



ZILLOW GROUP, INC. Q1 2018 EARNINGS – PREPARED REMARKS

May 7, 2018

Spencer Rascoff, CEO

Zillow Group's 2018 is off to a strong start. We reported first quarter 2018 revenue of nearly \$300 million, which was up 22 percent year-over-year and driven primarily by growth from our Premier Agent, Rentals and New Construction marketplaces. Our Premier Agent and Other Revenue categories outperformed compared to expectations. GAAP net loss for the quarter was approximately \$18.6 million, or 6 percent of revenue, and EBITDA was in line with our expectations at \$46.3 million, or 15 percent of revenue.

On our last earnings call, I laid out Zillow Group's strategic priorities for 2018, which are:

- 1) Grow our audience size and increase engagement across all brands - including launching new brands and into new geographies.
- 2) Create better experiences for consumers and more efficiency for our real estate industry partners. This happens as we accompany home shoppers further down the funnel and closer to the transaction.
- 3) Evolve our revenue models in each marketplace to better align our results with transactions and our industry partners' commissions at the bottom of the funnel.
- 4) Attract and retain the best talent and leverage Zillow Group's unique company culture focused on innovation as a competitive advantage.

We are moving beyond simple lead generation and actively evolving toward being a "deeper funnel" real estate industry partner. The linchpin in our strategy is Zillow Group's commitment to connecting consumers with great real estate professionals and delivering a faster, more efficient home shopping process, while providing those professionals with technology and services to better serve their clients, close more transactions and be more successful.

We recently rolled out several initiatives that demonstrate how we will take our business beyond lead generation, create better experiences for consumers, and further strengthen our partnerships with real estate professionals. One addresses a significant opportunity in our Premier Agent business and the other opens up new and additive business opportunities in buying and selling homes.

The first initiative is improving efficiency and connection rate in our Premier Agent marketplace by ensuring consumers are ready to work with an agent and then connecting them live to an available Premier Agent. When a consumer picks a specific agent from the buyer's agent list on a home details page on one of our mobile apps or websites, or from the agent directory, we will validate them and connect them to that agent. However, many consumers do not select a specific agent. In this case going forward, we will notify one Premier Agent after another until we find one who is available.

The order in which we call agents facilitates the distribution of connections in proportion to share of voice.

As with past innovations to our Premier Agent business model, we will roll out this new form of lead distribution deliberately and prudently, and hope to have it completed by the end of 2018. If we can improve our connection rate, we have the potential to significantly increase transaction revenue generated from our apps and websites, even with the same traffic and lead volume, which we believe will help grow Premier Agent revenue.

The new “My Agent” feature further deepens the relationship between the consumer and our Premier Agents. When My Agent is turned on, the buyer’s agent list will update on all listings across Zillow and Trulia to show only the agent connected to the consumer. That way, when the consumer goes back to Zillow or Trulia, they will see only their agent on the listings they view and they can communicate with them directly and exclusively. Additionally, agents will know when one of their clients saves a listing, making it much easier for agents to stay informed about the homes that interest their clients.

A critical method of distributing consumer connections to agents is the Premier Agent app. In this sense, our Premier Agent app -- with around 100,000 average monthly users -- is similar to other digital services apps which allow businesses to connect with consumers. Once the validated consumer is connected to a Premier Agent through the app, agents can utilize the app’s lead management and workflow tools. By the end of the second quarter, we expect that the app will have transaction management tools via dotloop. Today, we estimate that more than one third of all U.S. real estate transactions are closed with dotloop. Many of the more than 350,000 agents using dotloop monthly do so independent of advertising with us, so we believe this integration also represents an opportunity for incremental advertising dollars. Once the integration is complete, agents who use the app and dotloop will have full visibility into the efficacy of their Premier Agent advertising spend, which we believe will ultimately lead to increased spending with us over time.

We expect that, together, all of these enhancements will facilitate more connections, stronger agent/client relationships, and generate additional commission opportunities for our partners.

The Premier Agent business is off to a great start this year. Premier Agent revenue growth for the first quarter of 2018 accelerated sequentially over the fourth quarter of 2017. Bookings in the first four months of 2018 are up 28 percent year-over-year and new advertiser account adds for the first four months are the highest we’ve seen since 2015. The Premier Agent business is growing fast and is still dramatically under-penetrated relative to its overall potential.

For the second initiative, we continued to innovate on our offerings for consumers by launching our direct participation in the Instant Offers marketplace in April. This program allows us to provide a new and compelling service for sellers. Now, instead of a seller having to stage their home, touch up the walls and make minor repairs -- not to mention getting the family and pets out of the house for showings -- Zillow will do that for them. We purchase the home, do all the work a seller would do, and put it back on the market in short order, in partnership with agents and brokers.

We turned on direct participation in Instant Offers in Phoenix, our first market, just a few weeks ago, and seller demand has far exceeded our expectations. Last week, we signed our first few purchase agreements. Instant Offers is a complementary market opportunity to our Premier Agent business and can be significant at scale. Zillow Group has structural advantages that position us to succeed with this service, including our audience size, brand recognition, agent and broker partnerships, adjacent home services, and deep data expertise.

This new service has been welcomed by the real estate industry. Zillow Group's partners realize that this will bring them new revenue opportunities, as there are multiple ways for agents and brokers to participate in Instant Offers. We have a waitlist of nearly 1,600 agents and many brokerages anxious to participate in Instant Offers once we launch in their cities.

Some home sellers want to avoid the hassle, time commitment and uncertainty of the home-sale process. They are willing to pay for the convenience of avoiding that hassle, and that value is essentially the profit we make on the home's transaction. Specifically, our net profit is the difference between what we pay to buy the house, including transaction costs, and what we sell the house for, less our update costs, agent commissions and other selling costs, and other overhead expenses. We aim for that delta to be positive even while we are subscale, and we expect the delta will rise to larger levels as we grow. In addition, there are ancillary revenue opportunities in our New Construction and Mortgages marketplaces as we grow larger. We anticipate that, over time, our equity commitment for a home purchase will decrease to 20 to 30 percent of the home value, meaning that our return on equity will be improved relative to today as we apply that incremental equity to additional transactions. Finally, with an expected 90 days or fewer turn-time on our equity, our overall profitability is further improved as we quickly put our money back to work.

Given the enormity of the U.S. residential real estate market, the potential total addressable market for providing homesellers with a service such as this is significant. There are 5.5 million annual home sales at \$1.8 trillion in annual sale volume¹. Providing an Instant Offers service grows the overall transactional volume by creating one new transaction for every one sale. For example, when Zillow buys and sells, it creates two transactions, but in a traditional sale there is only one transaction. In addition, as Zillow injects liquidity into the housing market, it will become easier for homeowners to make the decision to sell their home, potentially helping to alleviate the severe inventory shortage that afflicts many housing markets. This is good for sellers, buyers, and agents.

It's too early to estimate how many sellers might choose to sell in this way or what our typical net profit per transaction might be, but as an example, if 5 percent of sellers select this method, that is 275,000 transactions. For illustrative purposes at scale, using \$250,000 as the typical home value, a \$3,500 net profit per transaction would result in a nearly \$1 billion profit opportunity annually.

In addition, Instant Offers strengthens our Premier Agent business by delivering validated seller leads on the homes we don't buy, paying Premier Agent commissions on the homes we do buy, generating potential mortgage revenue on the homes we sell, and creating an amazing experience for consumers who sell to us and buy from us.

¹ US Census Bureau and National Association of REALTORS® 2017

In the midst of our great results and continued innovation in Premier Agent, and our expansion into new business opportunities, our Mortgages business has been going through significant changes. Consistent with our strategy of prioritizing consumer connection quality over quantity, we are making changes to the mortgage experience for consumers. During the first quarter, we tested and began implementing a new mortgage lead distribution model, called Connect, in select markets, which improves consumer contact quality but reduces lead volume to our lender advertisers. As of April, Connect for local lenders is subscription-based and, for now, we are under-charging for these higher-quality connections. Also during the first quarter, we made a few design changes to our home shopping product features across Zillow Group's brands, which reduced mortgages traffic and leads. In addition, increases in interest rates reduced conversion in our custom quotes product, where our refinance lead volume slowed more than we anticipated. As a result of all these factors, we are lowering our full year Mortgage revenue outlook to reflect our current expectations.

Shifting now to our Rentals marketplace, where we are also moving aggressively down funnel. We are rolling out a suite of technologies that we believe will significantly improve the process of renters finding their next home and landlords and property managers finding qualified tenants. In April, we launched a test in a small number of markets where renters can submit rental applications, including third-party provided credit reports and criminal and eviction background checks directly through Zillow, Trulia and HotPads. We also launched a test on Zillow, Trulia, and HotPads of rent payments in select markets during the first quarter, which allows renters to pay their monthly rent online. As more landlords and property managers use Zillow Rental Manager to list on the Zillow Group brands and use our free services, we expect to see an increase in unique rental inventory on our apps and websites. Over time, we are hopeful that this will result in accelerated traffic growth as renters find more unique inventory and are able to transact more seamlessly.

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In 2018, we are taking our biggest swings yet. We are moving deeper down the funnel to deliver better experiences for consumers and more efficiencies for our industry partners. We are confident that the changes we are making will drive greater profit and growth for us and our partners. Our evolution towards strong connections is what consumers, agents, brokers and lenders want and expect – we are the partner who can best help all parties achieve their home related goals. Behind everything we create are our employees doing their best work, who together form the most innovative, transformative company and welcoming culture. Our people generate great ideas, take risks, and move fast to build the most amazing home shopping experience that consumers will ever find. Our future is the most exciting it has ever been.

Kathleen Philips, CFO

Audience

Zillow Group's audience growth and engagement is strong. Traffic to Zillow Group's mobile apps and websites reached more than 175 million average monthly unique users in the first quarter of 2018, an increase of 5 percent year-over-year. Our peak traffic month during the first quarter was

March, when more than 183 million unique users visited Zillow Group's mobile apps and websites. The average number of monthly unique rentals users increased 10 percent year-over-year to 35 million. Visits in the first quarter reached nearly 1.8 billion, up 15 percent year-over-year.

First Quarter 2018 Revenue

Total revenue grew 22 percent year-over-year to \$299.9 million.

Premier Agent revenue grew 22 percent year-over-year to \$213.7 million. Premier Agent revenue per visit increased 6 percent year-over-year. Revenue from Premier Agent advertisers who have been on our platform for more than one year grew 38 percent compared to the prior year. New sales to existing advertisers, or those that were paying advertisers at the beginning of the quarter, made up 70 percent of total bookings. Advertisers spending more than \$5,000 per month grew 58 percent year-over-year in both total number and on a total dollar basis. As we discussed on our fourth quarter 2017 earnings call, we hired a team of sales reps dedicated to focusing on acquiring new advertisers. This initiative is already proving to be successful as the number of paying advertiser accounts is growing noticeably and retention is near an all-time high.

Mortgages revenue was \$19.0 million, a 6 percent decrease year-over-year. As we made changes to our mortgage products to deliver higher-quality consumer leads to our lender advertisers, and other product iterations across our sites, average revenue per loan information request decreased 13 percent year-over-year, while the number of mortgage loan information requests submitted by consumers increased 8 percent year-over-year to 7.1 million. The decline in average revenue per request was primarily due to lower conversion in Custom Quotes due to rising interest rates, as well as lower conversion in Connect as we increase lead quality by emphasizing fewer, higher quality connections.

Rentals revenue grew 35 percent year-over-year to \$29.1 million, but was just below our guidance range due primarily to the impact of promotional credits issued during the fourth quarter of 2017 that impacted our first quarter revenue recognition, as well as lower-than-anticipated pay-per-lease revenue. The year-over-year increase in Rentals revenue was primarily attributable to an increase in the number of average monthly monetized, deduplicated rental listings on our mobile apps and websites, which increased 86 percent year-over-year to more than 35,000 for the first quarter of 2018. Growth in average monthly rental listings increases the likelihood that a consumer will contact a rental professional, which in turn increases the likelihood of a lead, click, or lease that we can monetize. The increase in average monthly rental listings was primarily a result of our monetization of rental listings on our StreetEasy brand mobile application and website beginning in the third quarter of 2017.

Other revenue grew 33 percent year-over-year to \$38.1 million. The increase in Other revenue was primarily driven by a 69 percent year-over-year increase in revenue from our new construction marketplace. Other revenue primarily includes revenue generated by new construction and display, as well as revenue from the sale of various other marketing and business products and services to real estate professionals.

First Quarter 2018 Expenses

Total operating expenses were \$311.2 million.

Cost of revenue was \$23.9 million, or 8 percent of revenue.

Sales and marketing expenses were \$137.3 million, or 46 percent of revenue. As we have said before, we expect that our sales and marketing expenses, which include our advertising costs, will be greatest during the first half of the year. Our plan for 2018 is to increase our advertising spend compared to 2017 with a target growth rate of approximately 20 to 25 percent.

Technology and development expenses were \$93.9 million, or 31 percent of revenue. Our technology and development expenses are expected to grow in 2018 as we continue to increase investments in our long-term growth initiatives to stay ahead of changing consumer expectations that are disrupting the real estate category.

General and administrative costs were \$56.1 million, or 19 percent of revenue.

First Quarter 2018 Net Loss & Adjusted EBITDA

GAAP net loss for the first quarter was \$18.6 million, or 6 percent of revenue. EBITDA for the first quarter was \$46.3 million, or 15 percent of revenue.

Other Items

As of March 31, 2018 we had cash, cash equivalents, and investments of \$823.0 million.

We ended the first quarter with more than 3,300 employees across all of our offices.

Outlook

Now turning to our outlook. Beginning with our second quarter 2018 earnings announcement, we will report financial results for two segments: Internet, Media & Technology, or IMT; and Homes. Today, in addition to presenting our consolidated Zillow Group outlook that we provided on the April 12th investor update call, we also provided the second quarter and full-year outlook for each segment in our press release, which can be viewed on our Investor Relations website at: <http://investors.zillowgroup.com/releases.cfm>.

We have increased our full year 2018 IMT total revenue outlook since our February 8th earnings report, primarily as a result of an increase in the outlook for our Premier Agent revenue. In addition, our 2018 IMT outlook for the full year includes an immaterial amount of forecasted incremental revenue associated with our adoption of the new ASC 606 revenue accounting standard. These increases in our revenue outlook were partially offset by the impact of lowering our Mortgage revenue expectations, which also negatively impacted our full year IMT EBITDA outlook.

Further, the immaterial amount of forecasted incremental revenue associated with the new revenue standard does not result in a flow through to our EBITDA outlook. If this revenue would have flowed through to EBITDA, we estimate that forecasted EBITDA would have been positively impacted by approximately 20 basis points. Our IMT segment full year 2018 EBITDA outlook was

also negatively impacted by increases in headcount-related expenses, primarily due to larger-than-expected payroll taxes related to employee stock option exercises driven by our increased stock price during the quarter.

In the Homes segment, we currently forecast holding an estimated 300 to 1,000 homes for resale as of December 31, 2018. For reference, the blended median home value for the Phoenix and Las Vegas markets is approximately \$257,000². As you can see from our second quarter Homes segment guidance, we expect to incur expenses related to holding costs, overall corporate expense allocations, and other related costs. We do not anticipate reporting any meaningful Homes segment revenue during the second quarter, since we do not expect to begin selling homes until the third quarter.

We continue to expect our investments in technology and development and advertising to cause quarterly consolidated EBITDA to fluctuate throughout the year. Consistent with what we told you last quarter, our first, second, third and fourth quarter consolidated EBITDA are expected to represent approximately 15, 20, 30, and 35 percent of the full year total, respectively.

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Zillow Group's first quarter 2018 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 May 7, 2018, 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 Zillow Group's business and financial outlook, strategic priorities, market opportunities, legal proceedings, and operational plans for 2018. 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. Forward-looking statements are made based on assumptions as of May 7, 2018, and although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee these results. 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 maintain and effectively manage an adequate rate of growth; Zillow Group's ability to innovate and provide products and services that are attractive to its users and advertisers; Zillow Group's investment of resources to pursue strategies that may not prove effective; Zillow Group's ability to compete successfully against existing or future competitors; the impact of the real estate industry on Zillow Group's business; 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

² Zillow Group March 2018 Real Estate Market Report

realize the benefits of its past or future strategic acquisitions or investments; 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, 2017 as filed with the SEC on February 8, 2018, 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.

Zillow Group urges readers to review its earnings press release as it contains important information about the company's financial results, including a reconciliation table and related information about this non-GAAP financial measure. The 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 the company's Current Report on Form 8-K as furnished to the SEC on May 7, 2018, 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 Zillow Group's management and board of directors to measure operating performance and trends, and to prepare and approve the company's annual budget. Zillow Group's use of Adjusted EBITDA has limitations as an analytical tool, which limitations are described in its earnings press release. You should not consider Adjusted EBITDA in isolation or as a substitute for analysis of Zillow Group's results as reported under GAAP.