

Playdom Raises Big New Round

Eric Eldon, *Inside Social Games*
November 11, 2009

Social gaming company Playdom has been looking at raising a big round of funding since this spring, but now it is closing one worth up to \$70 million at up to a \$300 million valuation, industry sources tell us. The investors include NEA, we hear — although the company isn't commenting. [Update: TechCrunch has the details. The company has raised \$43 million on a \$260 million pre-money valuation, with New Enterprise Associates, company chairman Rick Thompson, Lightspeed Venture Partners and Norwest Venture Partners participating.]

Mountain View, Calif.-based Playdom's funding comes at a crucial time, as its largest rivals have also been making new moves. Playfish officially announced its up-to-\$400 million sale to Electronic Arts on Monday, in a deal worth up to \$400 million. Zynga, meanwhile, is churning out new titles, bringing in more than \$200 million in revenue; it appears to be holding off of any new funding (or a sale) with the hope of going public sometime next year.

Also interesting to note: Recent rumors suggested that Playdom is raising "a sizable round in the double-digit millions and is seeking a valuation around \$100 million to \$200 million." Perhaps recent data points, like early reports about the sale of Playfish, helped drive up the valuation (assuming the \$330 million number we heard is accurate, of course)?

Playdom's position is a bit different than the other companies, as its historic strength has been on MySpace, with games like role-playing game *Mobsters* and virtual world *Sorority Life*. And while MySpace is the second-most significant social platform behind Facebook, the site itself is not growing. While Playdom continues to be the largest developer on that site, at least by our reckoning, it has been making a big push into Facebook since this past March, and has continued with more recent releases like *Mobsters 2: Vendetta*. That effort has been at least somewhat successful: The company is now the 13th largest developer on the site, judging by total of 14.6 million monthly active users across its six Facebook apps that we know of. Note: This number is not equal to its total number of monthly active Facebook users, because Playdom, like many other developers, cross-promotes games within each app; some portion of our number includes users who play more than one app. Perhaps more tellingly, AppData shows Playdom with 2.14 million daily active users.

Altogether, Playdom said in October that it has 28 million monthly active users. We've also heard that it is on track to make around \$50 million in revenue this year. How? Through virtual goods in its games; in a recent move, for example, the company inked a deal with pre-paid card provider InComm, to let users buy currency at retail outlets. This past spring, the company was making about half of its revenue from offers, and we recently heard that was down to around 40 percent. Advertising offers, for those who haven't been paying attention to the industry in recent weeks, have been criticized for including low-quality if not outright deceptive ads for things like mobile ringtone subscriptions. But Playdom hired a new chief executive back in June — former EA executive John Pleasants — and he recently told CNET that offers have become a smaller share:

Offers are an important industry issue, and particularly important for our players. When I joined as CEO, Playdom began a company-wide effort to deliver a quality user experience on our offer walls... We've dropped more than 1,500 offers that don't meet our standards. In tandem with these efforts, we have actively grown the direct payment portion of our business; offers, otherwise known as CPA advertising, currently account for less than 20 percent of our revenue and continue to shrink.

Okay, so why would Playdom raise this money if it's already making money and growing? One reason is that competitors, notably Zynga, have been busy buying advertising on Facebook to promote their own games. We've heard Zynga may be paying Facebook up to \$50 million this year for running its ads, although a more recent rumor suggests that the number is even higher. Buying advertising has been an effective way for social gaming companies to reach new users, and it will likely become even more important as Facebook begins making major changes to its communication channels. What else to do with the money? Acquisitions are one possibility — and something that competitors like Zynga have made a big part of how they expand. Or, perhaps the money is for continued expansion on to other platform, like its efforts on the iPhone?