



ZILLOW GROUP, INC. Q2 2017 EARNINGS – PREPARED REMARKS

August 8, 2017

RJ Jones, VP of Investor Relations:

Thank you. Good afternoon, and welcome to Zillow Group's second quarter 2017 financial results 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 cannot 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 8, 2017, 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, except as required by law.

During the call, we will discuss GAAP and non-GAAP measures. We encourage you to read our financial results press release, which can be found on our Investor Relations website, 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, interest expense and income tax benefit.

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

We will open the call with prepared remarks, followed by live Q&A. In addition to taking questions from those dialed into the call, we will answer questions asked via Sli.do. We encourage you to visit www.slido.com where you may submit questions by entering the event code #ZEarnings. You may also vote on which submitted questions you want us to answer. I will now turn the call over to Spencer.

Spencer Rascoff, CEO

Thank you for joining the call today.

We had another quarter of record results. Total revenue for the second quarter of 2017 grew 28 percent year-over-year to \$267 million, which exceeded the high end of our guidance range by approximately \$5 million. Q2 GAAP net loss was approximately \$22 million. EBITDA for the second quarter was nearly \$40 million, or 15 percent of revenue, well ahead of expectations.

We're very happy with the first half of the year. Six months into 2017, the new auction-based pricing model in our Premier Agent business is gaining traction with the most productive agent advertisers. All of our emerging marketplaces are performing at or above our expectations. Our pace of product innovation has quickened to the fastest release cadence that our team has ever achieved. As we enter the back half of the year, we are continuing to build upon our foundation for growth and steadily expanding our margin over time.

We continue to excel across all four of our strategic priorities. Our audience is growing in size and engagement. Traffic to Zillow Group brands' mobile apps and websites reached more than 178 million average monthly unique users in the second quarter of 2017, an increase of 6 percent year-over-year. In May, we reached an all-time record of more than 182 million unique users, which was up by more than 10 million unique users from the same period last year.

Further down the funnel, visits reached nearly 1.7 billion during the second quarter, up 17 percent year-over-year. As a reminder, the visits metric helps us evaluate progress toward our goal of increasing engagement with our audience. Users who visit frequently have a greater intent to buy, sell or rent a home, which ultimately means more high-quality leads for our agent advertisers.

Our next priority is to continue growing our Premier Agent business. In the second quarter of 2017, revenue for the Premier Agent business exceeded expectations and grew 29 percent year-over-year. This revenue growth was supported by traffic increases combined with demand from agent advertisers, which lifted market pricing in our most important markets. We are in the early stages of healthy marketplace dynamics taking hold as a result of the rollout of our auction-based pricing model. Pricing overall is trending as planned, in line with our experiences from the markets that were in our 2016 pilot.

Since the Zillow brand launched over a decade ago, we've been a destination for sellers who come to Zillow to look at their homes and their Zestimate. Agents know that, and they've been asking for products that help them connect with those potential sellers. With that in mind, we created Seller Boost last year.

This year, we're experimenting with a product called Zillow Instant Offers. The product, which we're testing on a small scale in two markets, allows sellers to receive a comparative market analysis from a Premier Agent, alongside non-binding offers from multiple institutional home buyers. We've heard from listing agents participating in the test that Instant Offers is a great way for them to get listing leads.

There are several startups and real estate brokerage websites experimenting in this space, but Zillow is the only one that has designed a product to keep the agent involved in every part of the transaction, most notably by giving them the opportunity to secure new listing agreements. Ultimately, Zillow Instant Offers has the potential to deliver the highest intent, highest quality listing leads at scale to our Premier Agents.

Despite the growing consumer demand for faster and easier processes, buying or selling a home will remain an infrequent and high-stakes transaction. An agent's role as trusted advisor is incredibly valuable and permanent.

That's why we will continue to support our industry partners by providing them with the tools they need to deliver an incredible customer service experience for their clients. The best, most productive agents across many brokerages use Zillow Group advertising and services. We continue to invest in developing innovative technology that helps our Premier Agents improve lead conversion, manage listings, and close deals more efficiently. This year, we will spend more than \$300 million building products that attract consumers to connect with agents, and developing marketing software and technology solutions for real estate professionals to maintain our position as the leading technology partner for all agents, brokerages and MLSs.

Our third strategic priority is to grow our emerging marketplaces of mortgages, rentals, new construction and New York City.

Our Mortgages marketplace once again outpaced industry activity in the second quarter with 14 percent year-over-year revenue growth. The majority of our mortgage product users continue to be home purchase loan shoppers who are less deterred by fluctuations in interest rates than refinancing shoppers.

Rentals is the fastest growing of our marketplaces. During the second quarter of 2017, Rentals revenue grew 64 percent year-over-year. An average of 34 million monthly unique rental users visited Zillow Group brands' mobile apps and websites during the second quarter of 2017. We continue to grow rental traffic by adding innovative features, while bringing on more inventory from multifamily apartment buildings. An example of product innovation for our rental marketplace is the Renter Profile, which provides landlords and property managers with valuable information to determine if an applicant meets their qualifications. More than 9 million renters have created Renter Profile accounts on Zillow and Trulia, and more than 50 percent of submitted rental leads include Renter Profile information. The Renter Profile makes it easier for landlords to connect with qualified tenants. We are rapidly becoming the most valued partner to the rental industry and we are excited about the potential for this marketplace.

In our New Construction marketplace, positive momentum is growing as more home builders realize the benefits of advertising with Zillow Group. Last quarter, we launched a new product called Builder Inform, which is available to developers who participate in Zillow Group's exclusive Promoted Communities advertising platform. The Builder Inform dashboard provides our new construction partners with unique data and valuable insights to help them make more informed decisions about

where to build, what to build and how to price new homes. This one-of-a-kind resource is only available from Zillow Group, and the response from home builders has been very positive.

In our New York City marketplace, we recently implemented two changes to our offerings in the country's most valuable housing market that we believe will improve the home shopping and rental experience for both consumers and real estate professionals. On the home buying side, the second quarter was the first full quarter with Premier Agent on StreetEasy. Now, as consumers find properties they are interested in touring, they can easily contact a local agent to represent them as a buyer. Before Premier Agent, interested buyers in New York only had the option of contacting the listing agent that represented the seller. The reception of Premier Agent by real estate professionals and brokers seeking to build their businesses with homebuyers has been strong. Monthly recurring Premier Agent revenue in this market in June 2017 was nearly double the size it was when we launched in March 2017. Leading brokerages and agents in New York recognize the benefit of empowering consumers with a choice, as well as the opportunity to build the buy-side of their business, and have committed to partnering with StreetEasy.

On the rental side in New York, we launched another change last month when we introduced the NYC Rental Network, a program that solidifies our commitment to providing consumers with the most accurate and current database of New York rental listings. During the second quarter, the NYC Rental Network attracted more than 14.7 million rental visits across all Zillow Group brands in the core urban New York area, and delivered 2.1 million leads to rental professionals. Over the last few years, StreetEasy has invested enormous product, marketing and support resources into building a reliable, consumer-friendly platform with valuable data, content and quality listings. In order to continue fueling innovation, technology, and resources to support a robust rental marketplace, we now charge agents a small fee per listing, per day, to advertise their rental listings in New York across StreetEasy, Zillow, Trulia and HotPads. This has had the immediate and desired effect of eliminating stale or fraudulent listings, which significantly improves the user experience in a city known for being one of the most challenging markets for renters to find an apartment. In addition, agents receive all of the leads from their exclusive listings. Since rentals listings in New York City are on the market for an average of only 25 days, the cost to advertise on StreetEasy is only a small fraction of the typical commission rental agents earn and the rental shopping experience is improved dramatically for consumers and agents.

Our fourth priority is attracting and retaining the best talent and maintaining Zillow Group's unique company culture focused on innovation. We've been fortunate and successful at attracting top talent to Zillow Group, which gets reflected by the frequent accolades we receive identifying us as a top place to work. We strongly believe that if you treat employees with respect, encourage dissent, value diversity and care about our people as both contributors and human beings, it will show itself in results.

And those results are further reflected in our innovative product offerings, some of which I mentioned earlier. One of Zillow Group's goals has always been to establish itself as the industry's trusted technology partner. Home shoppers today want easier, less stressful and more integrated experiences available to them that provide transparency and control. We want to make it possible for agents from all brokerages, brokerages themselves, and our MLS partners to leverage technology to provide those experiences to their clients in a way that ensures their growth and long-term success.

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 28 percent year-over-year to a record of \$266.9 million from \$208.4 million in the same period last year.

Marketplace revenue, which accounts for 93 percent of total Revenue, was \$248.6 million for the second quarter, an increase of 30 percent year-over-year. As a reminder, our Marketplace category includes Premier Agent, Other Real Estate and Mortgages revenue.

Premier Agent revenue increased 29 percent year-over-year to \$189.7 million in the second quarter. Premier Agent revenue was positively impacted by growth in visits, which increased the number of impressions we could monetize. Premier Agent revenue per visit grew 10 percent year-over-year, which we attribute in part to our new auction-based pricing platform.

Top performing agents and teams continue to increase their spending with us as they realize the benefits of advertising on our platform. For example, revenue from same agent advertisers, or those who have been on our platform for more than one year, grew by more than 49 percent compared to the prior year. New sales to existing advertisers made up 52 percent of total bookings in the second quarter. The number of Premier Agent accounts spending more than \$5,000 per month grew by 107 percent year-over-year and increased 92 percent on a total dollar basis during that period.

On our last earnings call, we shared that the Consumer Financial Protection Bureau had requested additional information from us as part of its evaluation. That evaluation is now complete. We have been invited to discuss a possible settlement and informed that if those discussions do not result in a settlement, the CFPB intends to pursue further action. We believe that our co-marketing program has, and continues to, allow agents and lenders to comply with the law while using our product.

Getting back to our financial results for the quarter, Other Real Estate revenue grew 45 percent year-over-year to \$37.9 million. Other Real Estate revenue primarily includes Zillow Group Rentals, New Construction, dotloop, as well as revenue from the sale of various other advertising and business software solutions and services for real estate professionals.

Mortgages revenue reached \$20.9 million in the second quarter, which represents a 14 percent increase year-over-year. Average revenue per loan information request increased 56 percent year-over-year.

In our Display category, revenue was \$18.3 million, an increase of approximately 9 percent over the same period last year, driven by stronger than expected brand sales initiatives and increased traffic.

Shifting now from revenue to our expenses. Total operating expenses were \$283.4 million in the second quarter.

Our cost of revenue during the quarter was \$20.3 million, or 8 percent of revenue.

Sales and marketing expense was \$131.2 million, or 49 percent of revenue. As in prior years, our advertising spend is the highest in the second quarter, in line with the seasonality of the real estate industry. Our second quarter advertising expense typically accounts for approximately one third of our annual advertising budget. Advertising spend in the third quarter will look more like Q1 and the fourth quarter will be the lightest.

Technology and development costs in the second quarter were \$78.5 million, or 29 percent of revenue.

General and administrative costs in the second quarter were \$53.3 million, or 20 percent of revenue. Note that we recorded an estimated liability of \$4.1 million during the second quarter of 2017 in connection with our ongoing litigation matter with VHT, which continues to be the subject of appeals.

We ended the quarter with more than 3,000 employees across all of our offices and approximately \$600 million in cash and investments.

Now turning to our outlook for the remainder of 2017:

We are updating our full-year Revenue outlook to a new range of \$1.055 to \$1.065 billion, which represents 25 percent year-over-year growth at the midpoint of the range. We also are updating our full-year EBITDA outlook to a range of \$220 to \$230 million, or 21 percent margin at the midpoint of the range.

For detailed third quarter and full year 2017 guidance, I encourage you to review our press release that was issued this afternoon and is available on our [investor relations website](#).

We delivered strong results for the first half of 2017. As we continue to execute on our long-term strategic priorities, we look forward to our progress toward achieving revenue growth and steady margin expansion over time.

With that, 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 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 its Current Report on Form 8-K as furnished to the SEC on August 8, 2017, 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 2017. Statements containing words such as "may," "believe," "anticipate," "expect," "intend," "plan," "project," "will," "projections," "continue," "estimate," "outlook," "guidance," 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 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 compete successfully against existing or future competitors; the impact of pending legal proceedings described in Zillow Group's filings with the Securities and Exchange Commission, or SEC; 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 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 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, 2016 as filed with the SEC on February 7, 2017, 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 (including forecasted 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 8, 2017, 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.