ZILLOW, INC. Q2 2014 EARNINGS – PREPARED REMARKS
August 5, 2014

Raymond Jones, IRO:

Thank you. Good afternoon and welcome to Zillow's second quarter 2014 earnings conference call. Joining me today to talk about our results are Spencer Rascoff, chief executive officer, and Chad Cohen, chief financial officer.

Before we get started, as a reminder, during the course of this call we will make forward-looking statements regarding the future financial performance of the company and future events, including our expectations regarding Zillow's proposed acquisition of Trulia. We caution you to consider the important risk factors that could cause the company's actual results to differ materially from those in the forward-looking statements made in the press release and on this conference call. These risk factors are described in our press release and are more fully detailed under the caption "Risk Factors" in Zillow's Annual Report on Form 10-K for the year ended December 31, 2013, and in our other filings with the SEC.

In addition, please note that the date of this conference call is August 5th, 2014, and any forward-looking statements that we make today are based on the assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release as well as posted on our investor relations website. In our remarks, the non-GAAP financial measure-adjusted EBITDA will be referred to simply as EBITDA, which excludes share-based compensation.

This call is being broadcast on the Internet, and is available on the Investor Relations section of the Zillow website at investors.zillow.com. A recording of this call will be available after 8 p.m. Eastern time today. Please note that the earnings press release is available on our website, and after the call, a copy of today's prepared remarks along with exhibits of our business metrics will also be available on our website.

Today we will deliver 20 minutes of prepared remarks to start, and then we will host a live question and answer session for 30 minutes. During the Q&A we will entertain questions asked via Twitter and Facebook, in addition to questions from those dialed in to the call. Individuals may submit questions by tweeting @Zillow using the #ZEarnings hashtag, or to the official Zillow Facebook page. After the call, Bob Peck from SunTrust will moderate a 10-minute follow up Q&A session with Spencer via Twitter with the same #ZEarnings hashtag. I will now turn the call over to Spencer.

Spencer Rascoff, CEO:

Thank you all for joining us today, and greetings from New York City.

Before I go any further, I would like to take a quick look back to last week at one of the most exciting events we've experienced at Zillow, as we announced our intention to acquire Trulia. Entering into this momentous agreement for both of us was an incredible development in our shared history, and the beginning of a new leg in our journey to create the most vibrant home related marketplace on mobile and Web. Both teams agree that there is so much potential benefit in our combination for consumers, advertisers, industry partners, employees and shareholders. We look forward to successfully closing the transaction in 2015 – until then we all have a lot of work to do in operating our separate businesses.

Consistent with our multi-brand strategy, this week we are visiting the new offices of our New York consumer property StreetEasy. Our two New York offices are consolidating into one location in Union Square to support our growth. Also this week we are hosting agent summits in New York, Philadelphia, and Pittsburgh for our existing Premier Agents and for agents who are interested in learning more about advertising with us – this is one of hundreds of events like these that we host around the country. Today's two sessions were sold out, with over 800 New York area real estate agents attending to learn how they can be more successful with Zillow. With all the activity this week and last we are excited to be here today to discuss our results.

Now, the results - the second quarter of 2014 was another tremendous one for Zillow.

We achieved record revenue of nearly $79 million during the quarter along with record traffic in June, which neared 83 million unique users. In July we reached another new traffic record of nearly 89 million unique users. In our Premier Agent advertising business, we accomplished record revenue, bookings, average revenue per agent and same agent sales. Our belief in the primacy of audience continues to be validated by our results, which show that our strategy with our products and advertising is working. Due to our strong second quarter results and record bookings, we are increasing our total revenue outlook from $306 million to $322 million at the midpoint of the range for 2014 and also increasing our EBITDA outlook to from $49 million to $53 million at the midpoint, which we will discuss further in a moment.

We are now halfway through the year, and we are executing well on our three strategic priorities of growing our audience, growing our Premier Agent business, and growing our advancing marketplaces. I'll briefly cover our progress in all three areas.

Starting with growing our audience: our differentiated products on mobile and Web combined with our highly effective brand advertising continue to lift our audience growth to new heights. In addition to adding nearly 27 million total unique users from the same period last year, we just set a new high water mark in our mobile traffic. Mobile continues to represent about two thirds of our usage – in July more than half a billion homes were viewed on Zillow from a mobile device – that's 212 homes viewed per second, up from 21 at the time of our IPO in July 2011 – which is a 10 times multiple growth in 3 years.

Another mobile milestone this quarter was a successful app launch with a technology leader, as we were one of only a dozen top-tier mobile brands selected to develop on and be featured in the launch of Amazon's Fire phone. The Zillow app was demonstrated on stage by Jeff Bezos during the Fire phone's unveiling, setting another leadership benchmark for an innovative brand in mobile real estate. Our team utilized the phone's unique Dynamic Perspective, a custom-designed sensor system that responds to how you hold, view, and move your phone, and allows users looking at a zoomed-in photo to peek into corners and check out the details of a home for a more immersive photo viewing experience.

Adding to our reach, this quarter Zillow began powering MSN Real Estate, expanding Zillow's advertising network to another top national website in our category. This growing network, which also includes Yahoo! Real Estate, AOL, HGTV's FrontDoor and many others, introduces more consumers to the Zillow shopping experience and brand, and helps our Premier Agent advertisers reach a broader audience.

Our traffic growth starts with creating fantastic products and a brand that people love, which we then amplify with highly successful free marketing channels like PR and social media, as well as paid advertising. As we enter the peak of the home buying season, internal data shows that our increased investment in advertising this year is meaningfully contributing to our growth in record traffic, home shopper traffic, and contacts to Premier Agents. Our own evaluation of our advertising effectiveness was affirmed during the quarter when Zillow's brand advertising campaign was awarded an Effie, one of advertising's most prestigious awards honoring the most effective marketing communications campaigns in North America.

Like we did in 2013, based on the early positive results we saw from our advertising in the first quarter, we once again decided to lean forward and step on the gas throughout the year. As revenue and EBITDA exceeded our forecasts, we have been reinvesting much of the upside into brand advertising. For the full year 2014 we now expect $75M in advertising spend versus our initial outlook of $65M, with about half of the $10 million increase yet to be spent in the back half of the year.

2014 is shaping up to be a pivotal year and monumental turning point for our business and our brand. Now 3 years after the IPO, we have experienced tremendous growth in our employee base and its capabilities, achieved excellent financial results and momentum, acquired 7 companies (with a 8th planned), and we are successfully building an enduring brand that connects with the largest and fastest growing audience in our category. Now is the right time to press our advantage.

Now I'll touch on our second strategic priority of growing our Premier Agent advertising business. The fundamentals underlying our flagship offering continue to show accelerating growth and strength. For the third quarter in a row, our Premier Agent revenue growth rate increased, and booking volume during the quarter hit an all-time high, growing 101% over Q2 last year, and more than 40% over the first quarter of this year.

This stellar growth is driven by the effectiveness of the program, which is evident in our metrics. In the second quarter, 62% of bookings came from existing agents buying more impressions. Looking at same-agent sales, Premier Agents who advertised with us in the same period last year spent an average of 62% more in Q2 than they did a year ago, primarily from buying more impressions not from paying a higher price per impression. We are seeing a "positive feedback loop" phenomenon that generates more demand from existing clients, which in turn, positively impacts how our sales team serves and retains their book of business. This is driving sales team efficiency, as monthly gross bookings are now about twice what they were a year ago but the sales team is only about 44% bigger.

We ended the quarter with nearly 57,000 Premier Agent advertisers, and the virtuous cycle around the Premier Agent business has resulted in a current annualized run-rate of $218 million for our Premier Agent revenue, compared to $124 million at this time last year. The record bookings this quarter come with corresponding increases in sales expense through commissions, which Chad will break down for you in a moment.

While we are pleased with the record bookings, we remain even more excited about the opportunity ahead. Despite our growth and run rate, we still only represent a tiny fraction of the addressable market for real estate advertising. Of the $27 billion spent annually by the category that Borrell Research identifies approximately $9 billion is spent on advertising by residential real estate agents, brokerages and home builders[i]. With our current run rate, we are on track to capture just over 2% of the market this year, which highlights just how early we are in the shift from offline to online and the sizable opportunity and runway we have ahead of us.

We are also experiencing positive momentum with industry partners as indicated by a long list of recent developments. First, we recently added two new MLS's to the Zillow Partnership program, and we also entered into a strategic relationship with Douglas Elliman, the largest brokerage in New York. Now there are 2000 brokerages partnering with us in the Zillow Pro for Brokers program, providing for-sale listings via direct feeds.

We also acquired Retsly, a startup that is enabling a new era of open source innovation in mobile and Web on behalf of MLS's. And finally, we recently reached a total of 25 connected CRM platforms in the Zillow Tech Connect program to help agents manage their Zillow contacts more effectively. All considered, the value proposition that we present to the industry from access to our consumer audience on Zillow and our partner sites, to technology innovation, is becoming increasingly compelling, and we look forward to creating much more value for the industry over time.

Shifting now to our third priority of growing our advancing marketplaces, I'll start with Zillow Mortgages. Our mortgage business performed well this quarter in the face of industry headwinds. While the Mortgage Bankers Association reported mortgage originations for refinancing and purchase loans decreased 69% and 13% respectively year over year, the loan requests through Zillow Mortgages for refinancing and purchase loans decreased only 24% and grew 4% respectively year over year. This result demonstrates the strong relevance of our Mortgage products to consumers.

Further, our new Pre-approval product is ramping nicely and contact volume is additive to our mortgage marketplace activity. Building on the value of this feature to home shoppers, we are in the process of expanding the Pre-approval feature to all Zillow iOS apps. We've also seen a notable increase in large national lenders actively participating in the marketplace. With the full potential for Zillow Mortgages yet to be realized, the resilience of our mortgage offering in the current environment is extremely encouraging.

Next, our New York property StreetEasy – which is approaching one year since our acquisition – is doing terrific. We have taken the Zillow playbook to New York, applied our complementary knowledge, and deployed resources opportunistically to lay the foundation for significant business expansion into the most important real estate market in the United States. We refocused and rebuilt key areas of the organization, such as marketing and product development. We've relaunched the website and the iPhone app, enhanced the user experience, and made the consumer offering free to use. We are dialing up real estate data reporting and PR, and we're heavily investing in mobile. The early results are extremely encouraging for StreetEasy – listing page views on mobile are up 136% since the acquisition a year ago, leads on for sale homes are up over 81% and leads on rentals are up 173%. There will be much more to come for StreetEasy in the coming year.
Finally, Zillow Rentals continues to gain traction, and we are beginning to invest aggressively to build out the sales team. Looking back from when we started monetizing almost a year ago, we've significantly increased the number of paid multi-family properties on Zillow as well as the average number of monthly contacts to each property. On top of this growth, we recently launched our Zillow Rent Connect program to drive higher ROI. We created a verified lead standard with Ernst & Young wherein they provide a SOC-3 certification that a contact we route to a multi-family property is a "single" inquiry – a real person, with a name, email address and phone number, all unduplicated. This addresses one of the most difficult challenges in the multi-family industry – lead verification and marketing measurement.

Our latest step forward for the Zillow Rentals Network is the partnership with Real Page wherein Zillow provides listings and sells ads for MyNewPlace, RealPage's popular consumer rentals site, and Zillow promotes RealPage's near real-time pricing and availability information and their "Live Agent" call-center service for buildings.

Our HotPads property, acquired 18 months ago is also driving significant rental lead volume; while its listings page views in June were up over 50% year over year, leads to paying apartment buildings went up over 110%

year over year. We are excited with all of the progress we are making in this fragmented market as we continue to invest in our growth.

All in, the second quarter was tremendous with record performance throughout the business. We exceeded our own expectations, and have raised outlook for our full-year performance. I want to take a moment to recognize our entire team at Zillow and the work they do every day to enhance the experience for consumers and our industry partners. We are more than 1,000 employees strong, across multiple brands and locations, and it's their dedication and focus on quality and innovation that drives the results we discuss here each quarter.

Now I'll turn the call over to Chad to walk you through the financials in more detail.

Chad Cohen, CFO:

Thanks Spencer.

Starting briefly with traffic, we again had record usage in the second quarter, attracting over 81 million average monthly unique users to Zillow's mobile applications and websites, representing growth of 49% year over year on a large user base.

Turning now to our operating results, total revenue for the second quarter increased 68% year-over-year to a record $78.7 million from $46.9 million in the same quarter last year. Total revenue in the second quarter exceeded the $76.0 million midpoint of our outlook by $2.7 million, or 4%. With respect to our revenue mix, 80% of our revenue came from our Marketplace category, while 20% came from Display.

Taking a deeper dive into our primary revenue category, Marketplace Revenue grew 72% year-over-year to $62.6 million as we continued to see healthy growth across our Real Estate and Mortgage subcategories.

Looking at the Real Estate subcategory, which includes Premier Agent, Diverse Solutions, StreetEasy and Rentals, our revenue accelerated sequentially for the third quarter in a row, growing 83% year over year to reach $56.1 million, compared to $30.6 million last year, driven primarily by the strength in our Premier Agent business. Premier Agent advertising revenue grew 82% year over year, similarly a third straight quarter of acceleration, to $52.7 million. In the quarter, Zillow experienced record gross bookings as well, growing over 100% year over year, as we were able to increase the number of impressions available to sell.

During the second quarter we added 3,850 net new Premier Agents, ending the period with 56,818 advertisers. As Spencer highlighted and consistent with prior quarters' trend, 62% of our sales bookings in the quarter went to existing agents purchasing more impressions across mobile and Web, up from 60% in the first quarter, and 51% a year ago.

Premier Agent monthly average revenue per agent, or ARPA, set a new record in the second quarter at $320, 20% higher than the figure in the same period last year and 12% higher sequentially, a doubling of respective growth rates compared to the first quarter of 2014. Same agent ARPA for Premier Agents who advertised with us in the same period last year was 62% higher year over year. As Spencer mentioned, this result is almost entirely volume driven.

Moving from Real Estate to Mortgages, which consists of Zillow Mortgage Marketplace and Mortech, revenue reached $6.6 million and grew 13% year over year despite a backdrop of significant industry headwinds. In Zillow Mortgage Marketplace, roughly 5.5 million loan requests were submitted during the quarter, and purchase loan requests again represented the vast majority of the mix. For reference, Mortech's revenue contribution was approximately $1.4 million in the quarter.

Looking at our Display category, revenue in the second quarter grew 53% year over year to $16.1 million. This represents the fourth consecutive quarter of robust 50% or greater growth, and underscores our audience gains, the value we provide to our advertising partners and continued execution by our display sales team.

Shifting now from revenue to operating costs, total operating expenses were $89.4 million compared to $57.3 million during the second quarter of 2013, 8 points lower as a percentage of revenue compared to last year, as we continued to gain leverage across most of our expense categories on a sequential basis.

I will now talk through the expense line items, comparing the second quarter results this year to last year:

First, our cost of revenue during the quarter was $6.8 million, or 9% of revenue, compared to $4.3 million, at the same percentage of revenue, last year. Absolute dollar increases were driven by traffic and revenue growth, which impacted credit card fees and revenue sharing costs, and by additions to the IT team to support growth initiatives.

Next, Sales and Marketing expense was $48.1 million, or 61% of revenue, versus $32.9 million last year, which was nine percentage points of revenue higher. Due to the record gross bookings for Premier Agent advertising in the quarter, sales commissions were approximately $1 million higher versus our outlook. While the associated revenue from bookings will be recognized over the life of the contracts as impressions are delivered, the associated sales commissions are paid at the time of sale and are based on the size of the contracts sold. I'll talk more in a moment about how these bookings positively impact our revenue outlook.

Technology and Development costs in the quarter were $19.9 million, or 25% of revenue, compared to $11.1 million, or 24% of revenue, in the second quarter of 2013. The increase in costs reflects higher depreciation and amortization and increased headcount-related expenses year over year.

G&A costs in the second quarter were $14.7 million, or 19% of revenue, as compared to the second quarter of 2013 of $9.0 million, at the same percentage of revenue. The increase in absolute dollars year over year is primarily attributed to higher headcount and services costs, as well as higher facilities costs to support our growth.

GAAP net loss was $10.5 million in the second quarter, compared to GAAP net loss of $10.2 million in the second quarter of 2013.

Second quarter 2014 GAAP basic and diluted loss per share was 26 cents, based on 39.8 million weighted average shares outstanding. This result includes a 2 cent impact from the elevated sales commissions in the quarter versus our outlook.

On a Non-GAAP basis, which excludes share-based compensation, basic and diluted loss per share was 5 cents. Excluding the 2 cent impact from the elevated sales commissions versus our outlook, basic and diluted loss per share would have been 3 cents.

EBITDA for the quarter was $6.2 million, in line with the midpoint of our EBITDA outlook, representing 8% of revenue. Excluding the $0.9 million higher than expected commissions from our record bookings, EBITDA would have been $7.2 million or 9% of revenue. This compares to last year's second quarter EBITDA of $5.3 million, or 11% of revenue.

Turning briefly to our balance sheet, we ended the quarter with approximately $458 million in cash, cash equivalents and investments, and we had no debt.

Zillow ended the second quarter of 2014 with approximately 1,000 employees, an increase from nearly 690 a year ago, as we continue to grow in support of our strategic priorities, which are growing our audience, increasing the size of our Premier Agent marketplace, and developing our advancing marketplaces.

Now turning to our Outlook for the third quarter 2014 and the full fiscal year:

Our revenue for the third quarter of 2014 is expected to be in the range of $87 million to $88 million. This outlook represents growth of 64% year over year at the midpoint of the range, and reflects the positive impact from the increase in impressions available to sell that drove record Premier Agent bookings in the second quarter.

For our third quarter outlook on EBITDA, we expect a range of $14 million to $15 million. At the midpoint of the range, this represents a 17% margin. Note that this range excludes approximately $7 to $10 million in anticipated transaction related costs that result from our recently announced plans to acquire Trulia.

Also for the quarter we expect depreciation and amortization to be in the range of $9 million to $10 million and share-based compensation to be in the range of $7 million to $8 million.

Although we are not providing a GAAP EPS outlook for the third quarter, we expect a basic and diluted weighted average share count of approximately 40 and 43 million shares, respectively.

As Spencer mentioned, based on performance to date, we are raising our full year 2014 revenue outlook by approximately $16 million to a range of $321 million to $323 million. We plan to reinvest the revenue upside back into product development, building our rentals salesforce, and effective brand advertising. As the largest expense line impacted, our sales and marketing expense is now expected to be in a range of $173 million to $175 million. We are increasing our anticipated EBITDA range to $52 to $54 million, which represents a 16% margin at the mid-point, from the previous range of $48 to $50 million, which was also a 16% margin at the midpoint. The investments we make into our product, team and brand today will yield returns by way of strategic value creation over the long term.

Moving to reconciling items to EBITDA for the year, we expect depreciation and amortization to be in the range of $35 million to $38 million, share-based compensation expense in the range of $32 million to $34 million, and CapEx and capitalized purchased data content in the range of $22 million to $24 million. We expect full year 2014 basic and diluted share counts to be approximately 40.5 million and 43.5 million weighted average shares outstanding, respectively.

In summary, Zillow had a fantastic second quarter. We remain focused on accelerating our growth and advancing our home-related marketplaces, and we look forward to unleashing the full potential of the model in the years to come.

With that, we'll open it up for questions from the live call, and from Twitter and Facebook via the hashtag #ZEarnings.

Forward-Looking Statements
This communication contains 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 that involve risks and uncertainties, including, without limitation, statements regarding Zillow's proposed acquisition of Trulia; operational and organizational details of the combined company; the way in which the transaction will impact consumers, real estate professionals, and industry partners; the ability of the combined company to innovate; our ability to realize opportunities of scale; the migration of advertising dollars in the real estate sector to online and mobile; the growth rate of Zillow; and our ability to deliver greater return on investment to our advertisers. Statements containing words such as "may," "believe," "anticipate," "expect," "intend," "plan," "project," "will," "projections," "estimate," or similar expressions constitute forward-looking statements. Such forward-looking statements are subject to significant risks and uncertainties and actual results may differ materially from the results anticipated in the forward-looking statements. Factors that may contribute to such differences include, but are not limited to, the risk that expected cost savings or other synergies from the transaction may not be fully realized or may take longer to realize than expected; the risk that the businesses may not be combined successfully or in a timely and cost-efficient manner; the possibility that the transaction will not close, including, but not limited to, due to the failure to obtain shareholder approval or the failure to obtain governmental approval; and the risk that business disruption relating to the merger may be greater than expected. The foregoing list of risks and uncertainties is illustrative, but is not exhaustive. Additional factors that could cause results to differ materially from those anticipated in forward-looking statements can be found under the caption "Risk Factors" in Zillow's Annual Report on Form 10-K for the year ended December 31, 2013 and in Zillow's other filings with the Securities and Exchange Commission. Except as may be required by law, Zillow does not intend, nor undertake any duty, to update this information to reflect future events or circumstances.

Additional Information and Where to Find It
In connection with the proposed transaction, Zillow and Trulia will file a joint proxy statement/prospectus with the Securities and Exchange Commission, and the new holding company will file a Registration Statement on Form S-4 with the Securities and Exchange Commission. INVESTORS AND SECURITYHOLDERS ARE URGED TO READ THE REGISTRATION STATEMENT AND JOINT PROXY STATEMENT/PROSPECTUS (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS THERETO) REGARDING THE PROPOSED TRANSACTION WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Investors and security holders will be able to obtain free copies of the registration statement and joint proxy statement/prospectus (when they become available) and other documents filed by Zillow and Trulia at the Securities and Exchange Commission's web site at www.sec.gov. Copies of the registration statement and joint proxy statement/prospectus (when they become available) and the filings that will be incorporated by reference therein may also be obtained, without charge, from Zillow's website, www.zillow.com, under the heading "Investors" in the "About" tab or by contacting Zillow Investor Relations at (206) 470-7137. These documents may also be obtained, without charge, from Trulia's website, www.trulia.com, under the tab "Investor Relations" or by contacting Trulia Investor Relations at (415) 400-7238.

Participants in Solicitation
The respective directors and executive officers of Zillow and Trulia and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information regarding Zillow's directors and executive officers is available in its proxy statement filed with the SEC by Zillow on April 17, 2014, and information regarding Trulia's directors and executive officers is available in its proxy statement filed with the SEC by Trulia on April 22, 2014. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the joint proxy statement/prospectus and other relevant materials to be filed with the SEC (when they become available). These documents can be obtained free of charge from the sources indicated above.

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[i] Borrell Associates Real Estate Advertising 2013 Outlook, reflecting combined advertising spent by real estate agents, home builders, and rental property managers.