

'FarmVille' creator Zynga to go public

BARBARA ORTUTAY - AP Business Writers - Associated Press

Zynga, the online game maker behind "FarmVille" and other popular Facebook pastimes, is going public, the latest in a crop of high-valued Internet IPOs expected after LinkedIn Corp. showed that the online networking craze is a hot commodity on Wall Street.

Zynga Inc. hopes to raise up to \$1 billion in an initial public offering that follows LinkedIn's sizzling stock market debut last month. The amount of money Zynga is seeking in its IPO will likely change as its bankers determine how many shares should be sold and at what price. That process typically takes three to four months.

There's pent-up demand for the stock of large social media companies because so few of them have gone public while they have been steadily expanding their reach for several years. The opening of the floodgates could culminate next year in a long-awaited IPO of Facebook, the biggest social network of them all.

Meanwhile, there's little demand for those who fell from grace. News Corp. sold the struggling Myspace — once a social media darling — for a pithy \$35 million on Wednesday. It paid a whopping \$580 million in 2005.

LinkedIn, a service that connects people looking to advance their professional careers, doubled its IPO price in its first day of trading to give it a market value of nearly \$9 billion — the highest for an Internet IPO in the U.S. since Google Inc. went public nearly seven years ago. LinkedIn's co-founder and executive chairman Reid Hoffman, now a billionaire, belongs to Zynga's board of directors. The daily deals site Groupon Inc. has also filed its initial IPO papers.

Zynga is expected to attract even greater interest than LinkedIn did because its games have become a much larger cultural phenomenon. About 230 million people every month play addictive Zynga games such as "Farmville," "CityVille" and "Texas HoldEm Poker."

By comparison, LinkedIn has more than 102 million members.

Zynga makes most of its revenue by charging small amounts of money to buy virtual items in its games. It also makes some money from advertising and partnerships with companies such as Netflix or Vistaprint on special offers. Revenue grew to \$597 million in 2010, from \$121 million in 2009 and \$19 million in 2008.

The company, which is based in San Francisco, has a co-dependent relationship with Facebook. Zynga probably wouldn't exist if it hadn't tailored its games for Facebook's audience of more than 500 million users. On the flip side, Zynga games give people another reason to keep make frequent visits to Facebook so they can tend to virtual farms, play online poker or watch over virtual cities.

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Zynga was founded in 2007 by CEO Mark Pincus. It has about 2,300 employees, most of them in San Francisco. Private investments earlier this year valued the company as high as \$10 billion well before the IPO. By comparison, Electronic Arts Inc., the iconic video game company behind "Madden," "The Sims" and other popular titles, is currently valued at \$7.8 billion. "Call of Duty" maker Activision Blizzard Inc., meanwhile, has a market capitalization of \$13.4 billion.

Before its IPO, LinkedIn shares were recently traded for \$30.79 on SharesPost, a private stock exchange. This gave LinkedIn an implied value of \$2.8 billion. Zynga, meanwhile sold for \$15 a share for a \$12.6 billion valuation. But that's all dwarfed by Facebook, which had valuation of \$72.6 billion based on a recent trade contract. Officially, based on a private Goldman Sachs investment, Facebook is valued at \$50 billion.

The sky-high valuations of Zynga, Twitter and other tech darlings have sparked some worries of a bubble, echoing the late 1990s when companies with large online followings but little revenue triggered an investment frenzy that ended in what became known as the dot-com bust. This time, though, companies such as LinkedIn and Zynga are coming to the market more mature and, even more importantly, profitable. Zynga earned \$90.1 million last year.

But that doesn't mean their market values can't be grossly exaggerated. It may take several more years to determine whether any of this generation of Internet stars will grow into huge companies or leave investors with a bad case of buyer's remorse.

Barbara Ortutay reported from New York.

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