ZILLOW GROUP, INC. Q4 AND FULL YEAR 2016 EARNINGS – PREPARED REMARKS
February 7, 2017

RJ Jones, VP of Investor Relations:

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

During the call, we will make forward-looking statements regarding future financial performance and events. Although we believe the expectations reflected in the forward-looking statements are reasonable, we 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 February 7, 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 earnings press release, as it contains important information about our reported and non-GAAP results, including reconciliation of non-GAAP financial measures.

In our remarks, the non-GAAP financial measure Adjusted EBITDA is referred to as EBITDA, which excludes other income, depreciation and amortization expense, share-based compensation expense, acquisition-related costs, restructuring costs, the gain or loss on divestiture of businesses, the loss on debt extinguishment, interest expense and income taxes.

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

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

Spencer Rascoff, CEO

Thank you for joining the call today.

2016 was an outstanding year of record revenue and accelerated innovation for Zillow Group.

We ended the year strong, with a stellar fourth quarter. Revenue for the quarter came in at $228 million, up 34 percent year-over-year and nearly $7 million above the midpoint of the guidance range. Fourth quarter GAAP net loss was approximately $23 million, or 10 percent of Revenue. EBITDA was $55 million, or 24 percent of Revenue, up 168 percent year-over-year and $6 million ahead of the midpoint of guidance. On our last call, we indicated that there was risk to our fourth quarter results associated with the transition to our new Premier Agent pricing model, but we successfully mitigated those risks and the transition has gone well.

For the full year 2016, Revenue was a record $847 million, up 31 percent year-over-year. Our GAAP net loss was approximately $220 million in 2016, or 26 percent of revenue, which included the impact of a one-time $130 million litigation settlement. EBITDA was nearly $15 million in 2016, or 2 percent of revenue, which also includes the one-time litigation settlement. EBITDA in 2016 would have been approximately $145 million, or 17 percent of revenue, an increase of 65 percent year-over-year, excluding the one-time litigation settlement.

Our accomplishments in 2016 all tie to our long-term strategy. In fact, our strategic position today has been years in the making. Let me take you back for a moment to give you perspective:

- Four years ago, we launched impression-based advertising for Premier Agents and completely changed our business model away from an approach driven by share of voice subscriptions.
- Three years ago, we began investing in advertising for the Zillow brand, which massively accelerated our audience growth.
- Two years ago, we accelerated the consolidation of the online real estate media category by acquiring our closest competitor, Trulia, which significantly increased our audience and volume of leads delivered to agents.
- About 18 months ago, we finished the integration of Trulia, unified our agent advertising products, and released the most advanced business management platform in the real estate industry.
- At the end of 2016, we completed the rollout of our self-serve auction-based pricing platform for our Premier Agent advertisers, along with unprecedented ad products, including Premier Agent Direct and Seller Boost, that help agents extend their reach and build a stronger business.

Each one of those accomplishments is a piece of our larger strategy and laid the foundation for the strong position we are in today. We continue to focus on extending our competitive advantages. On every fourth quarter earnings call since we became a public company five years ago, I have explained our strategic priorities for the upcoming year.

The priorities we laid out for 2016 were the right ones. They tie to our mission and position Zillow Group to grow into the massive potential ahead. We made enormous progress on them, and for 2017, we are mostly keeping our priorities unchanged. Our 2017 priorities are:

1. Grow our audience size and consumer engagement,
2. Grow our Premier Agent advertising business,
3. Grow our emerging marketplaces, and
4. Maintain our extraordinary company culture, which attracts and retains incredible people, and motivates them to do their best work.

As you have heard me say many times, advertisers follow audience, which is why our first priority remains growing audience size and engagement. Traffic to Zillow Group brands' mobile apps and websites reached more than 140 million average monthly unique users in the fourth quarter of 2016 and our annual seasonal peak was more than 171 million in May. At the bottom of the funnel, year-over-year growth in leads sent to Premier Agent advertisers continues to outpace unique user growth, and leads to advertisers in our emerging marketplaces is growing even faster.

Our strategy for growing our audience starts with creating mobile and desktop experiences that increase engagement and loyalty with consumers by providing products that span the home life cycle – whether owning, renting, buying, selling, or financing. Higher engagement leads to more of our audience contacting a professional when they are ready to take action. When agents receive more contacts from us, they spend more, which increases our revenue.

We utilize free and paid channels to raise awareness and reach more consumers. The foundation of our traffic and growth continues to be from free channels, but the investment in advertising accelerates that growth. As I mentioned earlier, we began advertising the Zillow brand in 2013. Three years later in 2016, we spent more than $100 million advertising our portfolio of consumer brands. This has been a very effective strategy for us, and the strength of our consumer and business brands in our portfolio continues to grow.

Going forward, we will continue to use advertising to drive growth and brand awareness for many of our brands. With that in mind, we plan to increase our advertising expense across our 5 consumer brands, our business brands, and our 4 marketplaces in 2017, but at a rate that is lower than revenue growth, as we did last year. We are choosing to increase advertising investments this year to help us realize advantages of scale over the long term.

Our second priority is to grow our Premier Agent advertising business. In 2016, Premier Agent revenue grew 35 percent year-over-year to a record $604 million and exceeded our outlook.

During the fourth quarter, we delivered nearly 4 million leads to Premier Agent advertisers across our mobile apps and websites. This was up almost 33 percent year-over-year. We expect to be able to continue to grow leads faster than unique users as our product innovations continue to drive increased engagement.

During the fourth quarter of 2016, we completed the roll out of our dynamic self-serve account interface to Premier Agents nationally. The new account management tools enable all our advertisers to independently control their budgets and ad impressions through an auction-based system. Premier Agent advertisers can now see how they measure up against all market participants in a given zip code, along with estimated ROIs for advertising in that area. With this new model, each agent pays the same price for an impression based on what all agents are willing to spend in a market. This transparent system benefits the best Premier Agent advertisers and is consistent with our strategy of focusing on elite agents who excel at lead conversion and provide great service to our home shoppers.

We continue to see the nation's best real estate agents – those who convert leads at high rates – gain transaction share in their respective markets as a result of advertising with Zillow Group. In 2016, around $87 billion in total real estate agent commissions were paid in the U.S., which increased almost 9% over 2015 based on our estimates[1]. We earned $604 million in Premier Agent revenue last year and we delivered nearly 17 million leads to Premier Agents. We estimate that from those leads, agents earned roughly $4.4 billion in commissions[2]. We estimate this represents about 5 percent of all commissions in the U.S.[3] That's still a small percentage of the total, but an increase from the previous year, when approximately 12 million leads from Zillow Group drove about $3.2 billion[4], or about 3.9 percent of all commissions[5]. The opportunity in front of us remains massive.

Our next priority is to grow our emerging marketplaces, which consists of Mortgages, Rentals, New York City, and New Construction. Revenue in each of these marketplaces is growing faster than our Premier Agent revenue.

Zillow Group's Mortgages marketplace continues to experience significant growth in usage, leads and revenue. Revenue was $71 million and grew 61 percent year-over-year in 2016. We exceeded 300,000 lender reviews by consumers, which makes us the category leader in consumer-generated reviews of lenders. Looking ahead, we are well-positioned to continue to grow Mortgages revenue faster than the industry and competition, even in a rising interest rate environment, as our mortgage shopping usage is predominantly for home purchase loans.

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[1] Zillow Group internal estimate (total new and existing homes sold, National Association of REALTORS(R) 2016 x average agent commissions, REAL Trends)

[2] Zillow Group internal estimate (2016 total industry commissions, REAL Trends / total leads to Premier Agents)

[3] Zillow Group internal estimate (total transactions attributable to ZG / total industry transactions, National Association of REALTORS(R) 2016)

[4] Zillow Group internal estimate (2015 total industry commissions, REAL Trends / total leads to Premier Agents)

[5] Zillow Group internal estimate (total transactions attributable to ZG / total industry transactions, National Association of REALTORS(R) 2015)

Next, our Rentals marketplace continues to experience rapid growth. Revenue was up 124 percent in 2016. Our advertising products for rental professionals continue to gain popularity in the industry. We now operate the top two rentals brands and attract 30 million average monthly rental shoppers. According to comScore, our audience is nearly twice the size of our nearest rental competitor.[6] We remain focused on creating more products and services that enable rental pros – from multi-family managers to single-family property owners – to be more efficient in their workflow and lower the time on market of their rental units.

Our New York City marketplace continues to grow and evolve. Revenue for StreetEasy and Naked Apartments grew 80 percent year-over-year in 2016 – and since our 2013 acquisition of StreetEasy, revenue has quadrupled. We recently added another small but strategic acquisition by acquiring Hamptons Real Estate Online, or HREO.com, a Hamptons-focused real estate portal. HREO's hyper-local focus complements StreetEasy and Naked Apartment's strength in the city.

In New York City - the most valuable real estate market in the world - we have assembled a portfolio of brands: StreetEasy, Zillow, Trulia, Naked Apartments, Hotpads, HREO - that puts us in an exciting position in a market with billions in residential commissions and fees.

We recently announced our latest emerging marketplace, New Construction. With the launch of several exciting new features, homebuilders can now participate in the Zillow Group Promoted Communities program. Builders can display real-time lot availability on search results and maps, allowing them to easily showcase the breadth of their available inventory to home shoppers. Builders who participate in the program will receive insights on consumer behavior through the new Zillow Group Builder Insights platform, enabling them to assess local market conditions and determine consumer preferences, helping them make decisions regarding their product positioning, land acquisition and marketing. The reception of these programs has been positive and we are excited about the opportunity for this emerging marketplace, which has a $1 billion dollar advertising TAM[7].

Finally, our fourth strategic priority – which is crucial to the success of everything we do here at Zillow Group – is attracting and retaining the best talent while maintaining our unique company culture focused on innovation. Our people and culture are key competitive advantages. I cannot say it enough: great people build great products, which in turn attract audience.

We dedicate substantial energy toward creating an environment at Zillow Group in which our nearly 2,800 employees can excel. I am proud to report Zillow Group was named one of Glassdoor's 2017 Best Places to Work in the U.S. for the fourth year in a row. Also, Fortune ranked Zillow Group #4 on its Best Workplaces in Technology list and we were included on their

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

[7] Borrell Associates, 2016

list of Best Workplaces for Parents. These accolades result from the high level of engagement and passion of our employees, and reflect their commitment to our core values. Our leadership team here has been incredibly stable and long-tenured, and helps create our culture that has been so important to our success. I would like to extend my sincere thanks to all of Zillow Group's hard working and enthusiastic employees for our ongoing success.

Now, turning to our outlook for the year:

We are excited that in 2017 we expect our full-year revenue to exceed $1 billion. When we went public in 2011, and with annual revenue of $66 million that year, few expected us to reach this milestone by 2017. But Zillow Group has grown at a pace that has surprised even our most optimistic leaders, investors and analysts. While that is incredibly exciting, even more exciting is the potential for growth still in front of us.

In 2017, we expect full-year revenue in the range of $1.03 to $1.05 billion and EBITDA of $190 to $210 million. We anticipate EBITDA as a percentage of revenue to be 19 percent at the midpoint of guidance, greater than 17 percent in 2016, and consistent with our strategy for steady margin expansion, on our way to an eventual 40% EBITDA margin at scale.

The further we go down this path, it has become clear to us that size of the prize is even bigger than we thought. To fully grow into our opportunity, we are going to invest today to benefit tomorrow. We have learned from our successful investments in the past that marked the path to $1 billion in annual revenue, including our investment in growing our brands and investing in our emerging marketplaces.

I'll 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 fourth quarter increased 34 percent year-over-year to a record of $227.6 million from $169.4 million in the same period last year.

Looking at our primary revenue category, Marketplace revenue was $210.6 million for the fourth quarter, an increase of 42 percent year-over-year. Marketplace revenue now accounts for 93 percent of our total revenue, as compared to 88 percent during the same period last year. As a reminder, our Marketplace category includes Premier Agent, Other Real Estate, and Mortgages revenue.

Zillow Group Premier Agent revenue increased 32 percent year-over-year to $164.3 million in the fourth quarter. The annualized run rate for our Premier Agent advertising marketplace reached $638.4 million at the end of the quarter, compared to $485.5 million at the same time last year.

We ended 2016 with 84,151 agent advertisers. Average revenue per advertiser, or ARPA, was $632 for the fourth quarter, increasing 44 percent year-over-year. The decline in agent advertiser count was an expected result of our new auction-based pricing model, and our continued strategy of focusing on top performing agents and teams that spend more over time with us as they realize the benefits of advertising on our platforms.

For further context, revenue from same agent advertisers, or those who have been on our platform for more than one year, grew by more than 58 percent compared to the prior year. New sales to existing advertisers made up 63 percent of total bookings in the fourth quarter. Year-over-year growth of the agent advertiser cohort that spends more than $5,000 per month was 95 percent on a total dollar basis, and 100 percent in advertiser count. Churn in this cohort continues to be minimal.

As a reminder, this is the last time we will report on the number of agent advertisers and ARPA. We are in the final stages of confirming which replacement metric most closely aligns with our new auction-based pricing model and Premier Agent business for purposes of measuring business performance. We expect to begin reporting on the new metric with our first quarter 2017 earnings conference call and will provide two years' worth of historical data on that metric.

Fourth quarter revenue for our Other Real Estate subcategory grew 145 percent year-over-year to $29.8 million. Other Real Estate Revenue includes agent services, dotloop, StreetEasy, Naked Apartments, rentals, and other offerings to our endemic advertisers that are not traditional display advertising, including New Construction, as Spencer discussed earlier.

Moving now to our Mortgages marketplace, our revenue reached $16.5 million in the fourth quarter, which represents a 41 percent increase year-over-year. Average revenue per loan information request increased 116 percent year-over-year. As we have discussed, our strategic decision in early 2016 to improve the quality of loan information requests by asking consumers to provide more details before a request is sent to a lender resulted in a 35 percent decrease of such requests year-over-year. We view this as a favorable trend.

In our Display category, revenue was $17.0 million, a decrease of approximately 20 percent over the same period last year, and within our expectations.

Shifting now from revenue to our expenses. Total operating expenses were $224.9 million in the fourth quarter.

Our cost of revenue during the quarter was $19.7 million, or 9 percent of revenue.

Sales and marketing expense was $90.1 million, or 40 percent of revenue. We continue to make strategic and opportunistic investments in advertising, which support the expansion of our audience leadership in the online real estate category.

Technology and development costs in the fourth quarter were $72.1 million, or 32 percent of revenue.

General and administrative costs in the fourth quarter were $42.5 million, or 19 percent of revenue, and lower than we had planned.

Moving on to our bottom line, GAAP net loss for the fourth quarter was $23.5 million, or 10 percent of revenue. Our GAAP net loss for the quarter included a $22.8 million loss on debt extinguishment related to the December 2016 repurchase of nearly all of the convertible debt we assumed in connection with our February 2015 acquisition of Trulia. It is important to note that the debt repurchase resulted in avoiding the future possible issuance of more than 9 million shares of Zillow Group Class A shares for settlement.

Our EBITDA for the quarter was $54.7 million, or 24 percent of revenue, and exceeded the high end of our guidance range due to strong revenue contributions from all marketplaces, as well as from operating expense savings throughout the company.

Zillow Group ended the year with nearly 2,800 employees and approximately $506.4 million in cash and investments.

For a review of our full year 2016 results, I encourage you to review our press release that was issued this afternoon. The press release also contains our detailed first quarter and full year 2017 guidance. You will notice that for the first time, we've provided quarterly and annual outlooks for our Mortgages and Other Real Estate revenue categories. The press release is available on our investor relations website and includes detailed guidance and related GAAP reconciliations.

To conclude, 2016 was a great year for Zillow Group. We delivered on all of our strategic priorities and strengthened our leadership position in the online real estate category. Just a month into 2017, we're off to a great start and are excited about what's in store for Zillow Group this year and even more so over the long-term.

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 May.

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Zillow Group's fourth quarter and full year 2016 earnings press release is available on the Investor Relations section of the Zillow Group website at http://investors.zillowgroup.com/releases.cfm. It is also included as Exhibit 99.1 to its Current Report on Form 8-K as furnished to the SEC on February 7, 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," "business outlook," "estimate," "outlook," and similar expressions constitute forward-looking statements. Differences in Zillow Group's actual results from those described in these forward-looking statements may result from actions taken by Zillow Group, as well as from risks and uncertainties beyond Zillow Group's control. Factors that may contribute to such differences include, but are not limited to, Zillow Group's ability to successfully integrate and realize the benefits of its past or future strategic acquisitions or investments; Zillow Group's ability to innovate and provide products and services that are attractive to its users and advertisers; Zillow Group's ability to attract consumers to Zillow Group's mobile applications and websites; Zillow Group's ability to maintain and effectively manage an adequate rate of growth; the impact of the real estate industry on Zillow Group's business; Zillow Group's ability to maintain or establish relationships with listings and data providers; the impact of pending litigation described in Zillow Group's filings with the Securities and Exchange Commission, or SEC; Zillow Group's ability to compete successfully against existing or future competitors; the reliable performance of Zillow Group's network infrastructure and content delivery processes; and Zillow Group's ability to protect its intellectual property. The foregoing list of risks and uncertainties is illustrative but not exhaustive. For more information about potential factors that could affect Zillow Group's business and financial results, please review the "Risk Factors" described in Zillow Group's Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the SEC on February 12, 2016, and in Zillow Group's other filings with the SEC. Except as may be required by law, Zillow Group does not intend, and undertakes no duty, to update this information to reflect future events or circumstances.

Use of Non-GAAP Financial Measures

These prepared remarks include references to Adjusted EBITDA (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 February 7, 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.