



ZILLOW GROUP, INC. Q3 2017 EARNINGS – PREPARED REMARKS

November 7, 2017

RJ Jones, VP of Investor Relations:

Thank you. Good afternoon, and welcome to Zillow Group's third quarter 2017 financial results conference call. Joining me today to talk about our results are Zillow Group's Chief Executive Officer, Spencer Rascoff, and Chief Financial Officer, Kathleen Philips.

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 November 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, except as required by law.

During the call, we will discuss GAAP and non-GAAP measures. We encourage you to read our financial results press release, which can be found on our Investor Relations website, as it contains important information about our reported and non-GAAP results, including reconciliation of non-GAAP financial measures.

In our remarks, the non-GAAP financial measure Adjusted EBITDA is referred to as EBITDA, which excludes other income, depreciation and amortization expense, share-based compensation expense, acquisition-related costs, interest expense and income tax benefit.

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

We will open the call with prepared remarks, followed by live Q&A. In addition to taking questions from those dialed into the call, we will answer questions asked via Slido. 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, RJ, and to all of you for joining us. We are hosting the call today from our office in Irvine, California - home to around 300 employees, including our Premier Agent sales and support team, data acquisition team, listings feeds teams, B2B software teams, internal software tools team and RealEstate.com.

Zillow Group delivered terrific third quarter results. Total revenue for the third quarter of 2017 grew 25 percent year-over-year to approximately \$282 million, which exceeded the high end of our guidance range by nearly \$4 million. Q3 GAAP net income was more than \$9 million, or more than 3 percent of revenue. EBITDA for the third quarter exceeded \$70 million, or more than 25 percent of revenue, ahead of expectations due to strong revenue growth across all marketplaces and cost savings.

In addition to strong financial results in Q3, we also made progress on our key corporate priorities. The first priority is to grow our audience size and increase consumer engagement. Traffic to Zillow Group brands' mobile apps and websites reached more than 175 million average monthly unique users in the third quarter of 2017, an increase of 6 percent year-over-year. In July, we reached an all-time record of more than 187 million unique users, which was up by more than 17 million unique users from the same period last year. Our advertising and other marketing initiatives continue to be effective in driving more consumers to Zillow Group's mobile apps and websites, even at such a large audience scale.

Further down the funnel, visits reached nearly 1.7 billion during the third quarter, up 19 percent year-over-year. Visits growth was driven by a variety of product improvements that increase consumers' propensity to return to our mobile apps and websites, including initiatives to encourage mobile web visitors from search engines to download our apps. As a reminder, the visits metric helps us evaluate progress toward our goal of increasing audience engagement. Users who visit frequently have a greater intent to buy, sell or rent a home, which ultimately means more high-quality leads for our agent advertisers.

Our next priority is to continue growing our Premier Agent business, which makes up about 70 percent of our total revenue. In the third quarter of 2017, Premier Agent revenue grew 24 percent year-over-year.

We continue to focus on helping top performing agent advertisers grow their businesses by advertising with us and using our software tools. Last year, we introduced two exciting new advertising options to better align our Premier Agent advertising products with the way real estate professionals run their businesses, including the Premier Broker program and team accounts. These programs allow agents and brokerages to purchase advertising with us in a new way that results in a better consumer experience, since they can more efficiently service the leads received from our platform. This strategic shift in the way agents and brokers advertise with us made the total advertiser account metric less meaningful because it did not represent the total number of agents advertising on our platform. However, we still get many questions about how many agents are using the Premier Agent program, so I want to clarify that, today, more individual real estate agents receive leads from Zillow Group than ever before, thanks

to the growth of Premier Broker and team accounts. Since the third quarter of 2016, the number of Premier Broker accounts has grown by 260 percent and the number of team accounts has grown by 87 percent. Premier Broker and teams range from 2 to more than 130 agents under one account.

Just a few weeks ago, we hosted nearly 2,000 agents at our annual Premier Agent Forum in Las Vegas. At the Forum, we announced several exciting new features designed to help agents and brokers convert more leads into transactions. I want to share a few of the products and features we announced at the Forum.

Last year we launched Premier Agent Direct, a program that allows agents to advertise their listings and their brand on Zillow, Trulia and Facebook. This year, we expanded Premier Agent Direct to postal mail, which is still the advertising medium used by most real estate agents¹. With this program, printed postcards are automatically generated and mailed on behalf of Premier Agents, providing another marketing touch point with consumers.

We also announced some exciting updates to the Premier Agent App. For the first time, we are adding features to the App that expand its use beyond lead management, into business and transaction workflow. For example, our newest feature, called Tasks, allows agents to create a checklist to stay on top of their commitments to clients and prospects. We are also making the PA App a single source communications platform. Premier Agents can now text and email clients right from the app, allowing agents to manage their client communications all in one place. The Premier Agent app is now a powerful productivity platform, and we believe it is the most widely used B2B app in the real estate industry.

Another feature we are excited about is called My Agent. We know that after initial contact via a Zillow Group mobile app or website, Premier Agents typically move clients to another internal system to share listings and communicate, yet the consumer will come back to Zillow or Trulia almost 30 times in the next month. Now, when we observe through the app that a Premier Agent is actively working with a buyer, we will replace our traditional Buyer's Agent List that the consumer sees on Zillow and Trulia listings with a contact box that features only that consumer's chosen agent. Since no other agents will be visible, it will solidify the agent - consumer relationship, making it much easier for them to work together. This two-way contact module, where agents and their clients can communicate about homes, will help agents convert more leads into transactions by keeping that agent in front of the consumer throughout their search. For the consumer, they are able to search on a platform they already are familiar with and love. In addition, this will make the Zillow Group experience even better for Premier Agents by improving the quality of leads.

Prior to the Forum, we announced an exciting new product that allows agents to create 3D home tours on their iPhone and post them, for free, to their Zillow Group listings. The Zillow Group Home Capture App will bring an incredible 3D home tour experience to buyers, letting them narrow down their home searches before visiting in person. I'm especially excited about this app because up until now capturing 3D images was really expensive and time-consuming for agents. We've been working for the past two years on a way to democratize this technology and make it freely available. It's hard for me to overstate

¹ Borrell Associates 2017 Real Estate Advertising Outlook

the level of creativity and sophisticated technical knowledge that has made this product a reality. Stitching together still photos taken from an iPhone to create an immersive 3D panorama tour requires teams intently focused on machine learning and image recognition. We're currently testing the app in one market, and anticipate its nationwide rollout in 2018.

Moving on, as you may recall, we are currently experimenting with a product called Zillow Instant Offers. The pilot is testing in two markets, Orlando and Las Vegas, and soon Phoenix. Instant Offers provides motivated sellers with an opportunity to easily submit information about their home through Zillow. Those potential sellers then receive a comparative market analysis and a listing presentation from a Premier Agent alongside actual offers from investors. If they choose an investor offer, the consumer gets control and certainty on the sale of their home in a predictable timeframe. The purpose of the test is to determine where sellers see the balance between convenience and price. It is still early in the experiment, so we are not sharing specific results, but we are seeing a positive response from agents, direct homebuyers and sellers. We identified an opportunity to innovate on this emerging trend and to provide more transparency for consumers, while delivering high-quality seller listing leads to Premier Agents. We are the only player in this growing market category that keeps agents at the center of the process. We believe that an agent's role as trusted advisor is incredibly valuable to consumers and will be a permanent part of most real estate transactions.

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

Our Mortgages revenue is growing at a healthy pace ahead of the industry, largely because of two key advantages. First, much of the activity in Mortgages is driven by homebuyers looking for purchase loans, and that is increasing thanks in part to sustained low interest rates and strong housing demand. While overall industry mortgage lending volumes are down due to historically low refinance lending, we continue to expect our revenue growth to outpace the growth rate of the industry, as the bulk of our Mortgage activity comes from consumers seeking purchase loans.

Our second key advantage in Mortgages is its connection with our real estate sites, where potential borrowers are already shopping for homes. These two marketplaces support one another, and just like with real estate, we are continuing to test and experiment in the mortgages space. The mortgage and home shopping experiences are inextricably linked, and we feel that we can bring significant innovation to the space, for the benefit of home shoppers and borrowers.

In our Rentals marketplace, revenue grew 56 percent year-over-year for the third quarter of 2017. Our long-term rentals strategy is to drive engagement through personalization and machine learning to get the right properties in front of the right renters, faster. Last month, we launched Rental Inform, a cloud-based data dashboard with exclusive real-time, robust rental market and aggregated consumer insights. Rental Inform is powered by anonymized, aggregated search data from the approximately 33 million monthly unique rental users that visit Zillow Group brands' mobile apps and websites². Property managers can now access that data to help them better understand consumer preferences. The data

² Zillow Group internal third quarter 2017 data

provide insight into what type of floor plan, amenities or price point is most desirable in an area, as well as details on the current rental market and pricing trends. This is similar to our Builder Inform data toolset we rolled out earlier in the year. We are also making the Zillow Group Home Capture App available for property managers and landlords to shoot 3D tours for their rental units.

In our New York City marketplace, the rollout of Premier Agent on StreetEasy and rentals paid inclusion for the NYC Rentals Network have exceeded our expectations. The addition of these two new advertising products contributed to our strong third quarter 2017 total revenue performance.

Our New York City industry relationships remain strong. During the third quarter, we expanded our multi-year agreement with Realogy – the parent company to Corcoran Group, Citi Habitats and Sotheby's – to have their for sale and rental listings displayed on StreetEasy. This was a big win for consumers and Zillow Group, as these are some of the leading brokers in New York City.

In a unique market like New York, it is very important to have local expertise and StreetEasy's hyper-local focus has always been a major competitive advantage for us. New Yorkers love the StreetEasy brand. For the past decade, StreetEasy has focused on developing products that are specifically designed to capture the unique needs of New York City buyers, renters and sellers, and has spent tens of millions of dollars on New York City-specific marketing. Agents will always want their listings displayed where the largest audience goes for their home search needs, and in New York, that's StreetEasy. For-sale listings in New York City across all Zillow Group brands attracted almost 13 million visits during the third quarter of 2017, clearly making us the brand of choice for home shoppers there.

Specific to the rental side in New York, agents realize the value that StreetEasy provides to their business and are choosing to advertise their rental listings with us. More than 10,000 local agents have already opted in to the NYC Rental Network since we launched in the second quarter of 2017. Consumers shopping for a rental in New York benefit from StreetEasy's high-quality inventory, since paid inclusion eliminated many stale and fraudulent listings. Agents benefit from the large audience on the NYC Rental Network, which received almost 14 million visits during the third quarter of 2017.

In our New Construction marketplace, we are encouraged by the addition of many new promoted communities to our platform as we work toward our goal of being the leader in residential new construction marketing. During the quarter, we continued to invest in this emerging marketplace with the acquisition of New Home Feed, a streamlined listing management technology that allows builders to input, manage and syndicate their listings across the web. This acquisition makes it easier for our builder partners to send their listings to Zillow Group and ultimately improve the quality and accuracy of our new construction listings across our consumer brands. We look forward to partnering with more builders to help them build their brands and increase discoverability of their new construction homes.

Finally, our fourth priority is attracting and retaining the best talent and maintaining Zillow Group's unique company culture focused on innovation. We know that our employees are our most important asset. In September, Zillow Group was named to Fortune Magazine's list of the Best Workplaces for Women. This was an important recognition for us, as diversity and inclusion at Zillow Group is a major

initiative. We have invested significant resources to ensure that all employees feel valued and know that their achievements are appreciated, and we are pleased to be recognized for these efforts.

It's been a really exciting year so far for Zillow Group and the real estate category as a whole, and we're excited about what's next. Fortune Magazine again recognized us just a couple of weeks ago as a company poised for breakout growth by placing us on their Future 50 list, and we are focused on priming our company for that growth. Technology is evolving faster than it ever has before, and we are seeing consumer expectations rise in every category, including real estate. We know that delighting the consumer will mean something different in 2018 than it did in 2008. For home buyers, sellers and renters, the desire to simplify and shorten the process is growing. We're already exploring ways to satisfy that desire with 3D tours and our experiment with Instant Offers, as a couple of examples. You can expect that kind of innovation from us to continue in the coming years. Our position as category leader, along with our employees' technical prowess and creativity, put us in a position to continue growing and strengthening our own business, and to help our valued industry partners do the same.

Before I turn the call over to Kathleen, I wanted to discuss the impact of the catastrophic hurricanes and fires that have devastated regions across our country over the past several months. Our thoughts are with the people of Texas, Florida, Puerto Rico and California, where thousands of homes and businesses were damaged or destroyed, leaving countless people without a place to live, and where lives were lost. Many Zillow Group employees have volunteered their time and energy to help with the recovery and to raise money, and I want to thank them all for this dedication.

With that, I will turn it over to Kathleen for a financial review and our outlook for the remainder of the year.

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 third quarter increased 25 percent year-over-year to a record of \$281.8 million from \$224.6 million in the same period last year.

Premier Agent revenue grew 24 percent year-over-year to \$197.1 million in the third quarter, resulting in a 5 percent year-over-year increase in Premier Agent revenue per visit. Our auction-based pricing platform continues to perform well. As traffic and engagement increased across all brands, demand from agents to advertise with us increased in some of the country's hottest real estate markets. Nationwide adoption is trending as expected based upon our experience with the pilot that we conducted in a small number of markets. We continue to see top performing agents increasing their spend with us to maintain their competitive advantage in their markets, while other growth oriented agents are expanding their reach and brand by spreading their ad spend to neighboring zip codes where their potential ROI may be higher. In both cases, we have more agents increasing their advertising spend with us over time.

Top performing agents, brokers and other 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 45 percent compared to the prior year. New sales to existing advertisers made up 52 percent of total bookings in the third quarter. The number of Premier Agent accounts spending more than \$5,000 per month grew by 98 percent year-over-year and increased 88 percent on a total dollar basis during that period.

In response to the hurricanes and the Northern California wildfires that occurred late in the summer, we worked closely with our Premier Agents, Premier Brokers, and other advertisers in the affected areas to manage their advertising budgets efficiently during those challenging times. We estimate that these relief initiatives, which included billing credits and other forms of advertiser assistance, as well as lost sales, impacted our third quarter 2017 Premier Agent revenue by more than \$800,000. Additionally, we expect that our fourth quarter 2017 Premier Agent revenue will be impacted by almost \$1 million. We also experienced a temporary decline in traffic to our mobile apps and websites from consumers in affected areas during the month of September.

On our last earnings call, we shared that we were in discussions with the Consumer Financial Protection Bureau related to a possible settlement concerning their investigation. We continue to have ongoing discussions with the CFPB, but have not yet come to a mutually agreeable settlement. As a reminder, the CFPB has indicated that if a settlement is not reached, they may pursue legal action against us. We believe that our practices are lawful and that our co-marketing program allows agents and lenders to comply with their legal obligations. We will continue to engage in discussions with the CFPB and hope to put this matter behind us as soon as possible.

Getting back to our financial results for the quarter, Other Real Estate revenue grew 55 percent year-over-year to \$44.8 million. Other Real Estate revenue primarily includes Zillow Group Rentals, New Construction, dotloop, as well as revenue from the sale of various other advertising and business software solutions and services for real estate professionals.

Mortgages revenue reached \$20.9 million in the third quarter, which represents a 6 percent increase year-over-year. Average revenue per loan information request increased 31 percent year-over-year.

Display revenue was \$19.1 million, an increase of approximately 8 percent over the same period last year, driven by strong brand sales initiatives and increased traffic.

Shifting now from revenue to our expenses. Total operating expenses for the third quarter were \$267.1 million.

Our cost of revenue was \$22.2 million, or 8 percent of revenue.

Sales and marketing expense was \$107.1 million, or 38 percent of revenue.

Technology and development costs were \$83.4 million, or 30 percent of revenue.

General and administrative costs were \$54.2 million, or 19 percent of revenue.

We ended the quarter with more than 3,000 employees across all of our offices.

Now turning to our outlook for the remainder of 2017:

We are updating our full-year Revenue outlook to a new range of \$1.068 to \$1.073 billion, which represents 26 percent year-over-year growth at the midpoint of the range. We also are updating our full-year EBITDA outlook to a range of \$233 to \$238 million, nearly 22 percent margin at the midpoint of the range.

For detailed fourth 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](#).

With just one quarter left in 2017, we expect to end the year strong. It has been an exciting year for Zillow Group as we completely changed our Premier Agent pricing model and experienced significant growth in our emerging marketplaces. We look forward to the opportunities ahead for Zillow Group as we further solidify our position as the real estate industry's most trusted marketing and technology partner.

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 talking to you again when we report our Q4 and full year 2017 results in February.

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Zillow Group's third 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 November 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 Zillow Group's business and financial outlook, strategic priorities, legal proceedings, and operational plans for 2017. Statements containing words such as "may," "believe," "anticipate," "expect," "intend," "plan," "project," "will," "projections," "continue," "estimate," "outlook," "guidance," and similar expressions constitute forward-looking

statements. Differences in Zillow Group's actual results from those described in these forward-looking statements may result from actions taken by Zillow Group, as well as from risks and uncertainties beyond Zillow Group's control. Factors that may contribute to such differences include, but are not limited to, Zillow Group's ability to innovate and provide products and services that are attractive to its users and advertisers; Zillow Group's ability to attract consumers to Zillow Group's mobile applications and websites; Zillow Group's ability to compete successfully against existing or future competitors; the impact of pending legal proceedings described in Zillow Group's filings with the Securities and Exchange Commission, or SEC; Zillow Group's investment of resources to pursue strategies that may not prove effective; Zillow Group's ability to successfully integrate and realize the benefits of its past or future strategic acquisitions or investments; Zillow Group's ability to maintain and effectively manage an adequate rate of growth; the impact of the real estate industry on Zillow Group's business; Zillow Group's ability to maintain or establish relationships with listings and data providers; the reliable performance of Zillow Group's network infrastructure and content delivery processes; and Zillow Group's ability to protect its intellectual property. The foregoing list of risks and uncertainties is illustrative but not exhaustive. For more information about potential factors that could affect Zillow Group's business and financial results, please review the "Risk Factors" described in Zillow Group's Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the SEC on February 7, 2017, and in Zillow Group's other filings with the SEC. Except as may be required by law, Zillow Group does not intend, and undertakes no duty, to update this information to reflect future events or circumstances.

Use of Non-GAAP Financial Measures

These prepared remarks include references to Adjusted EBITDA (including forecasted Adjusted EBITDA), which is a non-GAAP financial measure not prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). This non-GAAP financial measure is not prepared under a comprehensive set of accounting rules and, therefore, should only be reviewed alongside results reported under GAAP.

Zillow Group urges readers to review its earnings press release as it contains important information about the company's financial results, including reconciliation tables 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 November 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 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.