escape* and seasonal spending. Long-term, we continue to believe that our Adjusted EBITDA margin will be in line with our peers.

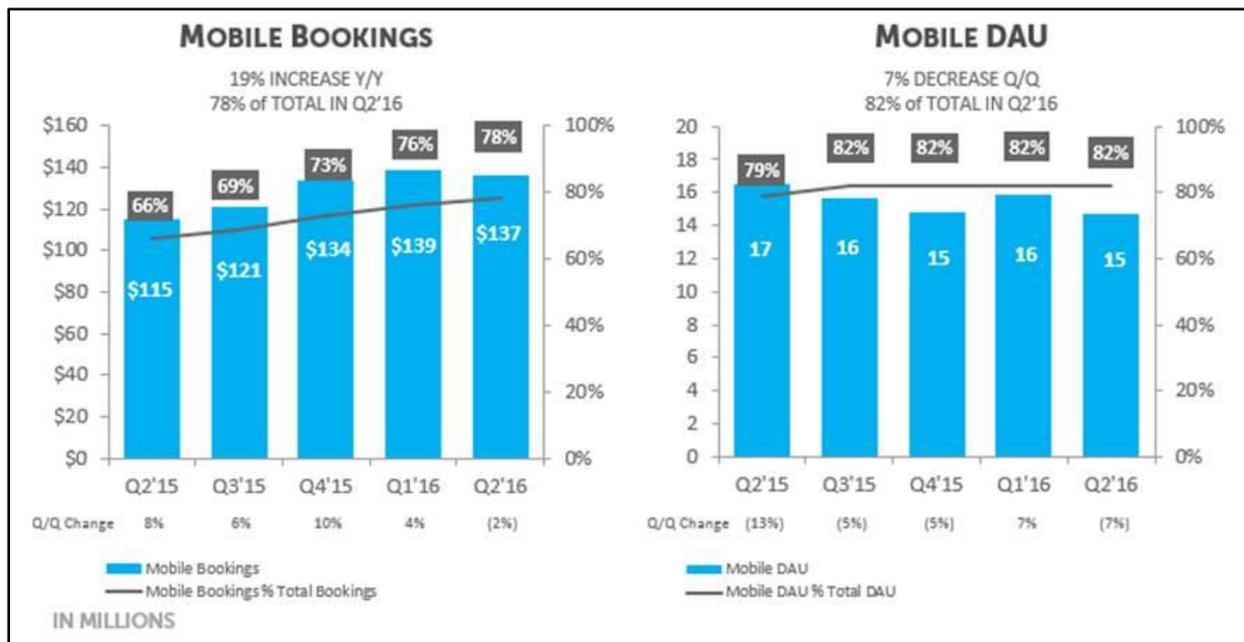
Q2 PERFORMANCE OVERVIEW

Financial Highlights

- Bookings of \$174.7 million; above the high end of the guidance range, flat year-over-year and down 4% sequentially
- Adjusted EBITDA of \$11.6 million; above the guidance range
- \$868.4 million in cash, cash equivalents and marketable securities
- Non-GAAP operating expenses of \$118.2 million; down 5% quarter over quarter, driven by a 14% reduction in marketing expenses
- *Words With Friends* had its strongest Q2 bookings in its 6-year history
- Our *Social Slots* portfolio grew mobile bookings by 31% year-over-year and 3% sequentially
- *Zynga Poker*'s mobile bookings were up 9% year-over-year and 5% sequentially

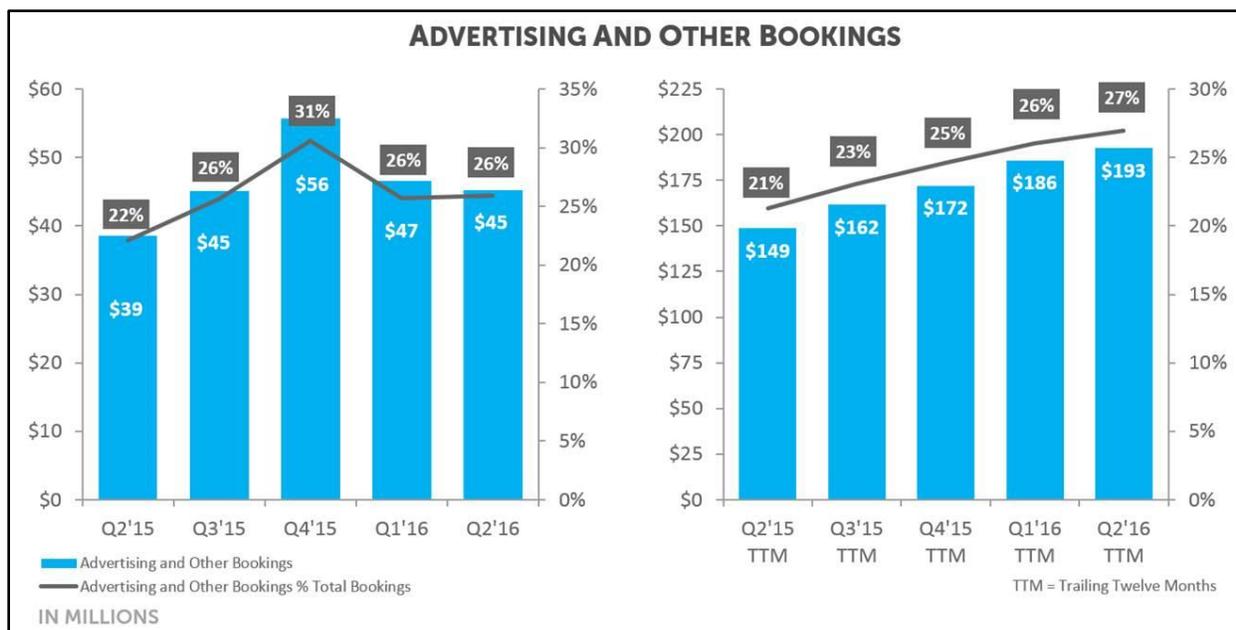
Mobile Highlights

- Mobile bookings of \$136.6 million or 78% of overall bookings; up 19% year-over-year and down 2% sequentially
- Average Mobile Daily Active Users (mobile DAUs): 15 million; down 7% sequentially
- Apple and Google are now our two largest platform partners for online game bookings



Advertising Highlights

- Advertising and other bookings of \$45.2 million or 26% of total bookings; up 17% year-over-year
- Results were driven through partnerships with leading ad networks and brands such as Pepsi Co., Disney and McDonald's
- We will continue to focus on building out our strategic partnership pipeline and developing new, innovative ad products for players



OUR PRODUCTS

Social Casino

Zynga Poker – The game delivered another positive quarter, with Q2 mobile bookings up 9% year-over-year and 5% sequentially. We saw mobile DAU growth of 3% quarter-over-quarter, primarily driven by the launch of the VIP Club, an innovative loyalty program that rewards players as they progress in game. *Zynga Poker's* performance was also supported by our continued investment in high-engagement live events, including our first multi-table tournaments on mobile.

Social Slots – In Q2, our *Social Slots* portfolio grew mobile bookings by 31% year-over-year and 3% sequentially. We continue to have 4 Slots games in the top 30 highest grossing Casino category in the App Store. *Willy Wonka and the Chocolate Factory Slots*, which had its first full quarter in Q2, helped offset some of the 23% sequential mobile bookings declines we experienced in *Hit It Rich! Slots*. Mobile bookings in *Hit It Rich! Slots* were lower last quarter due to ongoing in-game economy tuning and a slower content cadence. We have worked to stabilize the game and, so far in Q3, we are starting to see it rebound with improvements to average daily bookings and increases in reactivations and engagement.

Casual

Words With Friends – This game had its strongest Q2 bookings performance in its 6-year history. While mobile bookings were up 57% year-over-year, they declined sequentially by 1% driven by a seasonal dip in DAU which decreased the number of moves made and ads served. Looking ahead, we're focused on engaging players through an improved Weekly Challenge system and new Hindsight feature.

We are pleased to announce that we recently acquired a small, talented game developer, PuzzleSocial, Inc., the maker of *Daily Celebrity Crossword*. The crossword puzzle game complements our existing *Word With Friends* franchise with a similar audience of word game players.

Wizard of Oz: Magic Match – We utilized a top license from our *Social Slots* portfolio, Wizard of Oz, and built a Match-3 game that gives players new ways to engage with this enduring brand. Since the game’s launch, its retention and monetization have been among the highest for our mobile Match-3 titles, and players are responding positively with more than 51,000 5-star App Store and Google Play reviews.

Invest Express

FarmVille: Tropic Escape – We expect to launch our newest Invest Express game, *FarmVille: Tropic Escape*, worldwide by the end of Q3. The game is set in an immersive, tropical island-themed world and delivers a unique experience in the *FarmVille* franchise. We expanded soft-launch into 8 territories and are seeing positive results around *FarmVille: Tropic Escape*’s weekly crafting feature.

Action Strategy

CSR2 – Since launching *CSR2* worldwide, we have released several updates designed to increase engagement and deliver new content to players at all levels in the game. Recent new features include player matchmaking, ensuring players are matched against equally ranked racers, and improved real-time racing mechanics. We are also deepening the game’s crew feature, adding new environments, more events and narrative content. Additionally, like the original *CSR*, unveiling new supercars will be equally as important in *CSR2*. In the coming weeks, we’ll be debuting the Bugatti Chiron for the first time ever in a Racing game across mobile and console.

Dawn of Titans – We remain on track to launch *Dawn of Titans* worldwide during the Q4 holiday season. The game is currently in 15 test markets, and its quality continues to resonate with players with an average of 4.5 stars in the App Store. We are concentrating on improving long-term player engagement and retention, and have recently introduced new ways for players to collect and invest in their Titans and armies.

CLOSING REMARKS

As we look forward to the second half of the fiscal year, we are pleased with the progress we have made. Our company is improving execution in 3 key areas: (1) growing live services, (2) delivering quality new games such as *CSR2* and (3) increasing operating leverage. In the first half of this year, we generated \$22.5 million in Adjusted EBITDA, compared to \$3.1 million in the first half of 2015. While these results are encouraging, we still have a lot of work to do as we focus on growing our audience, managing our cost structure and bringing our social gaming vision to life.

We are in a dynamic and growing industry that has seen significant change over the last 6 months. The power and capabilities of mobile devices continues to increase, and players are eager for new experiences that push the boundaries of technology. Mobile games today are bringing in a new, mass market audience and changing how people interact and socialize on a daily basis. It’s clear people want to put more play in their day and are looking for new ways to be social. Zynga’s mission to connect the world through games is where mobile gaming is going and we believe we will be a leader in this growing industry.

Sincerely,



Frank Gibeau,
Chief Executive Officer



Michelle Quejado,
Interim Chief Financial Officer & Chief Accounting Officer

NON-GAAP FINANCIAL MEASURES

| Three months ended June 30, 2016 | | Adjustments to GAAP to arrive at non-GAAP net income (loss) | | | | | | |
|---|--------------|---|---------------|------------|---------------|--------------|---------------|---------------------------|
| | | (In thousands, except per share data, unaudited) | | | | | | |
| | GAAP | | Amortization | Change in | | Acquisition- | Contingent | Non-GAAP |
| | Statement of | Stock-based | of intangible | deferred | Restructuring | related | consideration | measure |
| | Operations | expense | assets from | revenue | expense, net | transaction | fair value | |
| | | | acquisitions | | | expenses | adjustment | |
| Total revenue | \$ 181,735 | \$ - | \$ - | \$ (7,082) | \$ - | \$ - | \$ - | \$ 174,653 ⁽¹⁾ |
| Cost of revenue | 56,103 | (1,127) | (6,722) | - | - | - | - | 48,254 |
| Research and development | 66,233 | (20,213) | - | - | 1 | - | 14,390 | 60,411 |
| Sales and marketing | 40,631 | (2,206) | (743) | - | - | (179) | - | 37,503 |
| General and administrative | 25,374 | (3,353) | - | - | (1,711) | (20) | - | 20,290 |
| Total costs and expenses | 188,341 | (26,899) | (7,465) | - | (1,710) | (199) | 14,390 | 166,458 |
| Income (loss) from operations | (6,606) | 26,899 | 7,465 | (7,082) | 1,710 | 199 | (14,390) | 8,195 |
| Interest income | 761 | - | - | - | - | - | - | 761 |
| Other income (expense), net | 1,905 | - | - | - | - | - | - | 1,905 |
| Income (loss) before income taxes | (3,940) | 26,899 | 7,465 | (7,082) | 1,710 | 199 | (14,390) | 10,861 |
| Provision for (benefit from) income taxes | 506 | 11,916 | 3,203 | (2,803) | 582 | 61 | (4,159) | 9,306 |
| Net Income (loss) | \$ (4,446) | \$ 14,983 | \$ 4,262 | \$ (4,279) | \$ 1,128 | \$ 138 | \$ (10,231) | \$ 1,555 ⁽²⁾ |
| WASO | | | | | | | | |
| Diluted | 873,393 | | | | | | | 893,636 |
| EPS | | | | | | | | |
| Diluted | \$ (0.01) | | | | | | | \$ 0.00 |

(1) Non-GAAP measure represents bookings

(2) Non-GAAP measure represents Non-GAAP net income (loss)

| Three months ended March 31, 2016 | | Adjustments to GAAP to arrive at non-GAAP net income (loss) | | | | | | |
|---|--------------|---|---------------|------------|---------------|---------------|---------------------------|---------|
| | | (In thousands, except per share data, unaudited) | | | | | | |
| | GAAP | | Amortization | Change in | | Contingent | Non-GAAP | |
| | Statement of | Stock-based | of intangible | deferred | Restructuring | consideration | measure | |
| | Operations | expense | assets from | revenue | expense, net | fair value | | |
| | | | acquisitions | | | adjustment | | |
| Total revenue | \$ 186,721 | \$ - | \$ - | \$ (5,096) | \$ - | \$ - | \$ 181,625 ⁽¹⁾ | |
| Cost of revenue | 57,139 | (649) | (6,643) | - | - | - | 49,847 | |
| Research and development | 87,737 | (24,203) | - | - | (125) | (2,030) | 61,379 | |
| Sales and marketing | 46,344 | (1,991) | (736) | - | - | - | 43,617 | |
| General and administrative | 22,384 | (2,765) | - | - | (343) | - | 19,276 | |
| Total costs and expenses | 213,604 | (29,608) | (7,379) | - | (468) | (2,030) | 174,119 | |
| Income (loss) from operations | (26,883) | 29,608 | 7,379 | (5,096) | 468 | 2,030 | 7,506 | |
| Interest income | 705 | - | - | - | - | - | 705 | |
| Other income (expense), net | 2,100 | - | - | - | - | - | 2,100 | |
| Income (loss) before income taxes | (24,078) | 29,608 | 7,379 | (5,096) | 468 | 2,030 | 10,311 | |
| Provision for (benefit from) income taxes | 2,480 | 5,405 | 1,347 | (930) | 85 | 371 | 8,758 | |
| Net Income (loss) | \$ (26,558) | \$ 24,203 | \$ 6,032 | \$ (4,166) | \$ 383 | \$ 1,659 | \$ 1,553 ⁽²⁾ | |
| WASO | | | | | | | | |
| Diluted | 871,093 | | | | | | | 882,350 |
| EPS | | | | | | | | |
| Diluted | \$ (0.03) | | | | | | | \$ 0.00 |

(1) Non-GAAP measure represents bookings

(2) Non-GAAP measure represents Non-GAAP net income (loss)

| (in thousands, unaudited) | 3 months ended | | 6 months ended | |
|---|------------------|------------------|------------------|------------------|
| | 6/30/16 | 6/30/15 | 6/30/16 | 6/30/15 |
| Reconciliation of Revenue to Bookings: Advertising & Other | | | | |
| Revenue | \$ 45,912 | \$ 37,757 | \$ 95,576 | \$ 73,087 |
| Change in deferred revenue | (695) | 859 | (3,750) | (1,704) |
| Bookings: Advertising & Other | \$ 45,217 | \$ 38,616 | \$ 91,826 | \$ 71,383 |
| Less Bookings: Other | \$ (1,990) | \$ (1,622) | \$ (3,223) | \$ (2,169) |
| Bookings: Advertising | \$ 43,227 | \$ 36,994 | \$ 88,603 | \$ 69,214 |

| (in thousands, unaudited) | 3 months ended | | 6 months ended | |
|---|------------------|---------------|------------------|-----------------|
| | 6/30/16 | 6/30/15 | 6/30/16 | 6/30/15 |
| Reconciliation of Net income (loss) to Adjusted EBITDA | | | | |
| Net income (loss) | \$ (4,446) | \$ (26,868) | \$ (31,004) | \$ (73,364) |
| Provision for (benefit from) income taxes | 506 | 991 | 2,986 | 2,571 |
| Other income (expense), net | (1,905) | (1,199) | (4,005) | (9,558) |
| Interest income | (761) | (605) | (1,466) | (1,399) |
| Restructuring expense, net | 1,710 | 12,855 | 2,178 | 16,316 |
| Depreciation and amortization | 10,835 | 13,340 | 21,647 | 31,062 |
| Acquisition-related transaction expenses | 199 | - | 199 | - |
| Contingent consideration fair value adjustment | (14,390) | - | (12,360) | 9,400 |
| Stock-based expense | 26,899 | 27,905 | 56,507 | 69,367 |
| Change in deferred revenue | (7,082) | (25,456) | (12,178) | (41,339) |
| Adjusted EBITDA | \$ 11,565 | \$ 963 | \$ 22,504 | \$ 3,056 |

We have provided in this letter certain non-GAAP financial measures, including bookings, Adjusted EBITDA, advertising and other bookings, and mobile bookings, to supplement our consolidated financial statements prepared in accordance with GAAP (our "GAAP financial statements"). Management uses these non-GAAP financial measures internally in analyzing our financial results to assess operational performance and liquidity. Our non-GAAP financial measures may be different from non-GAAP financial measures used by other companies. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for our GAAP financial statements. 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 of these non-GAAP financial measures to the most directly comparable GAAP financial measures in (i) the press release announcing our financial results for the three months ended June 30, 2016 (which is included as Exhibit 99.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission (the "SEC") on August 4, 2016, a copy 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), (ii) when filed, our Quarterly Report on Form 10-Q for the three months ended June 30, 2016, a copy 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 (iii) our second quarter of 2016 earnings slides presentation, dated August 4, 2016, a copy of which may be obtained by visiting our Investor Relations web site at <http://investor.zynga.com>.

Some limitations of the non-GAAP financial measures included in this letter:

- Adjusted EBITDA does not include the impact of stock-based expense, acquisition-related transaction expenses, contingent consideration fair value adjustments and restructuring expense;

- Bookings and Adjusted EBITDA do not reflect that we defer and recognize online game revenue and revenue from certain advertising transactions over the estimated average life of durable virtual goods or as virtual goods are consumed;
- Adjusted EBITDA does not reflect income tax expense and does not include other income (expense) net, which includes foreign exchange gains and losses and interest income; and
- Adjusted EBITDA excludes depreciation and amortization of intangible assets. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future.

Because of these limitations, you should consider the non-GAAP financial measures presented in this letter with our GAAP financial statements. See the GAAP to non-GAAP reconciliations in this letter and in the places listed above for further details.

FORWARD LOOKING STATEMENTS

This letter contains forward-looking statements, including those statements relating to our outlook for the third quarter of 2016 under the heading “FINANCIAL OUTLOOK” and statements relating to, among other things: our ability to tighten our operating model and improve our cost management as we do more with less, particularly in marketing; that we have more work to do in our turnaround; our plan to sustain CSR2 with bold beats that deliver fans new supercars, updated racing modes and crew milestones that increase competition; our expectation that our audience metrics will fluctuate as we launch new games and our older mobile and web games decline; that we remain on track to launch FarmVille: Tropic Escape in late Q3 and Dawn of Titans in the Q4 holiday season; that increasing Dawn of Titans’ long-term engagement and social features remains a priority; that we continue to focus on quality over quantity in terms of our new titles; that we remain committed to the Invest Express category and our CityVille brand long-term; that we will continue to focus on building out our strategic partnership pipeline and developing new, innovative ad products for players; that Hit It Rich! Slots will continue to rebound with improvements to average daily bookings and increases in reactivations and engagement; that we’re focused on engaging Word With Friends players through an improved Weekly Challenge system and new Hindsight feature; that we are deepening CSR2’s crew feature and adding more event and narrative content; that like the original CSR, unveiling new supercars will be equally as important in CSR2; that we’ll be debuting the Bugatti Chiron for the first time ever in a Racing game across mobile and console; that we are concentrating on improving long-term player engagement and retention with respect to Dawn of Titans, and have recently introduced new ways for players to collect and invest in their Titans and armies; that we are improving execution in 3 key areas: (1) growing live services, (2) delivering quality new games such as CSR2 and (3) increasing operating leverage; and that we will focus on growing our audience, managing our cost structure and bringing our social gaming vision to life.

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, 2015, and, when filed, our Quarterly Report on Form 10-Q for the three months ended June 30, 2016, 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 Quarterly Report on Form 10-Q for the three months ended June 30, 2016 could differ from the preliminary results we have announced in this letter.

References to game ratings contained in this letter are as of the date of this letter and are generally based on the average rating for the game’s most recent release or update in the applicable platform or app store. At times, there may be a limited number of ratings, especially if the current version of the game has only been released or updated recently. All references to 5 star reviews contained in this letter are as of the date of this letter and are for all of the game’s releases or updates in the applicable platform or app store.