



This Mobile Gaming Stock is a Sleeping Giant

Description

Total hours spent on mobile games has been increasing by 10% per year in a recent [Tech Crunch report](#). Evolutions of mobile technology paired with an upcoming 5G integration are removing old barriers of graphics and speed from the mobile gaming platform and opening doors for frictionless gaming platforms.

The creator of famous games such as Farmville, Zynga Poker, Mafia Wars, and Café World, **Zynga** (NASDAQ: ZNGA) has been in the mobile gaming space since 2007. The road leading up to 2019 has been rocky, as Zynga has gone from 298 million users per month in 2012 to 70 million in the second quarter of 2019 — the decline in users has also been reflected in the stock price. Zynga appointed a new CEO in 2017, Frank Gibeau, to streamline the company, driving a strategic mindset. After two years in the captain's chair and a few acquisitions under his belt, Gibeau may be onto something.

Worldwide Consumer Spending on Games by Device

Data Source: TechCrunch.com

Buy the growth

Zynga has shown an ability to evolve with the market and stay ahead of the competition by reaching additional customers through innovative strategies and games. To accelerate growth, Zynga recently raised \$690 million in convertible notes, generating \$600 million in cash. In addition, they completed a sale-leaseback of the headquarters building in San Francisco for \$580 million. With liquid assets of \$1.3 billion, additional acquisitions may be in Gibeau's sights.

Zynga [picked up a top game producer](#), Gram Games for \$250 million in 2018. As the creator of Merge Dragons and many other popular games, the acquisition looks like a win for Zynga. Gibeau stated that the acquisition price was two to three times the revenue that Gram generated. Assuming profit margins are healthy, the breakeven timeframe could be short. To expand even further on an opportunity, Gram Games used the popular game Merge Dragons and spun it into a new game titled Merge Magic, which

is expected to drive similar popularity as Merge Dragons, one of the top 50 games in the United States.

The [second acquisition](#) Zynga made in 2018 was a \$560 million purchase of 80% of Small Giant Games — with an overall plan to own the entire company three years after the date of acquisition. A single game in Small Giant's portfolio, Empires & Puzzles, brings in annual revenue of \$19 million per the Sensor Tower's estimates. In 2017 Small Giant Games had bookings of \$190 million, just behind Zynga's Words with Friends.

Growth in the mobile segment will come from the process of maximizing the products on hand, in addition to further acquisitions. Gram Games spinning Merge Dragons into Merge Magic was a genius move that opens the door for Zynga to replicate that process with every popular title.

The future is looking bright

Revenue and bookings were up in the second quarter of 2019. Revenue came in at \$306 million, up 41% year-over-year, and bookings of \$376 million, up 61% year-over-year. In case you are wondering, the difference between bookings and revenue lies in the handling of revenue. Zynga recognizes bookings as deferred revenue plus recognized revenue from purchased virtual items or certain advertising sales. The revenue is recognized across the life of the purchase from the tenure of the average game player. If bookings are rising fast, revenue will follow.

Zynga Mobile Revenue and Mobile Bookings

Image not found or type unknown

Data Source: Zynga

The recently reported operating cash flow of \$99 million in the second quarter of 2019 was the best for the company since the fourth quarter of 2011, and that should please investors. Up 140% year-over-year, Zynga can capitalize on future investments, strengthening the possibility of larger acquisitions. Management recently released a revised 2019 full-year guidance up \$40 million to total \$1.24 billion in revenue, which represents year-over-year growth of 37%. Bookings guidance was raised \$50 million to total \$1.5 billion for 2019, a 55% increase year-over-year.

It doesn't take long to see that Zynga is healthy and has repositioned itself into a lean and fast-moving company focused on strategic acquisitions and optimal user engagement. Daily and monthly active users are currently in a holding pattern, however, bookings per user are increasing each quarter.

Mobile Average Bookings per Mobile Daily Active Users

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Data Source: Zynga

The game is just getting started

Zynga is a company that will capitalize on the growing mobile game segment. The potential for acquisitions — with \$1.3 billion in liquid assets — to drive growth alongside an impressive set of games are good reasons to add Zynga to your portfolio. With positive cash flow, growth in revenue and bookings, and an expanding mobile market, Zynga is positioned for success.

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