ZILLOW GROUP, INC. Q1 2017 EARNINGS – PREPARED REMARKS
May 4, 2017

RJ Jones, VP of Investor Relations:

Thank you. Good afternoon, and welcome to Zillow Group's first 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 May 4, 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.

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 the Zillow Group 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 us on the call today.

The first quarter of 2017 was a tremendous start to the year for Zillow Group. Consumers and real estate agents alike continue to love our suite of innovative products designed to make the home shopping process easier for all parties. In the midst of executing our long-term growth plan, we are seeing broad-based strength in the fundamentals of our business, which resulted in better-than-expected Revenue and EBITDA this quarter.

Looking at our performance highlights, total Revenue for the first quarter was approximately $246 million, up 32 percent year-over-year, and exceeded the high end of our outlook range by approximately $9 million. We saw particular strength this quarter from our Premier Agent and Rentals marketplaces. First quarter GAAP net loss was approximately $4.6 million, or 2 percent of Revenue. EBITDA for the first quarter was nearly $55 million, or 22 percent of Revenue, and exceeded the high end of our outlook range by approximately $14 million due to a combination of revenue outperformance in all marketplaces and company-wide cost savings.

Following on the strong first quarter results, we are raising our full-year Revenue outlook to a new range of $1.05 to $1.065 billion, or 25 percent year-over-year growth at the midpoint of the guidance range. We are also raising our full-year EBITDA outlook to a range of $215 to $230 million, increasing the full-year margin guidance to 21 percent at the midpoint of the range.

Moving now to an update on our strategic priorities:

Our first priority is to grow our audience size and to increase consumer engagement with our products. Traffic to Zillow Group brands' mobile apps and websites reached more than 166 million average monthly unique users in the first quarter, an increase of 7 percent year-over-year. During March, an all-time high of nearly 180 million unique users came to Zillow Group's mobile apps and websites, up from our annual seasonal peak of 171 million last May.

After unique users, the next level down in our funnel is visits, which we define as a session of interactions by a user with one of our apps or websites. During Q1, visits increased 18 percent year-over-year to 1.5 billion, compared with approximately 1.3 billion during the first quarter of 2016. Quarterly visits will replace agent advertiser count as a key metric going forward, and we believe it will help investors model our business.

The visits metric helps us evaluate our progress of increasing engagement with our audience. While the total number of unique users will always be important, internally we are increasingly focused on engagement. We know that users who visit frequently have a greater intent to buy, sell or rent a home. And transaction-ready visitors mean more high-quality leads to our agent advertisers.

At the bottom of the funnel, contacts sent to Premier Agents grew 30 percent year-over-year in Q1. We continue to expect that growth in contacts sent to Premier Agent advertisers will outpace unique user growth as we stay focused on consumer engagement.

Our audience growth derives from our continued product innovation and effectiveness in free marketing channels, which are amplified by our advertising. Last month, we launched our latest TV ad campaign for the Zillow brand called, "Finding Home," which features stories that illustrate the diversity of home buyers today and their unique and varied challenges. You can watch those ads at Zillow.com/tv. We have also launched a new national TV ad campaign for the Trulia brand which can be viewed at Trulia.com/tv, called, "The House is Only Half of It," which features Trulia's differentiated user experience and deep neighborhood insights. And, if you live in or visit New York, you are probably going to notice the latest StreetEasy outdoor advertising campaign called "Find Your Place." Together, these campaigns are driving home shoppers and renters to our outstanding mobile and web products, which help them find and connect with Premier Agents. We continue to benefit tremendously from our advertising's effectiveness and the scale of our brand portfolio.

Earlier this week, we launched our newest consumer brand, RealEstate.com. Designed for the millennial home shopper, RealEstate.com will provide a different way for this segment to find a home and connect with an agent. We know from our 2016 Report on Consumer Housing Trends - which can be downloaded at ZillowGroupReport.com - that millennials represent the largest home buying segment and make up about half of all first time homebuyers. They often shop for homes using technology, and are more likely to find their agent online.

Our next priority after audience is to grow our Premier Agent business, which exceeded revenue growth expectations in the first quarter, the first full quarter of auction-based pricing.

Our Premier Agent advertising program attracts elite professional agents who can build their businesses on our platform, which uniquely combines advertising to consumers with business management tools and software. These top performing agents know how to grow their business faster, convert leads at a higher rate and earn more commission than others.

The rollout of our new auction-based pricing platform went extremely well. It was an incredibly complex process to transition all of our agents onto a new model, which included a vastly different user interface, account management system, and payment infrastructure. All in, this was a massive effort which was accomplished magnificently by our product, engineering, sales and operations teams.

Through almost a year of testing, we learned a lot which resulted in several product iterations. With many of the initial hurdles behind us, we are already starting to see agents and teams accelerate their growth with us as they embrace the new platform. Early indications show that healthy marketplace dynamics are beginning to take hold as our advertisers become more familiar with how impressions are priced in real time across their markets. In our 20 most important markets, we saw a significant increase in participation, which led to a 10% increase in revenue independent of traffic growth. Many agents are also realizing the benefit of shifting some of their advertising spend to less competitive neighborhoods where they have the opportunity to realize a higher ROI at a lower cost per impression. One way to think about this is that top performing agents are increasing their spend in high demand markets to maintain their competitive advantage, while other entrepreneurial agents are jumping on the opportunity to grow their business and brand by budgeting ad spend to neighboring zip codes where the cost per impression may be lower. Ultimately, this results in more agents increasing their advertising spend with us over time.

Meanwhile, usage of our Premier Agent app exceeded record levels for daily and monthly usage. As more agents use our software to increase conversion, we believe they will buy more advertising.

Now looking at our emerging marketplaces:

Revenue in our Mortgages marketplace exceeded our plans this quarter, due in part to continued strength in purchase loan inquiries from increased awareness of our products. More home shoppers continue to discover and use our mortgage information products as our audience grows across our brand portfolio. While interest rates were on the rise earlier this year, the increase has not been as sharp as anticipated, which has supported better than expected results. We continue to expect our mortgages marketplace to grow faster than the industry and competitors due to our minimal reliance on refinancing activity.

Our Rentals marketplace continues to be strong, with year-over-year revenue growth of more than 100 percent. During the quarter, we achieved all-time highs in usage, contacts, paying relationships, and revenue. Landlords and property managers continue to benefit from our highly effective suite of advertising products that connect them with the largest audience in the category[1].

In our New York City marketplace, StreetEasy and Naked Apartments further expanded their presence and offerings to brokers in the country's most valuable real estate market. This quarter marked the arrival of Premier Agent on StreetEasy, and already we are seeing excellent traction with brokers seeking to build their businesses with homebuyers. This new experience that benefits consumers in New York is a dramatic shift from what was previously available. Now consumers can find properties they are interested in touring, as well as easily find an agent to represent them as a buyer. Many agents and brokers in New York have jumped at the opportunity to grow their business through StreetEasy's huge consumer platform. The early sales have been very strong. Revenue from Premier Agent on StreetEasy is included in Premier Agent revenue.

Our New Construction marketplace, while still new, is in rapid growth mode for both revenue and advertisers. Leading homebuilders and developers across the country are quickly adopting our advertising products to promote their homes.

Moving on to our final priority, to maintain our strong company culture, which enables us to attract and retain incredible people and motivate them to do their best work. In addition to our audience scale and widely recognized brands, Zillow Group's culture of innovation enables the creation of consumer- and business-facing products and services, which drives growth and unlocks long-term opportunities. Our culture and people continue to represent a significant competitive advantage.

---

[1] *Zillow Group's custom-defined Rental Sites category ranking based on U.S. Media Metrix comScore data, Unique Visitors, March 2017; Zillow Rental Network is the unduplicated reach of Zillow.com Rentals, Trulia.com rentals, HotPads.com, and MyNewPlace.com; Media Metrix Audience Duplication report, March 2017*

We are in the midst of reviewing the results of our annual employee engagement survey. The results were great, as they have been in previous years. Ninety-five percent of our employees indicated that they would recommend working at Zillow Group to a friend. This is significantly better than many other companies of our size.

With a focus on engaging consumers at all stages of the home lifecycle, our product teams launched several innovative features over the past few months that have had early success. Our new personalized home recommendations are one example. These email alerts make suggestions to home shoppers of listings that they may like based on past activity, similar to the recommendations you get from Amazon or Netflix. In our Rentals marketplace, we launched a new feature where apartment seekers can request a tour or ask the landlord a question right from our app. Finally, we added a feature that encourages homeowners to provide missing information on their home to improve the accuracy of our Zestimate.

As I've said many times before, advertisers follow audience. This quarter's results showed once again that this is true. Looking ahead at the market opportunities in front of us, advertising in residential real estate, including New York City, rentals, new construction and mortgages remains massive in the billions of dollars. We will continue to invest in our long-term growth, create definitive home-related online experiences for consumers, attract the largest audience in the category, and provide real estate professionals with the most effective way to connect with consumers.

With that, I will now turn the call 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 first quarter increased 32 percent year-over-year to a record of $245.8 million from $186.0 million in the same period last year.

Marketplace revenue, which accounts for 94 percent of total Revenue, was $230.3 million for the first quarter, an increase of 36 percent year-over-year. As a reminder, our Marketplace category includes Premier Agent, Other Real Estate, and Mortgages revenue.

Premier Agent revenue increased 30 percent year-over-year to $175.3 million in the first quarter. Premier Agent revenue per visit increased approximately 10 percent year-over-year, which we attribute in part to our new auction-based pricing platform.

As Spencer mentioned, we are introducing quarterly visits as our new key metric. To help with your modeling, we have disclosed two years' of historical visits data, along with an explanation of how we define the new metric, in a filing today with the SEC.

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 54 percent compared to the prior year. New sales to existing advertisers made up 63 percent of total bookings in the first quarter. The number of Premier Agent accounts spending more than $5,000 per month grew by 98 percent year-over-year and increased 86 percent on a total dollar basis.

One of the features of our platform that some Premier Agents use is our co-marketing program. Co-marketing between agents and lenders is a long-standing practice throughout the real estate and mortgage industries. For example, lenders and agents have jointly advertised through direct mail and outdoor advertising for decades. Regulators historically have provided guidance to ensure that this type of advertising works to the benefit of consumers.

Our digital co-marketing program enables Premier Agents and mortgage lenders with whom they have working relationships to advertise together on Zillow Group apps and websites, and is designed for consumers to have another easy way to connect with agents and lenders. Over the past two years, the Consumer Financial Protection Bureau, or CFPB, has been reviewing our program for compliance with the Real Estate Settlement Procedures Act, or RESPA, which is a regulation designed to protect consumers.

We believe wholeheartedly in the consumer protection mission of the CFPB. In fact, we recently partnered with them to help the bureau survey consumers about their experiences while buying or selling homes. Zillow Group was founded, and operates on, a philosophy that the consumer comes first in all of our decisions. We also believe that RESPA is an important law designed to protect consumers and, among other things, promote transparency in the home buying process. Consistent with this, our mortgage product empowers consumers to easily comparison shop, and through our PR, media interviews, and our own blog, we have repeatedly encouraged consumers to shop around when looking for a mortgage.

Recently, the CFPB requested additional information and documents from us as part of their evaluation, which we are working with them on. We believe 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, in our Other Real Estate marketplace, first quarter revenue grew 93 percent year-over-year to $34.8 million. Other Real Estate Revenue primarily includes Zillow Group Rentals, agent services, dotloop, Naked Apartments, and other offerings to our endemic advertisers that are not traditional display advertising, including New Construction.

In our Mortgages marketplace, revenue reached $20.3 million in the first quarter, which represents a 23 percent increase year-over-year. Average revenue per loan information request increased 98 percent year-over-year.

In our Display category, revenue was $15.4 million, a decrease of approximately 9 percent over the same period last year, and within our expectations.

Shifting now from revenue to our expenses. Total operating expenses were $244.6 million in the first quarter.

Our cost of revenue during the quarter was $20.2 million, or 8 percent of revenue.

Sales and marketing expense was $105.9 million, or 43 percent of revenue. As we noted on the last call, for 2017, we are choosing to increase advertising investments at a rate that is lower than revenue growth. In line with the typical seasonality of the real estate industry, our advertising spend will be greatest in the second quarter, accounting for more than one third of our annual advertising budget, with the fourth quarter being the lightest. Accordingly, we expect these seasonal investments to impact quarterly EBITDA proportionally throughout the year.

Technology and development costs in the first quarter were $72.9 million, or 30 percent of revenue.

General and administrative costs in the first quarter were $45.5 million, or 18 percent of revenue, and lower than we had planned.

Moving on to our bottom line, GAAP net loss for the first quarter was $4.6 million, or 2% of revenue.

Zillow Group ended the quarter with nearly 3,000 employees and approximately $560 million in cash and investments.

For detailed second 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.

To conclude, we are off to a strong start for the year. After just one quarter with our new auction-based pricing model fully rolled out to all Premier Agents, and all of our marketplaces performing well, we are optimistic about Zillow Group's prospects for growth in 2017 and beyond.

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 August.

* * *

Zillow Group's first 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 May 4, 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; 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 impact of pending legal proceedings described in Zillow Group's filings with the Securities and Exchange Commission, or SEC; 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 May 4, 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.