ZILLOW GROUP, INC. Q2 2016 EARNINGS – PREPARED REMARKS
August 4, 2016

RJ Jones, VP of Investor Relations:

Thank you. Good afternoon, and welcome to Zillow Group's second quarter 2016 earnings conference call. Joining me today to talk about our results are Spencer Rascoff, Chief Executive Officer, and Kathleen Philips, Chief Financial Officer.

During the call, we will make forward-looking statements regarding future financial performance and events. Although we believe the expectations reflected in the forward-looking statements are reasonable, we can't guarantee these results. We caution you to consider the risk factors described in our SEC filings, which could cause actual results to differ materially from those in the forward-looking statements made on this call.

The date of this call is August 4th, 2016, and forward-looking statements made today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events.

During the call, we will discuss GAAP and non-GAAP measures. We encourage you to read our earnings press release, as it contains important information about our reported and non-GAAP results, including reconciliation of non-GAAP financial measures.

In our remarks, the non-GAAP financial measure Adjusted EBITDA is referred to as EBITDA, which excludes other income, depreciation and amortization expense, share-based compensation expense, acquisition-related costs, restructuring costs, interest expense and income taxes.

This call is being broadcast on the Internet and is available on the Investor Relations section of the Zillow Group website, along with our earnings press release. A copy of management's prepared remarks has already been posted to the Quarterly Results section of our Investor Relations website. A recording of the call will be available later today.

Today, we will open the call with prepared remarks. We will follow prepared remarks with live Q&A. During Q&A, we will answer questions asked via Twitter and take questions from those dialed into the call. Individuals may submit questions by tweeting @ZillowGroup using the #ZEarnings. I will now turn the call over to Spencer.

Spencer Rascoff, CEO

Thank you for joining the call today to discuss our second quarter 2016 financial results.

Once again, Zillow Group delivered tremendous results as we continued to build upon our momentum from the first half of the year. Total revenue for the quarter grew 31 percent year-over-year to a record of more than $208 million and came in at the high end of our guidance range. Premier Agent revenue of more than $147 million also came in at the high end of our outlook. GAAP net loss was $156.1 million and includes the impact of the $130 million litigation settlement and $12.5 million in related legal costs. Excluding the litigation settlement, Q2 EBITDA was $28.7 million, well ahead of our expectations.

Toward the end of 2014, we said that 2015 would be a transition year for Zillow Group as we focused on the creation of shared services across Zillow Group in areas such as sales and data management; as well as Trulia's audience turnaround. As the calendar turned into 2016, we said that this year would be the year that we begin to reap the benefits of merging our two companies. Six months into 2016, the acceleration in our business is strong and all of our marketplaces are performing at or above our expectations. We are on track to deliver 2016 year-over-year revenue growth of approximately 30 percent. With a solid foundation for growth in place, we are excited about the second half of 2016.

We continue to focus on our four strategic priorities:

1. Growing our audience size,
2. Growing our Premier Agent business,
3. Growing our emerging marketplaces, and
4. Attracting and retaining the best talent in the technology, media and real estate industries.

I'll start with our audience. Our market share of the category audience continues to expand and we have a commanding lead in terms of consumer traffic. According to comScore, Zillow Group represented greater than 67 percent of the total online real estate category in June and 78 percent of the category on mobile only. Across all Zillow Group's mobile applications and websites, traffic reached record levels during the quarter[1]. Average monthly unique users for the quarter grew 20 percent year-over-year to more than 168 million, hitting a quarterly peak in May with more than 171 million unique users. Traffic on the Zillow brand is at record levels, and continues to gain share. Meanwhile, Trulia traffic is also growing nicely year-over-year and contributing meaningfully to Zillow Group's overall audience leadership.

The steady growth of our audience is a testament to the tireless efforts of our product, engineering and marketing teams. As we have shared over time, everything we do at Zillow Group to attract audience starts with creating immersive products that consumers love and want to share with others. We then amplify those efforts through earned and paid audience acquisition. Looking at our advertising for the Zillow brand in particular, we have done an outstanding job over the past few years implementing an effective brand awareness campaign. Our iterative strategy has both positioned Zillow Group's products

1 comScore data June 2016

and services as go-to resources across various stages of the home cycle, and driven efficiencies in our ad spend.

Moving on to our Premier Agent business, where growth continues to accelerate as top performing agents realize the benefits of advertising on our platforms. Year-over-year Premier Agent revenue growth for the second quarter was 28 percent.

As you know, we are very focused on improving lead conversion because improvements to lead conversion directly increase the return-on-investment for our advertisers, as well as enhancing the consumer experience. We have many initiatives focused on lead conversion, including working with our brokerage partners to do training events with their agents and working with technology partners to have their lead-management software help our shared clients maximize lead conversion. Our own Premier Agent app also allows agents to manage inbound leads from Zillow Group's mobile applications and websites. We delivered more than 4 million leads to Premier Agent advertisers across our various brands, mobile apps and websites during the second quarter of 2016, an increase of nearly 50 percent year over year. We expect continued growth in lead volume – a testament to the ever-growing engagement of our users. The rate of growth will normalize over time, as we'll soon start comparing current lead volume to the stronger lead volume that began after Trulia's traffic turnaround in early 2016.

We continue to invest organically and through M&A in software tools that help solve the challenges of our industry partners – from our Premier Agent app (which improves agents' workflow), to dotloop (which provides best-in-class transaction management to brokers and agents), to Retsly (which helps MLSs develop innovative tools for distribution of their data). Our latest acquisition, announced earlier this week, is Bridge Interactive, a small technology startup headquartered in Atlanta, which empowers brokers and MLSs to address the complex world of listings data management. Bridge offers simple and powerful tools to help brokers and MLSs ensure control, security and accuracy of their listings. For example, Bridge's software allows a listing agent to enter a listing and have it simultaneously go into the broker's software platform AND the local MLS. It also enables the single listing to go to more than one MLS, if the agent works in a city with overlapping MLSs. Their technology helps solve challenges facing our thousands of valued broker partners, and enhances the important role of the MLS in the real estate industry.

Turning now to our third strategic priority – growing our emerging marketplaces (notably rentals, mortgages and New York City) – each of which is growing even faster than our Premier Agent business.

Our Mortgages marketplace excelled again in the second quarter with 77 percent year-over-year revenue growth, on track to do about $70 million in full year revenue, which is larger than all Zillow revenue at the time of our IPO 5 years ago.

In our Rentals marketplace, we now attract more than 30 million monthly unique users[2]. According to comScore, the Zillow Rental Network, which includes rental shoppers on Zillow, Trulia and HotPads, is the largest rental network on the Web and attracts nearly twice as many visitors as our nearest

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[2] Google Analytics and Omniture, May 2016

competitor[3]. We continue to grow rental traffic by building innovative features for renters while bringing on more inventory from more apartment buildings. Rentals is the fastest growing of our marketplaces, with over 100 percent year-over-year revenue growth.

Turning now to our New York City marketplace, where we continue to see significant opportunity. StreetEasy, a brand that we acquired three years ago, continues to be the leading real estate site in New York City. Add in Naked Apartments, Zillow and Trulia, and Zillow Group has a commanding audience lead in New York rentals and for sale real estate. While StreetEasy continues to grow at the top of its funnel, its leads to real estate agents are growing even faster – which is similar to trends on Zillow and Trulia.

One of our most important priorities at Zillow Group is attracting and retaining the best talent and maintaining our unique company culture focused on innovation. We wouldn't be able to celebrate the successes I've mentioned if we didn't have the best people, not only in the real estate media industry, but in all of technology. We are not experiencing the recruitment and retention issues that many other mid-size tech companies are reporting. We attribute this to our focus on our culture, which has insulated us from this trend. Each year, Zillow Group is recognized as a best place to work, winning numerous awards across nearly all office locations around the country, including San Francisco, Seattle, New York, Lincoln and Irvine. In just the past few months, Zillow was ranked by Glassdoor as the 10th best company to work for in America. That ranking is determined solely by employee feedback.

You don't receive these accolades if you have unhappy employees. We believe engaged employees produce the highest quality work. We regularly conduct employee engagement surveys and the results show that we have a very energized and engaged employee base. For example, 94 percent of our employees say they would recommend working for Zillow Group to a friend, which is chart-topping among technology companies. These findings are consistent across all of our eight offices, which is impressive considering we are just a year and a half out from a transformative acquisition of Trulia.

My role as CEO of Zillow Group is to recruit, retain and motivate the more than 2,500 people who work here and to create an environment in which they can do their best work. I'd like to thank all of Zillow Group's hard working employees for contributing to our ongoing success. We are bringing the same level of innovation and culture of transparency to how we run the company that we have brought to consumer innovation in the online real estate media space.

Now, turning to our outlook for the remainder of 2016:

We are raising our revenue outlook for the year by $5 million to a range of $830 to $840 million. Further, we are raising our EBITDA outlook range by $10 million to $125 to $135 million, primarily due to the reduction of legal expenses that we previously expected to incur this year. This EBITDA outlook range excludes the impact of our $130 million June litigation settlement. We will be reinvesting some of the legal expense savings into talent acquisition, product development, including new initiatives in our emerging marketplaces, and advertising over the remainder of the year. We are in growth mode and

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[3] Zillow's custom-defined Rental Sites category ranking based on US Media Metrix comScore data, Unique Visitors, June 2016; Zillow Rental Network is the unduplicated reach of Zillow.com Rentals, Trulia.com rentals, HotPads.com, and MyNewPlace.com, Media Metrix Audience Duplication report, June 2016.

this is consistent with our long-term strategy to drive audience and revenue growth along with steady margin expansion as we work toward our target of more than 40 percent EBITDA margin at scale.

We are focused on growing our audience and delivering more leads to advertisers that convert into transactions – which drives revenue growth for our advertisers and for us. Importantly, with almost 4 out of 5 mobile-only real estate shoppers using our brands, we are the clear mobile audience leader. But we are also the rare mobile-first company that monetizes extraordinarily well on mobile.

We have had great success in establishing the leading presence for home shopping online. As I told you last quarter, more Americans today are searching on Google for "Zillow" than "real estate[4]." This milestone indicates that Zillow is becoming a household name. We are running the most advanced technology engine in the category and really we are just getting it started. The online real estate market already represents multi-billions of media ad dollars and is expanding. There is plenty of room for growth in this market, as well as in the various emerging marketplaces we've entered or are assessing today. Zillow Group is capturing a larger piece of the pie while growing the categories. We are more excited than ever about the massive opportunities in front of us.

To conclude, great people build great products, which attract audience. As I have said many times, advertisers follow audience.

With that I will turn it over to Kathleen.

Kathleen Philips, CFO

Thank you, Spencer, and hello to everyone joining us on today's call. Let's dive into our financial results.

Total revenue for the second quarter increased 22 percent year-over-year to a record of $208.4 million from $171.3 million in the same period last year. Excluding Market Leader from last year's results, total revenue increased 31 percent year-over-year.

Looking at our primary revenue category, marketplace revenue was $191.6 million, representing an increase of 32 percent year-over-year. Excluding Market Leader from last year's results, marketplace revenue increased 44 percent year-over-year. Marketplace revenue now accounts for 92 percent of our total revenue as compared to 85 percent during the same period last year. As a reminder, our Marketplace category includes Premier Agent, Other Real Estate and Mortgages revenue.

Zillow Group Premier Agent revenue increased 28 percent year-over-year to a record $147.1 million in the second quarter. The annualized run rate for our agent advertising business reached $586 million at the end of the quarter, compared to $456 million at the same time last year. Our top agents and teams continue to realize the benefits of advertising on Zillow Group's platform and are willing to spend more of their advertising budgets with us.

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[4] Google Trends, June 2016.

We ended the quarter with 91,184 agent advertisers, in line with our expectations and relatively flat compared to the end of the first quarter of 2016. For the second quarter of 2016, average revenue per advertiser, or ARPA, was $536, increasing 43 percent year-over-year. As a reminder, we will no longer report on the number of agent advertisers and ARPA beginning in 2017.

Sales to same agent advertisers, or those who have been on our platform for more than one year, grew by more than 57 percent compared to the prior year. New sales to existing advertisers made up 70 percent of total bookings in the second quarter. Year-over-year growth of the agent advertiser cohort that spends more than $5,000 per month was 73 percent on a total dollar basis and 68 percent in advertiser count. Churn in this cohort continues to be minimal.

We continue to support more agent teams, as well as independent broker agents represented by one account who buy advertising at much higher levels than the average. We are accelerating the larger trend across the real estate agent population of higher producing agents gaining market share from those who are less competitive.

Second quarter revenue for our Other Real Estate subcategory grew 254 percent year-over-year to $26.1 million. Other real estate revenue includes agent services, dotloop, StreetEasy, Naked Apartments, rentals and other offerings to our endemic advertisers that are not traditional display advertising.

Moving now to our Mortgages marketplace, our revenue reached $18.4 million in the quarter, which represents a 77 percent increase year-over-year. Although the number of loan information requests decreased 49 percent year-over-year, average revenue per loan information request increased 247 percent year-over-year. The decrease in the number of loan information requests, and corresponding increase in average revenue per loan information request, was driven by our strategic decision to improve the quality of those requests by asking consumers to provide more details before a loan information request is sent to a lender. These changes have increased consumer and advertiser adoption of mortgage advertising products that yield higher revenue.

In our display category, revenue was $16.8 million, a decrease of approximately 35 percent over the same period last year, and within our expectations. Our intentional shift from traditional display advertising revenue continues, as we focus on providing consumers with personalized experiences that lead to valuable connections for our marketplace advertisers.

Moving now from revenue to our expenses. Total operating expenses were $363.7 million in the second quarter.

Taking a closer look at our operating expenses by line item:

Our cost of revenue during the quarter was $17.2 million, or 8 percent of revenue.

Sales and marketing expense was $99.3 million, or 48 percent of revenue. Our advertising investments for our brands were executed as planned, and were effective in growing our audience to record levels.

Technology and development costs in the second quarter were $67.4 million, or 32 percent of revenue, which was higher than internal forecasts, due primarily to lower-than-expected capitalized wages.

General and administrative costs in the second quarter were $179.6 million, including the impact of a $130 million litigation settlement and $12.5 million in related legal costs.

Moving on to our bottom line, GAAP net loss was $156.1 million. GAAP basic and diluted net loss per share was 87 cents.

Our EBITDA for the quarter was a loss of $101.3 million. Excluding the $130 million litigation settlement, EBITDA was $28.7 million, or 14 percent of revenue, and above our outlook range.

Zillow Group ended the second quarter with 2,571 employees and over $421 million in cash and investments.

Now turning to our Zillow Group outlook for the third quarter and full year 2016. I encourage you to review our press release that was issued this afternoon. It is available on our investor relations website and includes detailed Q3 and full year 2016 guidance and related GAAP reconciliations.

Third quarter 2016 total revenue is expected to be in the range of $217 to $222 million. Premier Agent revenue in the third quarter is expected to be in the range of $156 to $158 million. Display revenue is expected to be in the range of $15 to $16 million.

EBITDA in the third quarter is expected to be in the range of $48 to $53 million.

For the full year 2016, as Spencer noted, we are raising our revenue outlook by $5 million to a range of $830 to $840 million. We are raising our Premier Agent revenue outlook for the year to be in the range of $597 to $602 million. We are also raising our display revenue outlook to a range of $60 to $62 million.

EBITDA for the full year 2016 is expected in the range of $125 to $135 million. For illustrative purposes, this EBITDA outlook range excludes the impact of our $130 million June litigation settlement. As Spencer alluded to earlier, we avoided approximately $24 million of anticipated legal expenses due to the settlement. About half will flow through to EBITDA. We are investing the remaining half of the savings by accelerating allocations to talent acquisition, product development, initiatives in our emerging marketplaces, and advertising, with about three quarters of the investment weighted toward hiring and product. We are taking advantage of long-term growth opportunities that we see for our business, while also progressing toward our long-term target of more than 40 percent EBITDA margin at scale.

One final administrative item. The Audit Committee of Zillow Group's Board of Directors recently approved the appointment of Deloitte & Touche as our new independent registered public accounting firm for 2017. In addition, the Audit Committee approved the dismissal of Ernst & Young, which will be effective after the issuance by EY of its reports on Zillow Group's financial statements for 2016. We've enjoyed a positive and constructive relationship with EY and thank them for their many years of service to us. However, we continually evaluate our service providers and have elected to make a change for 2017. There have been no unresolved disagreements with EY on any accounting matters. We expect to file our form 10-Q for the second quarter of 2016 tomorrow morning as scheduled.

In summary, our performance for the second quarter of 2016 was excellent and showcased the strengths of our business model across our home related marketplaces. These are very early days as we pursue the massive market opportunities in front of us. As we enter the second half of 2016, we are excited to extend our audience lead and build upon our foundation for revenue growth and long-term margin expansion.

We will now open up the call for questions.

After Question & Answer Session

Spencer Rascoff, CEO

Thank you very much for joining our call today. We look forward to giving you an update on our progress in November.

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Zillow Group's second quarter 2016 earnings press release is available on the Investor Relations section of the Zillow Group website at http://investors.zillowgroup.com/releases.cfm. It is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the SEC on August 4, 2016, which is available on the Investor Relations section of the Zillow Group website at http://investors.zillowgroup.com/sec.cfm and the SEC's website at www.sec.gov.

Forward-Looking Statements

These prepared remarks contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which involve risks and uncertainties, including, without limitation, statements regarding our business outlook, strategic priorities, and operational plans for 2016. Statements containing words such as "may," "believe," "anticipate," "expect," "intend," "plan," "project," "will," "projections," "continue," "business outlook," "estimate," "outlook," and similar expressions constitute forward-looking statements. Differences in Zillow Group's actual results from those described in these forward-looking statements may result from actions taken by Zillow Group, as well as from risks and uncertainties beyond Zillow Group's control. Factors that may contribute to such differences include, but are not limited to, Zillow Group's ability to successfully integrate and realize the benefits of its past or future strategic acquisitions or investments; Zillow Group's ability to innovate and provide products and services that are attractive to its users and advertisers; Zillow Group's ability to attract consumers to Zillow Group's mobile applications and websites; Zillow Group's ability to maintain and effectively manage an adequate rate of growth; the impact of the real estate industry on Zillow Group's business; Zillow Group's ability to maintain or establish relationships with listings and data providers; the impact of pending litigation described in Zillow Group's filings with the Securities and Exchange Commission, or SEC; Zillow Group's ability to compete successfully against existing or future competitors; the reliable performance of Zillow Group's network infrastructure and content delivery processes; and Zillow Group's ability to protect its intellectual property. The foregoing list of risks and uncertainties is illustrative but not exhaustive. For more information about potential factors that could affect Zillow Group's business and financial results, please review the "Risk Factors" described in Zillow Group's Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the SEC on February 12, 2016, and in Zillow Group's other filings with the SEC. Except as may be required by law, Zillow Group does not intend, and undertakes no duty, to update this information to reflect future events or circumstances.

Use of Non-GAAP Financial Measures

These prepared remarks include references to Adjusted EBITDA, which is a non-GAAP financial measure not prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). This non-GAAP financial measure is not prepared under a comprehensive set of accounting rules and, therefore, should only be reviewed alongside results reported under GAAP.

We urge you to review our earnings press release as it contains important information about our financial results, including reconciliation tables and related information about this non-GAAP financial measure. The earning press release is available on the Investor Relations section of the Zillow Group website at http://investors.zillowgroup.com/releases.cfm. It is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the SEC on August 4, 2016, which is available on the Investor Relations section of the Zillow Group website at http://investors.zillowgroup.com/sec.cfm and the SEC's website at www.sec.gov.

Adjusted EBITDA is a key metric used by our management and board of directors to measure operating performance and trends, and to prepare and approve our annual budget. Our use of Adjusted EBITDA has limitations as an analytical tool, which limitations are described in our earnings press release. You should not consider Adjusted EBITDA in isolation or as a substitute for analysis of our results as reported under GAAP.